What does Theresa May's Government have in store for retirement investors?

Tom Selby, AJ Bell Senior Analyst

Shares LIVE – 10 September 2016

Risk warnings

- The value of your investments can go down as well as up and you may get back less than you originally invested.
- We don't offer advice, so it's important you understand the risks, if you're unsure please consult a suitably qualified financial adviser.
- Tax treatment depends on your individual circumstances and rules may change.
- Past performance is not a guide to future performance and some investments need to be held for the long term.

Contents

1. Introduction – the pension policy landscape
2. Brexit – gamechanger?
3. Pension tax relief
4. The Lifetime ISA
5. Secondary annuities
6. The new Pension Advice Allowance
7. Auto-enrolment and the state pension
8. Conclusions

1. The pension policy landscape

- Deficits weigh on public purse and private sector too
- Shift in pension risk from employers to individuals
- The pension freedoms clearest example of move towards increased freedom, choice and risk
- Policymakers focused on nudging people, through tax system and coercion, to saving for their own retirement
- Assuming Labour remains out of power, trajectory unlikely to change

2. Brexit – a gamechanger?

- Brexit threatens to shift public policy landscape – pensions could be in the firing line
- New administration (Prime Minister May and Chancellor Hammond), new priorities?
- The Big Three: Economy, Process of Brexit, Election
- Recession? – some early economic indicators looked bad
- Bank of England intervention (rate cut to 0.25%, fresh batch of QE) could prop up growth (although more pain for defined benefit schemes)
- Autumn Statement

3. Pension tax relief

- Existing system, taxed at marginal rate (plus 25% tax-free)
- The Pension ISA (EET vs TEE)
- Single, flat rate (25%? 30%?)
- Reform SHELVED (not killed) ahead of EU referendum
- Appetite remains within the Treasury to overhaul pension tax system…
- Potentially in the firing line IF economy hits the skids post-Brexit vote
- Lifetime/annual allowance cuts (again)? Reduce the tax-free lump sum?
- BUT all risk alienating core Conservative voters

4. The Lifetime ISA

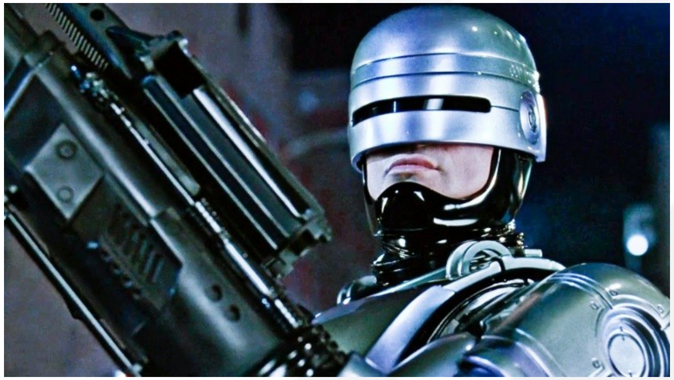
- Due to launch in April 2017
- Target market = young, first-time buyers
- Under 40, up to £4k a year, 25% Government bonus
- Continue contributing (and receiving match) until 50
- Tax-free withdrawals from age 60, OR for deposit on first home
- Heavy penalty for other early withdrawals
- Potential to expand in future

5. Secondary annuities

- Plans set out to allow savers to cash-in existing annuity policies
- Take as lump sum, taxed as income
- Put into drawdown, taxed on withdrawal
- Original launch date April 2016; pushed back to April 2017
- Buyers? Sellers? Brokers? Advice?
- U-turn will be viewed as broken promise to older voters (and will leave a hole in Treasury spending plans)

6. The new Pension Advice Allowance

- Available from April 2017
- Take up to £500 from your pension tax-free to pay for retirement advice
- In addition to 25% tax-free lump sum
- Potential for multiple uses
- However, unlikely to pay for full retirement advice session (HMT estimates £150 an hour, up to 9 hours)
- Robo-advice?



7. Auto-enrolment and the state pension

- **State pension triple-lock**
  - State pension rises by highest of earnings, prices or 2.5%
  - Manifesto commitment to retain until 2020
  - Scrapping it could save £billions, but…
  - Risk angering demographic most likely to vote?
- **Automatic enrolment**
  - Success so far (opt-outs less than 10%), but…
  - Biggest challenge to come between now and 2018
  - Impact of Brexit on small firms? Another delay?

8. Conclusions

- Brexit has shifted the public policy landscape
- No punishment Budget, but savings may be needed (Autumn Statement)
- Pensions could be in the firing line if Chancellor Hammond needs cash – USE YOUR TAX ALLOWANCES
- Pension ISA debate still live
- State pension triple-lock under threat, but politically difficult
- Lifetime ISA set to launch in April but exit penalty diminishes attractiveness
- Secondary annuities – doubts over sustainability of market and value for money
- New Pension Advice allowance available from April 2017

Email: tom.selby@ajbell.co.uk

AJ Bell

Past performance is not a guide to future performance and some investments need to be held for the long term.

This presentation is for discussion purposes only. The information in it may not be reproduced or further distributed to any person or published in whole or in part for any purpose and recipients must keep confidential all matters contained in it. No representation or warranty, express or implied, is made or given by or on behalf of the Company or its directors or any other person as to the accuracy or completeness or fairness of the information or opinions contained in this presentation and no responsibility is accepted for any such information or opinions.

(44) (0) 345 40 89 100
(44) (0) 345 40 89 200
enquiry@ajbell.co.uk

Trafford House, Chester Road, Manchester M32 0RS and
Calverley House, 55 Calverley Road, Tunbridge Wells, Kent TN1 2TU
49 Southwark Bridge Road, London SE1 9HH