

PRE RETIREMENT SIPP & WRAP: THE NEW BREED

WORKPLACE PLATFORM As defined benefit approaches its twilight years, innovations are under way to maximise the benefits offered by occupational savings plans

Recognising opportunity



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The demise of the defined benefit (DB) pension scheme continues, despite many companies having taken action to reduce costs by altering the benefits their scheme provides.

The impact of a DB scheme on the wellbeing of a company is wide ranging, from the requirement to show a deficit on the balance sheet, to the potential implications for a company's credit rating, or indeed its market valuation.

Many companies are considering the potential buyout of their scheme liabilities by an insurance company or bank. Whatever route a company takes, there is a common theme: the continuing shift from DB to defined contribution pension provision.

Is the problem solved or simply transferred?

This common theme has an overriding consequence: the transfer of risk from the employer to the employee. The company previously considered whether it was making sufficient provision to meet future income requirements, but the responsibility and risk is now with the employee.

The company can now be sure what its pension costs or contributions will be on an annual basis and need not be concerned as to whether this will be sufficient to meet future income requirements, the very same position that employees used to enjoy.

A number of factors must be considered by the employee, including:

- contribution levels;
- ongoing investment strategy;
- investment returns/growth;
- longevity;
- retirement income options.

This leaves employees with a degree of risk, the most significant being not making sufficient contributions.

Accept the risk but seize the opportunity

This significant risk is also met with great opportunity, yet only if employees have access to the solutions.

Individuals are no longer constrained by stringent contribution limits, which in turn provide the opportunity to make contributions of assets and value from a variety of sources.

The solutions are more than likely already available in the workplace, although not necessarily delivered to employees in a coherent way.

Many employees have access to share schemes, the most common being the HM Revenue & Customs-approved save as you earn (SAYE) scheme and share incentive plan (SIP). These represent half the solution; the other half is a pension, but only a pension that permits transfers of shares and or value from share schemes.

Share schemes to pension

Employees participating in a SIP can transfer shares in specie to a registered pension scheme within 90 days of their withdrawal from the SIP. However, to avoid potential capital gains tax (CGT), the transfer must be from the SIP trustee directly to the pension trustee, the transfer taking place within 90 days of instructing the SIP trustee.

In doing so, the employee benefits from two helpings of tax relief, first on the acquisition of partnership shares, and second on the transfer of SIP shares to a pension. This provides a significant uplift, even before any share price growth has been factored in.

The share scheme to pension solution is not restricted to a SIP. An in specie transfer of shares to a pension can also be made from an SAYE scheme within 90 days of the exercise of the option. Such a transfer may be chargeable to CGT. However, any CGT payable may be

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Opportunity fox: employees now have more control over their savings, but with this comes risk

negated by the tax relief available on the value of the contribution.

Transfers of shares can also be made on a monetary in specie basis from discretionary share schemes such as long-term incentive plans.

All of these opportunities may offset the loss of some or all of the benefits effectively lost on the closure of a DB pension scheme. The value of employee share ownership will be reinforced, together with the longer-term wealth creation potential of linking share schemes with a pension.

Share schemes to ISAs

Employees may also benefit from having access to an ISA. This is of particular relevance to SAYE participants; the transfer of shares to an ISA within 90 days of exercising the option provides the potential to mitigate some or all of the CGT that may arise on the sale of shares.

Any shares or value held within the ISA remain accessible, which contrasts with the pension, in which the value of any benefits can only be accessed on retirement.

Word of warning

An employee holding a significant proportion of their wealth in the shares of one company (their employer) will suffer most on a fall

THE FLEXIBLE SAVINGS PLATFORM DELIVERED TO FT GLOBAL 500 COMPANY

Wealth at Work has delivered its flexible savings platform to one of the world's most well-known brands. The main objective is to enable SIP participants to make an in specie transfer of shares to a pension once the shares have been held in the plan for five years or more.

Shares are transferred directly from the SIP trustee to the pension, so offering employees a seamless process.

Participating employees benefit from two helpings of tax relief, first on their purchase of partnership shares, and second on the transfer to the pension. Employees are able to implement this online.

Once the shares have been transferred to the pension, employees are given the choice of retaining the shares or diversifying their shareholding, with access to a range of funds intended to replicate existing core pension provision.

The Wealth at Work platform is unique in that it also provides access to a corporate ISA for those seeking to retain access to their wealth. The corporate ISA provides employees with the same investment choices as the pension, so retaining shares or diversifying their shareholding.

As part of the launch, a programme of financial education was delivered by Wealth at Work with the objective of securing employee engagement and providing employees with sufficient information to make personal decisions in relation to their new benefit.

The financial education programme has been made available in both off-line and online formats, with staff able to refer to a bespoke, branded website designed by Wealth at Work, accessed by following a link from the company intranet.

in the share price. There is no clearer illustration of the dangers than the recent experience of those working in the financial services sector. Many employees have seen their life savings largely disappear.

Employees therefore need to be made aware of the importance of investment diversification – not to deter people from participating in employee share schemes, but to ensure they manage the value derived from these schemes in a way that is likely to benefit them now and in the future.

Moving to a single group Sipp platform

A single group self-invested personal pension (Sipp) platform accepting core pension contributions via payroll, and facilitating transfers from share schemes, represents the optimal position. Employees can clearly identify the wealth they have accumulated by virtue of employment.

Such a platform enables employees to maximise the opportunities available – it could make a significant difference to their long-term financial wellbeing and their view of their employer.

Not without education

Employees need to understand the wealth creation opportunities available to them by virtue of their employment, and how these may now be combined to provide significant benefits. Without the appropriate financial education – whether it be online or otherwise – employees may not seize the opportunity.

Problem solved

There is no replacement for a DB pension scheme from an employee's perspective. However, all of the above goes a long way towards helping employees manage the risk associated with their pension provision – a risk that is now theirs to manage. **PM**

David Cassidy is chief executive officer at Wealth at Work

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