Remain Is the Better Option

April 2019

All employers are required by law to automatically enrol all workers over age 22, who earn more than £10,000 a year into a pension scheme. From 6 April this requires an employer contribution of 3% of eligible earnings (currently 2%) and the employee must pay 5% (currently 3%). With tax relief, this will cost employees 4%, or less, of earnings and gives 8% in total saved for retirement. Those who don't want this may opt out. Those earning between £6,136 and £10,000 may also join voluntarily.

Some commentators have speculated that the increase in employee contributions from 6 April may lead to employees opting out of their employer's pension scheme. For the majority this would be ill advised. Other changes in tax and national insurance thresholds, saving a basic rate taxpayer £154.96 a year, should help absorb some of the extra cost to the employee. So far, over 10 million workers have joined auto enrolment pensions and the opt out rate has been very low.

Employer payments into a pension are tax free. By not participating in a workplace scheme you are essentially turning down free money and a good start to retirement saving. Opting out of an employer's scheme is rarely advisable as the amount of money saved in employee cost is often less than half the value of employer and taxpayer funded contributions (especially for higher and additional rate taxpayers).

Many employers offer pension contributions more generous than this minimum requirement and may also offer it to staff under 22. Even if under 22, or earning less than £10,000, you can request to join the scheme. Anyone who earns more than £6,136 will be entitled to an employer contribution to their pension and some employers will pay in for staff below this earnings bracket if they ask to join. Those who feel they really cannot afford the increase, also have the option of maintaining existing contribution levels, so the changes being introduced don't have to be a stark choice between paying more or leaving the scheme.

Typical monthly costs of auto enrolment pensions from 6 April 2019*

Current year figures in brackets.

	Basic Rate (20%) Taxpayer	Higher Rate (40%) Taxpayer	Additional rate (45%) Taxpayer
Monthly Salary	£2,000	£4,583	£13,500
Monthly Employee Contribution Net of Tax Relief	£59.52 (£35.94)	£109.65 (£60.90)	£100.51 (£55.82)
Tax Relief	£14.88 (£8.98)	£73.10 (£40.60)	£82.24 (£45.68)
Monthly Employer Contribution	£44.64 (£29.94)	£109.65 (£67.66)	£109.65 (£67.66)
Total Contribution	£119.04 (£74.86)	£292.40 (£169.16)	£292.40 (£169.16)

*2019/20 tax rates for England, Wales and Northern Ireland. Taxpayers in Scotland will receive tax relief at 20%. 21%, 41% and 46%. Based on minimum auto enrolment contributions on earnings between £6,136 and £50,000.

Although a workplace pension is linked to a job, it does not belong to the employer, it belongs to the employee. So even if a job is not expected to last long, it's still worth joining an employers' scheme as you will keep the funds paid in and the growth on them. If you have a career break it is also possible to continue paying into a pension. Having one provided for you gives a head start in retirement savings.

While the increase to 8% of eligible earnings (earnings between £6,136 and £50,000) will mean employees and employers paying in more from April, for many additional savings will be needed to maintain their preferred lifestyle. According to the Office for National Statistics the average spend in retirement on essentials is £13,400 per year[1]. If retiring from age 65, in good health and with full State pension of £8,754 per year, this would currently require a fund of £122,263. Pension savings from age 25 of £238.75 per month[2] would give a reasonable prospect of achieving this, with annual increases in income built in. Anyone with earnings of less than £41,948 a year may need to top up the 8% auto enrolment savings to achieve this level of income on a guaranteed lifetime basis.

If you are unsure of the suitability of any investment or product for your circumstances, please contact an adviser. A pension is a long-term investment. The fund value may fluctuate and can go down.

[1] ONS Expenditure of two adult retired households by disposable income quintile group: Table 3.14, https://bit.ly/2uQdPa9, Date Accessed 05/04/19.

[2] Assumes continuous pension contributions for 40 years, invested in medium risk funds, applied to buy a guaranteed lifetime income at age 65 with 3% pa increases applying to the income, conversion rate of 3.8%