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WALLIS WEALTH LIMITED

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More than a decade of auto-enrolment

Since the government introduced pension auto-enrolment in 2012, millions more workers have started saving for their retirement. Now, the government has confirmed plans to extend auto-enrolment to encourage a savings boost. The changes could have implications for both employees and business owners.

Following a review of auto-enrolment the government has revealed key reforms forecast to increase pension contributions by £2 billion a year.

Key auto-enrolment changes to be aware of

The minimum age of auto-enrolment will fall from 22 to 18

Young workers could start saving into a pension much sooner. The government intends to lower the minimum auto-enrolment age from 22 to 18.

For employees, this could be a positive step. Saving for retirement from the outset of their careers could help establish positive money habits among workers. In addition, compound growth means early contributions have the potential to grow significantly.

For business owners, it could mean their outgoings will increase as they'll also need to make pension contributions on behalf of eligible workers.

The lower earnings limit will be removed

Currently workers must earn at least £6,240 to be eligible for auto-enrolment. The government plans to remove this lower earnings limit, so workers will receive contributions from the first pound they earn.

This will boost pension contributions among those that are already paying into a pension. It will also mean low-income workers that haven't previously benefited from a pension, such as those who work part-time while caring for children or older relatives, will automatically start paying into a pension and receive employer contributions too.

From an employer's perspective, this change could, increase the amount they are contributing to employees' pensions.

There could be a maximum limit on pension pots

As most employees are entitled to a pension through their employer, frequent job hopping could lead to individuals holding numerous small pensions. This may make it difficult to manage pensions effectively and understand if you're on track to reach your retirement goals.

The government has set out initial plans to help savers manage multiple pots. Among the proposals is a maximum limit on the number of pensions a person can have. The report also suggests a 'central clearing house' to make it simpler to consolidate pensions.

There is no timescale for the proposed changes

The official document does not set out a timescale to implement any of the changes. So, while young and low-income workers are set to benefit from auto-enrolment, it could be several years before they start contributing to pensions.

The minimum pension contribution will not be increased

The government has not made plans to change the current rules for contributions. Currently, the minimum contribution is 8% of qualifying earnings, made up of 5% from employees and 3% from employers.

Research suggests that minimum contribution levels are not enough to afford a comfortable lifestyle in retirement. There have been calls for the government to increase the minimum pension contribution level to help close the gap.

Auto-enrolment won't be extended to cover self-employed workers

Some organisations have called on the government to extend auto-enrolment to encourage self-employed workers to save for their retirement. However, support for the self-employed has been overlooked in the latest report.

Research from the Institute for Fiscal Studies suggests the number of self-employed workers paying into a pension has fallen over the last decade.

It also found self-employed workers that pay into a pension rarely change the amount they contribute. The analysis suggested a form of auto-escalation, such as a direct debit that increases in line with inflation, could help self-employed workers save more for their retirement.

Take control of your pension and retirement

While the change to auto-enrolment could mean more people are on track for a financially secure retirement, there are still challenges. If you want to reach your retirement goals, engaging with your pension sooner, rather than later, could allow you to identify the steps you need to take.

Please contact us to discuss your retirement aspirations and how we could help you create a tailored financial plan.

Investment strategies as you approach retirement

It's usually a good idea to start reducing the risk of your pension fund as you approach retirement. But it's important to strike the right balance so you can continue to power the growth of your portfolio for many years to come as well as draw an income.

As we move through the different stages of life it's important that our investment strategies adapt. Typically, your financial goals change when you retire. You may want a regular reliable income, which usually means you have to take less risk when it comes to investing. People nearing retirement traditionally switch savings out of risky investments and into safer assets to protect their portfolios from market downturns.

Reduce risk in your portfolio as you near retirement

Managing your portfolio's risk level (the possibility of losing the money you invest) as you get older is important to ensure you meet your financial goals. Younger investors with longer timelines to retirement (typically 30 to 40 years) are generally encouraged to take more risk in their portfolios as if there are any market falls, they have longer to recover.

As you get older and approach retirement the more important it is to preserve the wealth you have accumulated. This is because as the timeline to retiring gets shorter, your portfolio has less time to recover in the event of a market decline.

So, it's a good idea to lower the level of risk to reduce the possibility of your investments falling in value. In most cases, this means reducing exposure to equities and increasing exposure to lower-risk investments that produce an income such as bonds to shield your investments from the ups and downs of the market.

Why it's important to diversify

Portfolio diversification is a way of reducing potential risks by spreading your investments across different assets, rather than having it concentrated in one place. By investing across different asset classes, companies, countries, and sectors, you can help reduce the impact of any major market swings on your portfolio.

While you can't eliminate all investment risk, diversification can help smooth out any fluctuations that happen over time. For instance, stocks can earn more money than other asset classes, but they tend to be more volatile. Therefore, most financial professionals agree that as you approach retirement it is best to reduce the allocation to equities in your portfolio.

Government bonds are less likely to lose money than stocks and are seen as a better bet for retirement thanks to their predictability and income-generating potential. Bond prices are also not affected by the same market conditions that move stock prices. By shifting their investments out of stocks and into bonds, people nearing retirement can lower their risk and enjoy greater financial stability.

Finding the right balance

It's always important to review your investments before any big life changes, which is particularly true if you are approaching retirement. With any decision about your investments, there are trade-offs. The greater the risk you are prepared to tolerate, the more potential there is for your investments to grow.

While reducing risk with bonds can help shield you from any downturns in the market, your returns could be lower. As you approach retirement, it's important to strike the right balance between assets reducing risk in your portfolio so you can continue to power its growth for many years to come as well as draw an income.

A financial adviser can help you build a well-diversified portfolio appropriate for your risk tolerance and investment goals and adapt it, so the strategy always reflects your age and circumstances.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

5 steps to create a budget

The average British family used to be 2.4 children, these days it's 1.7 children (and half a dog). Whether your idea of a family is two adults and two children, or just you and a dog, creating a family budget is an essential step towards managing your finances effectively.

By gathering information about your income and expenses, categorising your expenses, setting financial goals, determining your disposable income, and creating a budget plan, you can take control of your finances and achieve your financial goal.

1 Top tips to avoid being scammed

Make a list of all your average monthly outgoings, then compare it to your current income and see if you spend more than you earn. If there is money left over every month, then it's easier for you to add this to savings. If you earn less than you spend, try to cut back on your expenses slightly.

2 Set realistic goals

Set yourself short and long-term financial goals. Short-term goals should take around one to three years to achieve and might include things like setting up an emergency savings fund or paying credit card debt. Long-term goals, such as saving for retirement or your child's education, may take decades to reach.

3 Follow the 50/30/20 rule

Once you've identified your monthly income and expenditures, it's worth using the 50/30/20 rule. This is a technique where you divide your income into three categories. 50% of your budget covers any essentials like rent and bills, 30% covers variable costs like eating out and shopping and 20% covers savings and paying off debts.

4 Cut back on nice to haves

We are all guilty of enjoying the finer things in life, but identifying what nice to have items you can cut back on can help you achieve your financial goals quicker. For example, cutting back on eating out may only save you a small amount each month, but can be a huge saving in the long term. You may be surprised by how much money you could accumulate by making one minor adjustment at a time.

5 Review your budget regularly

Once you have created your budget, don't forget to review it from time to time, especially as the cost-of-living crisis is beginning to catch people out with rising prices. By checking it frequently, you'll see whether you need to adjust your goals and where you could still cut back on your expenses.