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The Budget is always good for throwing up a surprise

Before this year's budget I was asked if anything relating to pensions would surprise me. My answer was, that no change would be a surprise. On previous form, the Chancellor has been known to pull a rabbit out of the hat. Remember in 2014 when, two weeks before the budget, the then Chief Secretary to the HM Treasury, (HMT) Danny Alexander, suggested that there would be no tampering with pensions. What happened? Pension Reforms. So even with the pre-announcement that tax reforms were off the table (for the moment), there was a lot of industry speculation on what the Chancellor might do. Would there be a change to Salary Sacrifice? What about a change to the Lifetime Allowance limits? Could we see Tax reform light? Perhaps the demise of the Money Advice Service (MAS)? OK, the last one was not fair as that was pre-announced the day before the budget. Well we certainly got our surprise. Let's see not just what he said, but what was contained in the detail of the HMT papers released after the speech.

restricted in who can take it out. I think it is perhaps best looked at as the start of the soft closure of the personal pension, and the first steps towards the Chancellor's likely goal of the true PISA tax model. It does not appear to be a good fit with personal pensions and I'll come onto this in a second. It is also not clear what the impact will be on auto-enrolment and opt out rates, for those eligible for a LISA. There is also the lack of a facility for employer contributions to LISA – not helpful for the employed but a big tick in the box for the self employed.

There is also the interesting question of who can afford to pay into LISA. Let's take it that the self employed are going to be attracted to LISA. What about the employed? Information published by Aviva in January this year indicates that:

- household debt rose by 42% in the final six months of 2015; and
- the average UK family is saving £105 per month

This suggests that the vast majority can't afford to save £4,000 a year, particularly on top of compulsory auto enrolment contributions.

Notwithstanding all of this, I think we are seeing the Government's direction of travel. Unlike some of this year's budget announcements which have seen a rapid about turn and high profile resignations I am sure that LISA is here to stay, and there will be an evolution toward the LISA/PISA model when the time is right.

Could LISA have started the demise of the humble personal pension?

One of the biggest barriers to people saving for retirement in pension schemes is the fact that such savings can't usually be accessed before 55, even in an emergency. It would have been far too messy to start tinkering (again) with personal pensions, so instead we now have another tax advantaged savings product, which you can access at any time.

The £1 bonus for every £4 saved offer from the Chancellor looks a lot like basic rate tax relief on a personal pension contribution. But the fact that there is no tax on the return earned, or on money withdrawn makes it look like a pension/ISA hybrid. If you withdraw funds before age 60 you lose your bonus and a 5% charge is payable. That seems harsh but for some it may be better than having no access at all.

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Hello LISA

The headline grabber was LISA, or to remove the acronym the Lifetime Individual Savings Account. Available from April 2017 and aimed at 18 – 40 year olds. They can pay up to £4,000 each year (which counts towards the (new) overall £20,000 ISA limit). The Government will add a bonus of 25%, of what is contributed up to a maximum of £1,000 a year (this bonus stops at age 50). So what can you do with this new ISA? Well firstly, it sits beside the right to buy ISA, and can be used towards a first house purchase (this is a pensions article, so I won't dwell on the technicalities of this). Alternatively, you can take it from age 60 and all the money will be tax free. You can still take money before age 60, but you will lose the Government bonus, the interest and growth on that bonus and incur a 5% charge.

So is this not just a Pensions ISA (PISA)? Well, yes and no. It's PISA light. It is Tax Exempt Exempt (or EEE if you are below the lower tax threshold) but it is

So if you are under 40, and in a position to save a bit and there is a product that combines the best bits of a pension and an ISA would you choose to lock your money away until you're 55? Maybe if you can afford to be very prudent, but for most people such prudence isn't affordable. With the intentionally age discriminatory nature of LISA (the Government can get away with things business can't) we are perhaps seeing personal pensions being one generation away from their ultimate demise.

So was that it?

Not quite. A few other items got put into the devil of the detail.

We knew about the demise of MAS (which has also taken with it Pension Wise and the Pensions Advisory Service). This will lead to the creation of two new bodies responsible for pensions and money support, respectively. The pensions body will combine The Pensions Advisory Service, Pension Wise and parts of the MAS service in a single 'one stop' guidance service.

Salary Sacrifice lives to be beloved by HR and payroll departments (and of course employees) for a bit longer. It is in the Government's crosshairs though and another consultation will look at it. Trustees should keep an eye out for this and start early discussions with employers should the Government head towards changes which would affect their schemes.

On the back of recommendations in the Financial Advice Market review from April 2017 the amount that companies can pay towards the cost of an employee's pension advice before they are subject to a benefit-in-kind tax charge will increase from £150 to £500. A further consultation will be held about allowing defined contribution (DC) members to withdraw up to £500 tax free against the cost of advice.

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There have been the following technical changes to support DC flexibilities under Pensions Freedom which will be introduced in the Finance Bill 2016. They will have effect from the day after the Finance Bill 2016 receives Royal Assent.

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- for flexi-access drawdown, nominees no longer have to take remaining funds as a lump sum with an accompanying 45 per cent tax charge
- legislation will align the tax treatment of serious ill-health lump sums with lump sum death benefits, and allow individuals who meet the criteria for a serious ill-health lump sum but who have already accessed their pension, to take the remaining funds as a serious ill-health lump sum
- a serious ill-health lump sum paid to an individual who has reached age 75 will be taxable at his or her marginal rate, rather than the current 45% rate
- a trivial commutation lump sum will be permitted to be paid out of a money purchase scheme pension that is already in payment
- where a member of a cash balance arrangement dies, and the scheme must top-up the remaining funds to meet the entitlement of the member's beneficiaries to an uncrystallised funds lump sum death benefit due under the scheme rules, the full amount of the lump sum death benefit will be an authorised payment

When we look back, we cannot say that the budget was quiet on pensions. What a surprise. ■