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Talking points

In this edition, we look at the impact of the end of the furlough support scheme, what a rise in interest rates could do for people's savings, how much annual income you're likely to need for a comfortable retirement – and much more.

INTEREST RATES

Are interest rate hikes imminent?

The Bank of England has given its clearest warning yet that interest rates will have to increase soon to contain rising inflation. But while some experts forecast that the base rate could rise from its all-time-low of 0.1% before Christmas, others think it could be longer before any increase is announced. With rate changes notoriously hard to predict, this leaves savers unsure about what to do with their money. Should they hold off investing in a fixed-rate bond in case rates go up? Or should they grab a deal now to avoid missing out on extra interest in the meantime?

The consensus among experts is not to wait. Fixed-rate deals have edged up in recent weeks, but there is also no guarantee that savings deals will rise in line with any increase to the base rate, as they have previously. Instead, returns are being driven up by fierce competition between smaller banks (who are keen to attract money to fund lending).

PROTECTION

Covid 19 raises the protection profile

The pandemic has put health and well-being at the front of many people's minds over the past 18 months and has sadly proven that the unthinkable can happen. Thankfully the furlough support scheme was able to support many people's income, to at least some extent, when they were unable to work.

However, the scheme ended on 30 September. With heightened awareness of our vulnerability to the unexpected, and its effect on our ability to earn, income protection insurance is the perfect 'personal furlough scheme' for many people now wondering how they would cope if sickness or accident prevented them from working.

Income protection pays a proportion of income, usually between 60% and 70%, if accident or sickness prevents the policyholder from working. It protects their finances in times of trouble, enabling them to focus on their recovery.

TAX

Crypto investors urged to review tax liabilities

Tax experts are advising investors in cryptocurrencies to check they are paying the right tax, as HMRC looks likely to be sending emails and letters to encourage them to review their tax obligations. HMRC hopes to highlight areas that people may not be aware of when considering if they have to pay any tax (like income or capital gains taxes).

Recipients will be asked to respond, which will help HMRC to better manage the issue of tax evasion or avoidance. Many retail investors in cryptocurrencies are under the misunderstanding that HMRC is unable to detect their crypto investments (and any gains they may have made). However, HMRC has used its information-gathering powers to collate lists of crypto investors from exchanges over the past few years.

PENSIONS

The drive for greener pensions

The UK government must show global leadership in pensions and climate change, according to the Work and Pensions Select Committee. With the upcoming COP26 (26th United Nations Climate Change conference) being held in Glasgow, it marks an opportunity to seize the issue and move it forward, says the committee, which also makes recommendations on reporting standards, pension scheme governance and investment.

Hosting COP26 gives the UK an opportunity to build an international consensus on reporting standards and stewardship. While taking a lead on pushing for the global harmonisation of climate-related reporting requirements, the UK must not let up in implementing high standards of reporting and disclosures domestically. Experts believe pension schemes can play a major role in helping the real economy transition to net zero, and that the key to change is government action, which needs to ensure that its policies do not encourage divestment over good stewardship of schemes.

MORTGAGES

Further rise in house prices

The rebound in the property market since the easing of Covid restrictions has been fuelled by a 'race for space' among buyers and stamp duty holidays across the UK. The average cost of a UK home increased by £25,000 in the 12 months to August. The stamp duty tax break in England, which was phased out at the end of September, helped drive up prices by 9.8% in the year to August, to an average of £281,000.

The stats (from the Office for National Statistics) show that prices in London hit a new high of £526,000 despite the capital recording the lowest level of growth among the regions for the ninth consecutive month. Although the stamp duty holiday has ended, experts suggest prices will not fall because demand for homes remains higher than supply. One of the UK's biggest lenders, Halifax, also increased the sum it is willing to lend to wealthy borrowers – now up to 5.5 times of salary to those who earn more than £75,000.

Did you know?

Latest figures show that a post-tax annual income of £36,000 is required for a comfortable standard of living in retirement – and a couple will need £49,700.* It's important to start planning for your retirement early and maximise your savings to avoid living a basic lifestyle when you stop working.

*Pensions and Lifetime Savings Association (PLSA)

PENSIONS

Working for longer?

The UK government is considering relaxing the pension fee cap in the hopes of raising funds for its flagship "levelling up" agenda. The pensions cap was first introduced in 2015 in an effort to protect workers who are enrolled into workplace pensions. A rise in fees could drastically affect the pensions landscape, and investors specifically, raising concerns about what it could mean for the retirement plans of those hoping to leave the workforce at a certain age.

Experts believe that Britons may be forced to work five more years if fees rose from 0.75% to 1.5%, and even more if they were to rise to 2%. Higher fees are seen as a way to help fund long-term projects such as better infrastructure and renewable energy schemes – which the government sees as pivotal to its agenda. However, the decision to raise fees is not official yet.

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