

INDUSTRY INSIGHT



David Cassidy, chief executive officer at JP Morgan Invest, says that financial education leads to more focused and confident employees who have greater control of their affairs, which in turn positively enhances their professional output

Knowledge powers staff

While companies are under no compulsion to do anything other than offer generic information about their financial benefits, the Financial Services Authority (FSA) and the Department for Work and Pensions (DWP) certainly have employers in their sights in the fight against financial illiteracy.

The provision of occupational pension schemes and other employee benefits is not regulated by the Financial Services and Markets Act. As such, safeguards to ensure that a 'product' is appropriate for an employee's circumstances do not apply as they do in the retail financial sector. However, if the principles of 'suitability' and 'treating customers fairly' were applied to investments offered to employees by dint of their employment there is increasing evidence to demonstrate that the way they are offered would fall woefully short.

The shift from final salary to money purchase pension schemes has largely happened for new or existing employees – many of whom feel disadvantaged. But there are measures an employer can take to improve their benefits package while staying ahead of

best practice. This involves introducing financial education and adopting a joined-up approach to benefits so that employees understand the new environment created by pensions simplification and how to make the most of their existing benefits.

Now, employee benefits such as pension and share schemes are able to work in tandem. For example, employees who belong to an approved save-as-you-earn (SAYE) or share incentive plan can roll over shares into a self invested personal pension – and the total value will attract tax relief at the employee's highest rate.

So, for every £1,000 rolled over from a matured SAYE scheme, an employee can receive up to £282 in tax relief, which also goes into their pension pot. Higher rate tax payers can then claim a further £231 from the Inland Revenue which means that a pension pot of £1,282 will have cost them £769. That represents an uplift of 67%.

The scenario is potentially even more attractive for members of share incentive plans (Sips). Purchasing shares in these schemes is made from pre-tax income, saving tax and national

insurance. Five years on, they can be removed capital gains tax and national insurance free.

If the shares are used as a pension contribution (which can even be done on an in specie basis) they will get further tax relief. For higher rate tax payers, assuming no rise or fall in the share price, that could mean an uplift of up to 256% on their overall outlay.

None of this requires employers to make substantial changes or enhancements to their existing financial benefits package. They simply need to provide employees with an understanding of the opportunities available to them and the platforms allowing them to act upon this increased knowledge. A workplace SIPP with the correct functionality can provide a platform to bring it all together and avoid the trouble and costs inevitably associated with using the occupational (DC or DB) scheme.

With greater control over their finances, employees become more confident and focused on their job while employers also benefit from adding value to their existing benefits package.

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