PENSION PLANNING DURING THE PANDEMIC

As the coronavirus pandemic rages on into the winter and the second lockdown takes its toll, mhany businesses and self-employed individuals continue to face unprecedented challenges when it comes to maintaining productivity and profitability.

It is essential for employers to keep all back office processes running as smoothly as possible during this time and ensure that they are prioritising and safeguarding the financial wellbeing of their team.

As we continue to witness the impact of COVID-19 on our business and that of our clients, we would like to encourage you to consider the important questions, in particular your obligations as a business owner or self-employed worker under the auto-enrolment and re-enrolment banner.

The Pensions Regulator have maintained their stringent rules during this time and it is essential for employers to ensure that they are fully compliant with regulations and their duty of care to employees.

Pension Planning

A pension is a long-term savings plan built up over your working life that grows largely free of UK tax. Individuals makes regular payments into their pension and those with a workplace pension also receive employer contributions.

But with the pandemic throwing business as usual into disarray, it is important to make sure your employees stay on track with their pension goals and continue to save towards their ideal retirement while you ensure that your workplace pension plan is providing optimal benefits.

Are your employees at risk of neglecting their pensions during the pandemic?

Recent research* shows that a quarter of savers have reduced their pension contributions or stopped them entirely since the Covid-19 crisis hit and even more are considering doing so, with men and younger workers more likely to neglect their savings.

> **“Make sure that your employees are aware of their position - for furloughed staff payments into pots based on 80% of salary are protected, although the cut to 80% pay reduces the amount of an employee’s salary that is ‘pensionable’**

How can re-enrolment help to support staff?

While essential spending is naturally taking priority and the financial impact of being furloughed or made redundant is stark, it is essential to stay on track of your re-enrolment duties as an employer in order to encourage your employees to prioritise their pension savings and retirement prospects. Employers must re-enrol staff who leave once every three years, starting from when they first introduced auto enrolment, unless that staff member chooses to stay opted out.

How much should people be saving?

It is essential to encourage employees to continue to prioritise their pension during this time and protect their long-term plans. Advise them to look at ways to cut back in other areas as opposed to their pension savings. While auto-enrolment requires the minimum contributions from employer/employee combined to be a minimum of 8%, it may be advisable to encourage workers to save 15% or more in order to enjoy a comfortable as opposed to passable retirement.

How does auto-enrolment help and what are the risks of pausing/stopping pension payments?

Any gap in pensions savings means missing out on pension tax relief from the government as well as employer contributions. There is also the impact of compound investment growth to consider, which means that the earlier in their career that employees start saving via pension contributions, the better growth prospect for their pension pot. Cyclical re-enrolment obligations prevent pensions slipping entirely off the radar and provide a reason to start an essential conversation around retirement goals.

Do any of your team fall into a pension savings risk group?

Those of an ethnic minority, home renters (as opposed to owners), part-time and self-employed workers, those earning below £30k and women are all at a higher risk of insufficient pension savings*. Employers must identify those of their team most at risk while individuals should be aware of the risks of their own position, in particular those that fall into more than one of the above categories.

Which groups are more at risk due to the pandemic?

Workers aged 55 or over are more at risk than normal as they are increasingly drawing on their pension pots to supplement their income. Those dealing with a 20% loss of income may also feel compelled to reduce contributions or opt out of their workplace pension.

Auto enrolment and the self-employed

Self-employed workers are one of the most at-risk groups as they don't receive any employer contributions and the pandemic has left many more financially vulnerable. Research shows that 85% do not save into a private pension at all and the rate of pension wealth among those that do is around 25% less than the average population. While the government has been called on to make policy changes to support this demographic in later life planning, now is the time to take action and set up your own arrangements.

What support is available for the self-employed?

Those who earn enough to pay higher-rate income tax will be able to claim 40% tax relief on pension contributions. Under the Coronavirus Job Retention Scheme (CJRS), the next self-employed income support grant covering November to January has increased from 55% to 80% of average profits - up to a maximum of £7500. It's also important to fully explore your options regarding pension savings and investments with the help of an expert, in order to protect your financial future.

*Hargreaves Lansdown

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