11 November 2021

COLLECTIVE financial planning

Talking points

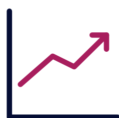
In this edition we cover the latest on mortgage rates, how the Junior ISA is now 10 years old, changes affecting those looking to access their pension fund at 55 – and more.

ECONOMICS

Interest rates stay put for now

The Bank of England Governor Andrew Bailey is facing a backlash from economists and MPs for crying wolf over an interest rate hike. Critics questioned whether he is the right man to lead the bank after a communications failure prompted lenders to raise mortgage costs unnecessarily – and sent currency markets into a tailspin.

The Governor had given a strong signal that rates were set to rise when he said in October that the bank "will have to act" to control inflation, which is now predicted to hit 5% next year. Yet on Thursday 4 November he surprised economists by voting against an increase, and rates were left unchanged at 0.1%. Many mortgage lenders had become so convinced by earlier comments that they had already pulled their best deals or raised rates in advance of the vote.



INVESTMENTS

JISAs celebrate their 10th birthday

This week marks the 10-year anniversary of the Junior ISA (JISA), which may lead some parents to reflect on whether the tax-free savings account has led to meaningful returns. Those who held the money as cash have not enjoyed much growth with interest rates being so low over the past decade. They've also missed out on much larger returns they could have gained if they'd invested the money instead.

JISAs can be opened for any child living in the UK under the age of 18 and parents can contribute up to £9,000 each tax year. You can use the tax-free wrapper to either save or invest towards your child's future, and any growth is tax free. By making regular contributions over many years, your child could have a substantial sum by the time they celebrate their 18th birthday.

INVESTING

A fine balance

At the COP26 climate conference in Glasgow, the big message was the role of finance in decarbonising the global economy. Finance has taken centre stage in large part due to inadequate government policies. But economic experts have warned that it's a dangerous development in some respects. In his speech to the conference, Chancellor Rishi Sunak pledged action to "rewire the entire financial system for net zero".

Commentators have cautioned that a system wholly geared to financing net zero isn't one that's necessarily good news for savers and investors. Pension funds exist to generate secure incomes, and insurers need to be solvent to pay out against insurance claims. Neglecting the beneficiaries, some say, is a formula for financial ruin.

PENSIONS

Accessing pensions at 55

Millions of savers will be blocked from transferring their pensions after HM Treasury closed a loophole. The Treasury has clamped down on pension transfers in advance of a planned increase in the minimum age at which people can access their pension from 55 to 57. From 2028, those aged 55 will have to wait an additional two years before they can dip into retirement savings without triggering punitive tax bills. The pensions industry has criticised the plans, warning that some pensions will still be accessible at age 55, while others will be locked until 57.

Some schemes state that savers have an 'unqualified right' to take pension benefits at 55 and this will still hold. One of the problems is that millions of savers will now have a mix of pensions, with some pots they can access at age 55, and others where they need to wait to 57, making it harder to plan for retirement. Anyone who made a request to transfer their pension to a scheme with a protected pension age of 55 or 56 before 3 November 2021, will still be able to keep the protection.

SAVINGS

Consumer spending slow to pick up

Recent surveys show that consumer sentiment has dipped, following a sharp uptick when lockdowns were lifted and we could once again spend our money in pubs, restaurants and shops. Hopes have been resting on consumers to power the economy out of its deepest contraction in 300 years, as Covid restrictions eased. During those lockdowns, households amassed savings because they could no longer spend in the usual way.

However, deposits with banks and building societies and cash saved in National Savings & Investments accounts rose by £9.4 billion in September, nearly twice the £4.8 billion average increase in the two years before the pandemic. The Office for Budget Responsibility (OBR) assumes that households will spend 5% of these extra savings each year for five years, while the Bank of England assumes 10% will be spent over three years.

ECONOMICS

Inflation and your money

If you read the headlines, you've probably seen that inflation has increased recently. But what does it mean for you? It all depends on what you spend your money on. The official measure of inflation is based on basket of popular goods and services, and it could be very different from the inflation that you experience. This means if you want to know how much to worry about rising prices, and perhaps whether to budget for them, you need to calculate your own personal rate of inflation beyond what you see talked about in the news.

Whether inflation ends up taking a bigger or smaller amount from your budget depends on your expenses. Experts recommend analysing how your annual spending can be divided between eight broad categories — food, housing, clothing, transportation, medical care, recreation and leisure, education and communication, and other goods. Then update the current inflation rates for each category. This personalised inflation tally will help you to understand how it impacts both your spending and your savings.

ESTATE PLANNING

How to cut your inheritance tax bill

Inheritance tax (IHT) is a tax on the property, money and possessions of someone who has died. After the Chancellor froze the threshold at which people pay it in his 2021 Spring Budget, concerns were growing that he was preparing to make further changes to pay for the COVID-19 pandemic. That hasn't happened, yet.

Currently, IHT must be paid if the entire value of someone's assets exceeds £325,000 (or £650,000 for a couple), with the levy charged only on the part above this cut-off. This threshold increases by an additional £175,000 allowance per person if an individual is leaving their main home to children or grandchildren. There are lots of things you can do now to make sure your loved ones pay less in tax after you die. They include selling assets or downsizing, gifting while alive, investing in a pension or trust and giving money to charity. Regardless of what you decide to do, it's important to make a will.

Did you know?

In 2020 the number of unclaimed pension pots in the UK stood at 1.6 million, according to the Association of British Insurers. You could find it easier to keep track of all your pensions by consolidating them in one place. If you think you've lost a pension fund, you can try to locate it using the government's free online tracing service.*

*www.gov.uk/find-pension-contact-details

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