

## Budget update 2016

The Budget 2016 did not see the sweeping changes to pension tax allowances and reliefs that many had predicted, but it is worth noting that this may only be a temporary stall. Even so, the introduction of a new Lifetime ISA and the focus on encouraging young people to begin thinking about their financial future and security has provided much to discuss.



Alongside this, plans to consolidate Money Advice Service (MAS), The Pensions Advisory Service (TPAS) and Pension Wise into a more comprehensive service to provide financial information have been mooted. The definition of financial advice is still an area for discussion as well as how the cost of regulated advice can be met – with plans to help employers provide this for their employees.

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Barnett Waddingham welcomes these new flexibilities but cautions that we could see a very different savings landscape opening up if the Lifetime ISA is successful.

We examine the changes in more detail below and ask what it means for employers, and what they should do next.

## The Lifetime ISA

### What are the changes and what do they mean for employers?

The structure of a Lifetime ISA sets the scene for a potential future savings landscape.



This is similar to the current rate of tax relief given under pensions at a basic rate but will allow members greater flexibility. The whole mood with freedom and choice in the pensions landscape was to improve flexibility. However, this has not gone as far as changing the entire system to an ISA style system i.e. no upfront tax relief and no tax on the way out.

Barnett Waddingham welcomes these new flexibilities but cautions that we could see a very different savings landscape opening up if the Lifetime ISA is successful. We are concerned how the interaction with auto-enrolment is going to be handled as the flexibility under the Lifetime ISA could encourage people to opt out of auto-enrolment. When and if this is clarified, we would expect to see innovation from providers to ensure that employers can facilitate payments into Lifetime ISAs easily from payroll – albeit from after tax pay.

### What can I do next?

More details on the Lifetime ISA can be found in this [fact sheet](#) and [technical note](#) from the HM Treasury.

The Lifetime ISA will not be available until April 2017, however new employees may have it in mind when joining. Employers will also want to discourage employees from opting out of the pension arrangements already in place. We believe that good, clear communication is vital to help employees make informed decisions on their choices including developing materials and briefings to communicate options and ensuring relevant financial education programme is in place.

Our workplace health and wealth team can help advise on this and can be contacted on: 01494 788116

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When reviewing your current benefits package - the most important first step is analysis to firstly understand your current health and wellbeing risks.

To understand what we can do to help visit [www.barnett-waddingham.co.uk/services/wellbeing](http://www.barnett-waddingham.co.uk/services/wellbeing) >

## Salary Sacrifice

### What are the changes and what do they mean for employers?

It was announced that salary sacrifice for pensions and some other mainstream benefits offered within the workplace are being kept. HM Treasury said it was considering limiting the range of benefits that attract income tax and National Insurance Contributions (NIC) advantages when they are provided as part of salary sacrifice schemes, but it said the Government's intention is that pension saving, childcare and health-related benefits such as Cycle to Work should continue to benefit from income tax and NIC relief.

This may cause employers to consider a review of their current benefits package design as the cost implications become clear.

### What can I do next?

We will need to wait and see when the Government releases further information on which benefits will be affected, then consider if the benefits package needs redesigning.

When reviewing your current benefits package's design – the most important first step is analysis to firstly understand your current health and wellbeing risks.

## Changes to financial advice

### What are the changes and what do they mean for employers?

Employers will now be able to pay for employees to receive advice in the workplace up to the value of...



without paying tax or employer NIC for the benefit in kind. This is up from the previous amount of £150.

This is good news and will allow employers to help their employees understand the savings landscape and the options they have when they are looking to stop or reduce their working hours.

The Government is also looking to amend the definition of 'financial advice' following the Financial Advice Market Review which will hopefully ensure that advice can be delivered more efficiently digitally. This relaxation would lead to massive innovation in the advisory space with 'Robo Advice' taking much of the strain.

We have seen a consolidation of the [MAS](#), [Pension Wise](#) and [TPAS](#) services into one source which is welcome news. There is also a consultation being launched on a clear definition of financial advice which will give employers and trustees greater clarity over what they can and cannot do within the workplace and pensions arenas.

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With 6 April 2016 fast approaching it is vital that your higher earners are fully briefed on their options.

### What can I do next?

To understand the current situation the following all have their own websites [MAS](#), [Pension Wise](#) and [TPAS](#) and the FCA offers this information on their [website](#) about the types of financial advice available.

Our Generation why? survey, launched in 2014, was designed to help us gain a better understanding of generational attitudes and perspectives towards saving and money matters, and how an individual's affluence influences their thinking. The latest report shows a clear requirement for financial education that is designed to support employees throughout out their lifetime. You can read the full report [here](#).

It is important to understand what options are out there for employers to provide financial advice. Our team are able to help you when considering what kind of options there are for your workforce.

Interestingly it's been reported that the FCA are planning on releasing a report on Robo Advice which may change things. We think that this could have a major impact on the future of financial advice on offer in the UK.

## Lifetime and Annual Allowance

### What are the changes and what do they mean for employers?

There will be no further changes to Lifetime Allowance (LTA) and Annual Allowance (AA) which is good news and hopefully will allow the system to settle and for employees to understand the Tapered Annual Allowance (TAA) being introduced from 6 April 2016.

However with 6 April 2016 fast approaching it is vital that your higher earners are fully briefed on their options.

### What can I do next?

Employers have no legal obligation to inform their staff of the changes, but as pensions are contractual benefits, few would consider leaving them to their own devices. This may not suit the organisational culture, but it certainly raises the spectre of reputational risk.

#### So, employers should:

- **Assess:** how many of your employees might be affected? Consider the alternatives to pension contributions (though this won't be an option in some public sector groups) and how you will implement them.
- **Communicate:** even if you select an alternative to pensions (such as cash) communication is the most important and effective means of mitigating the risks TAA throws up. High earners must be a priority, but then consider how to segment your workers with regards to others likely to be affected.
- **Engage:** set your strategy, from simple written communications, through webinars, microsites and even presentations. Some employers may consider the option of offering one-on-one guidance sessions with professionals.
- **Educate:** this may not be a consideration, but providing employees with enough information to make an informed choice may increase their appreciation of the business and the benefits it provides them with.

You can read about the TAA and LTA on our [website](#) and our Executive Pensions team can help with all of your higher earner queries.

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Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

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☎ 020 7776 2200

🖱 [www.barnett-waddingham.co.uk/employers](http://www.barnett-waddingham.co.uk/employers)



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