

# HOW IS FINANCIAL WELLNESS CHANGING FOR HIGHER EARNERS

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# WHAT AM I TALKING ABOUT

**Why introduce the tapered annual allowance?**

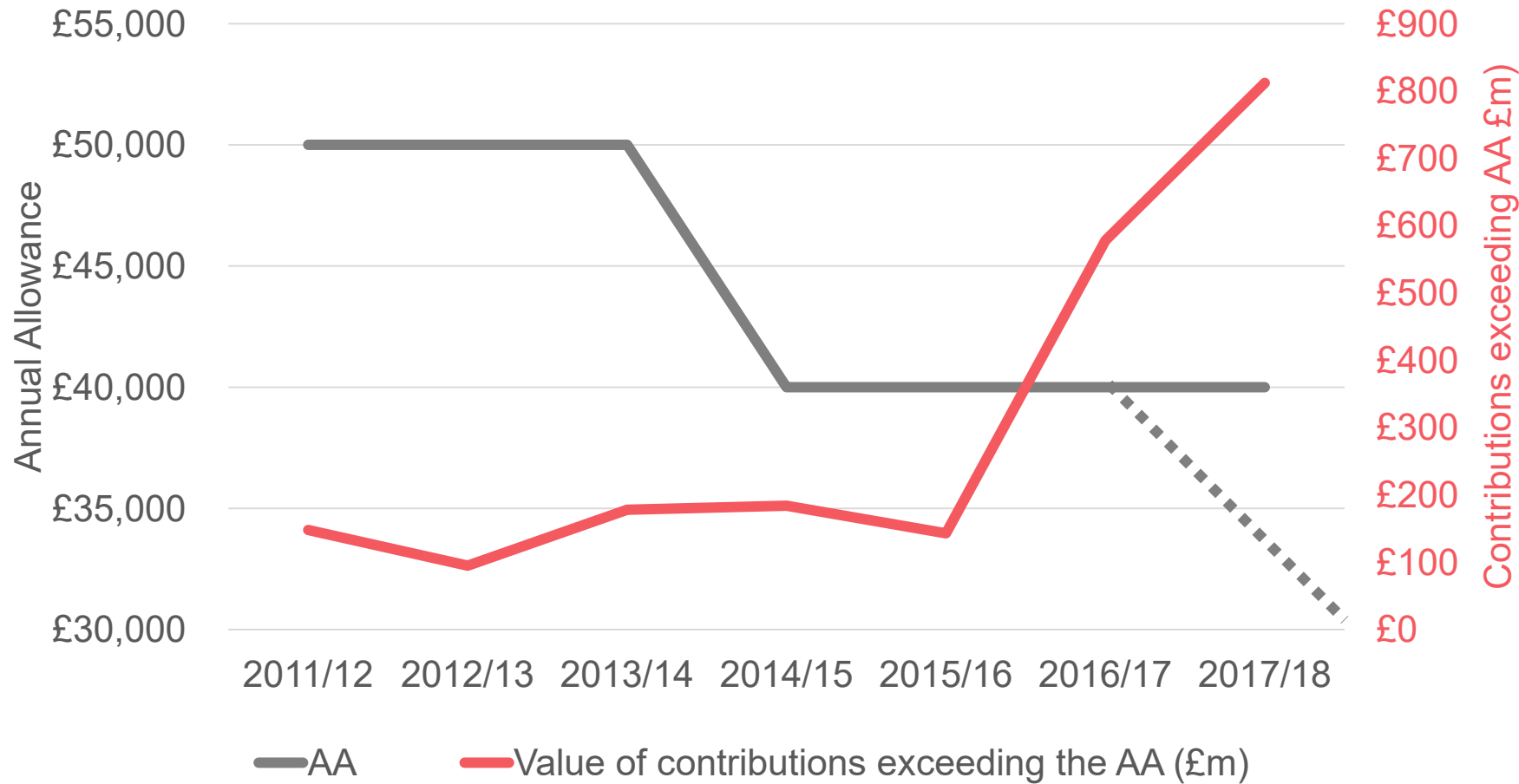
**What's the impact?**

**What can you do?**

**One solution that works**

# WHY THE CHANGES TO THE ALLOWANCES?

## The Austerity backdrop



# WHAT ARE THE CONSEQUENCES?

## The shoes of a high earner

- Calculate personal Tapered Annual Allowance
- Restrict pension contributions as necessary to avoid a tax bill
- 'Look back' over past 3 years and carry forward any unused Annual Allowance
- Think carefully about saving for retirement
  - or risk not having enough!



# A BIG HEADACHE FOR THE SPONSORING EMPLOYER

## A number of immediate challenges

### Key risks:

- ▶ Unhappy senior employees
  - ▶ Worst case- tax bill of up to £13,500
- ▶ High pension contribution rates for high earners
- ▶ Late bonus payments – will it give employees enough time?
- ▶ Lower pension engagement
- ▶ Are employees saving enough for their retirement?





# ARE THEY SAVING ENOUGH FOR THEIR RETIREMENT?

Is it ok to just pay cash in lieu?

Example:

- ▶ £200,000 total income
- ▶ Was paying £40,000 every year into pension – now reduced to £15,000

- ▶ Will they be able to sustain their lifestyle?
- ▶ Can we assume they 'have it covered'?

Source: HL, Nov 2019. Assumptions: Salary £200,000, 20% total contributions, current age 45, NRD 65, existing pension £400,000, 2% inflation, no LTA charge applied.  
Annuity based on joint life, level, 50% spouses pension and no guarantee.



# HOW YOU CAN HELP

## Supporting your employees

### Raise awareness

- ▶ Concise information / factsheet
- ▶ Signpost contribution history and carry forward calculator

### Ask experts for financial guidance - help demystify complexity

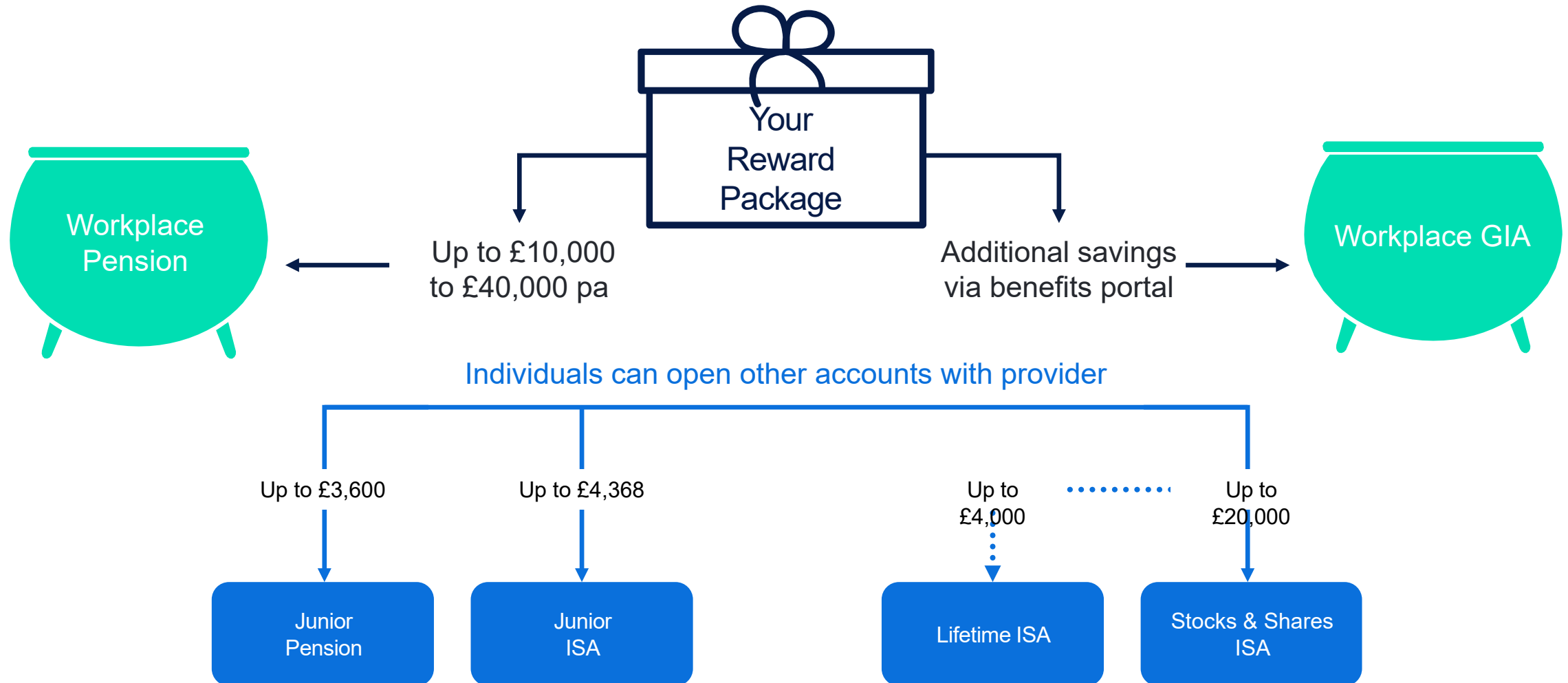
- ▶ Group seminars and 1-2-1s

### Next step: consider redirecting money to an alternative savings vehicle

- ▶ E.g. Workplace ISA or Workplace General Investment Account



# USE WIDER SAVINGS SOLUTIONS



Pension and ISA allowances apply to the 2019/20 tax year



# CASE STUDY – HL WORKPLACE CLIENT

## Global Tech Fortune 500 Company

### THE CHALLENGE

- 480 'high earners' affected by Pension Allowances

### GOALS

- Avoid payment of cash in lieu
- Boost employee engagement
- 'Employer of choice' - relevant and flexible solutions for all

### SOLUTION

- Workplace ISA and General Investment Account – via the benefits portal
- Mandated all cash in lieu payments to Workplace General Investment Account - to encourage saving!
- Financial education

### RESULTS

- Those affected by the Tapered Annual Allowance – less than 1% withdrawn!
- Very positive employee feedback – 'encourages saving', 'convenient', 'easy'...
- HL won 'Initiative of the Year' 2018 at the WS&B Awards Ceremony!

# IMPORTANT INVESTMENT NOTES

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- ▶ Please remember investments can go down as well as up in value, so you could get back less than you put in. Investments should be made for the long term (5+ years).
- ▶ You can't normally access money in a pension until age 55 (57 from 2028). Money withdrawn from a Lifetime ISA other than to purchase a first home or after age 60 will usually be subject to a 25% government withdrawal charge. Pension and tax rules can change, and their benefits depend on individual circumstances. The information provided is based on our understanding of current and proposed legislation, which may be subject to change in the future.