InSight

tandem.

01438 879262
info@tandemfinancial.co.uk
www.tandemfinancial.co.uk

Decoding auto-enrolment

Good news on the horizon for future retirees

For employees, auto-enrolment is a crucial component to consider in their retirement strategy. Understanding auto-enrolment becomes critical as we increasingly understand the need for adequate retirement preparation. Historically, while some companies offered their employees the chance to contribute to a pension fund for retirement preparation, others did not.

To facilitate and promote more significant savings, the government implemented legislation for automatic enrolment, or 'auto-enrolment', in October 2012. This mandated all employers to offer a pension scheme to their employees who are eligible to join.

RULE CHANGES EXPECTED TO BE ANNOUNCED SOON

Auto-enrolment applied to employees who were not already a part of a qualifying workplace pension, were aged at least 22 but below the State Pension age, earned more than £10,000 in the current tax year and worked in the UK. Exceptions were made for businesses with fewer than ten employees and those whose only employees were company directors.

Under the existing auto-enrolment thresholds, anyone earning between £6,240 and £10,000 per tax year could request to join the scheme (and the company would be obligated to allow them to do so), but they would not be automatically enrolled. However, these rules are likely to change soon.

THE NEW FACE OF AUTO-ENROLMENT

Although the bill is yet to be passed into law, it is anticipated there will be two significant changes to the auto-enrolment rules. The minimum enrolment age will be lowered to 18, and the lower salary limit of £6,240 will be abolished.

The previous regulations excluded many individuals from automatic entry into the scheme, particularly part-time and low-wage workers. The logic was simple enough – saving for the future could impact your lifestyle if you're a low earner.

IMPLICATIONS OF THE NEW AUTO-ENROLMENT RULES

These changes won't affect you if you're already enrolled in a pension scheme. However, those not currently covered by the regulations will see a 3% decrease in their monthly pay, which will be directed towards auto-enrolment contributions. While this might initially strain your household budget, it's an adjustment that can ultimately benefit your future.

Opting out of the company's scheme is possible, but doing so means losing out on the company contributing an additional 5% to your pension savings account. This may not be in your best long-term interests. You can opt out and rejoin later when you feel more comfortable with the payments, and your employer will be required to re-enrol you every three years, giving you a chance to reassess your decision.

A CRITICAL PART OF SECURING YOUR FINANCIAL FUTURE

The anticipated changes to the rules governing auto-enrolment will likely mean that everyone now has an equal opportunity to achieve a more comfortable retirement. But remember, planning your retirement isn't optional; securing your financial future is critical. Leveraging your employer's pension plan through auto-enrolment could be one of the best decisions you can make for your golden years.

If you'd like to put away more for your retirement, if appropriate, you could consider opening a Self-Invested Pension Plan (SIPP). It's a personal savings account where your investments can grow tax-free, and you'll have a wide range of investments to choose from. You can currently invest up to 100% of your earned income or £60,000 (whichever is the lower) each year and claim Income Tax relief on your contributions. ■

DO YOU WANT TO UNDERSTAND HOW TO NAVIGATE THESE CHANGES AND WHAT THEY MEAN FOR YOUR FINANCIAL FUTURE?

Don't hesitate to contact us if you require further information or have questions about these changes. We're here to help you navigate these changes and understand what they mean for your financial future. Don't leave your retirement to chance – get in touch today.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

YOUR OWN PERSONAL CIRCUMSTANCES, INCLUDING WHERE YOU LIVE IN THE UK, WILL HAVE AN IMPACT ON THE TAX YOU PAY. LAWS AND TAX RULES MAY CHANGE IN THE FUTURE.