BIRCHWOOD INVESTMENT MANAGEMENT LTD

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Auto-enrolment gathers speed

Tens of thousands of medium-sized employers, and hundreds of thousands of employees, will be affected by auto-enrolment by the end of 2014, new figures have revealed.

The figures came in a new forecast from the Pensions Regulator, the UK regulator of work-based pension schemes, highlighting the number of employers due to become subject to automatic enrolment over the next four years.

The data, published on 23 January, showed that around 30,000 medium-sized employers will reach their staging date – the date at which they have to start automatically enrolling eligible workers into a qualifying workplace pension scheme – between April and the end of this year.

Charles Counsell, executive director of automatic enrolment at the Pensions Regulator, said: "The clock is ticking for thousands of medium-sized employers across the UK – employing 50-250 workers – who need to meet their legal duties to provide a workplace pension."

The regulator says that employers due to stage before June should by now have in place a suitable pension provider and payroll software.

At Birchwood Investment Management, our fully-qualified team offers extensive experience in auto-enrolment and other occupational pension issues.

Our pensions experts can provide advice on a one-to-one basis, or through seminars, or we can provide more specialist assistance with reviewing and upgrading pension schemes or implementing new schemes. For more information, please contact us.

State pension ‘top-up’ scheme on way

Current pensioners are to be offered a time-limited opportunity to make extra national insurance contributions (NICs) to top up their state pension.

The scheme, announced as part of the Autumn Statement on 5 December, will also apply to people who reach state pension age before the introduction of a new single-tier pension on 6 April 2016.

Details about how the scheme will work, and the cost, are limited so far but the Department for Work & Pensions (DWP) said that new voluntary NICs – to be known as Class 3A contributions – would be set at “an actuarially fair rate that ensures that both individual contributors and the taxpayer get a fair deal.

“The government intends to introduce Class 3A in October 2015. The scheme will be open for a limited period – we expect most people who want to take-up Class 3A entitlement will do so in the first few months.”

The government said it would provide more details of the scheme nearer the time it is introduced but it is thought that pensioners will be able to pay a lump sum to purchase between £1 and £25 a week to be paid on top of their basic state pension and additional state pension (S2P or Serps).

The Autumn Statement announcement said: “Class 3A will give pensioners an option to top up their pension in a way that will protect them from inflation and offer protection to surviving spouses. In particular, it could help women, and those who have been self-employed, who tend to have low additional pension entitlement.”

The DWP said that people eligible for the scheme would need to carefully consider whether it was right for them.

It said: “It is important that people think through all the options if considering paying Class 3A entitlement. For some people, who want the security of an increase in their regular pension income, with safeguards around inflation protection and inheritance and paid directly by government, it may represent a good investment.

“But for other people, the security of having access to their capital – to meet living expenses, for a rainy day and for forming part of their estate – is more important.”

Annuity rates bounce back…but for how long?

New research has shown that average annuity rates rose by a record 13 per cent in 2013, following a 12 per cent fall the previous year.

The latest MGM Advantage Annuity Index, published on 27 January, revealed that the average annuity purchased in December 2013 would generate an extra £7,560 (13 per cent) over retirement compared to a year ago.

The figures are based on analysis of data from Investment Life and Pensions Moneyfacts, which brings together information on a wide range of financial products, for the year ending 31 December 2013.

The analysis looked at annuities providing a flat level of income without guarantee (ending on the death of the holder) with income levels based on a pension pot of £50,000 and a retirement age of 65.

MGM Advantage, which specialises in retirement income solutions, said its Annuity Index underlined the value of shopping around for an annuity, with the best conventional rate generating £9,555 more income over the average retirement than the worst.

For enhanced annuities – which take into account additional information about health and lifestyle – the difference between best and worst was £14,616.

Aston Goodey of MGM Advantage said: “Annuity rates have recovered strongly over the past year, bouncing back from the record lows seen at the end of 2012.”

But he warned: “It is too early to call whether the annuity rate rally has run out of steam, but the record rate increases witnessed in the third quarter of last year tailed off significantly in the last quarter. As gilt yields ease back, and with the market predicting no interest rate rises until 2015 at the earliest, the prospect of further strong rises in annuity rates seems unlikely.”

1 in 10 pensioners ‘falling into low income lives’

More than one in ten high and middle-income households slip into low income soon after reaching state pension age, according to a new report commissioned for Age UK.

The report, published on 5 February, found that six per cent of previously high income households and five per cent of those on middle incomes were living on less than £293 per week for a couple or less than £197 per week for a single person, putting them just above the poverty line.

The study concluded that the people most likely to find themselves slipping into the low income bracket had worked in a skilled trade, administrative work or sales or become single through bereavement or separation. They were also unlikely to have private pension savings and were likely to have stopped working.

The research concluded that 1.9 million pensioners were struggling to live on an annual income of £13,312 (couples) or £8,944 (single person).

Age UK’s latest tracker poll, which monitors the way older people are responding to the UK’s current economic climate, shows that more than one in four people (27 per cent) aged 65 and over said they were just getting by financially.

Tom Wright, Age UK’s group chief executive, said: “We can’t put our heads in the sand when it comes to being prepared for retirement.

“With many of us living longer than ever, it’s crucial that we tackle this now and come up with ways to enable people to maximise their income in retirement, particularly in light of historically low interest rates. If not, we will face a bleak future where later life will become synonymous with struggling to make ends meet for many of our older people.”

Dr Alexander Scott, chief executive of the Chartered Insurance Institute, added: “With complex issues to think about, like annuities and other finances, a few decisions made early in retirement will have lasting effects.

“These research findings and others like them highlight once again the need for a fundamental rethink about how issues like annuities, decumulation, equity release, and above all information and advice around all these matters are handled.”

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