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NORTH LAINE FINANCIAL MANAGEMENT

ECONOMY


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A new world – managing the Covid-19 pandemic

The spread of the Covid-19 coronavirus has changed the outlook for everyone and stymied the world economy.

The Budget on 11 March was overshadowed by the mounting impact of the virus. The Chancellor has already announced two rounds of measures which together dwarf the £12 billion expenditure promised in the Budget. The running figure (as at 20 March) now totals over £60 billion with a further £330 billion of loan guarantees for businesses, large and small. Mr Sunak's actions include:

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- A subsidy to employers of 80% of furloughed workers' wage costs, up to a cap of £2,500 per month, to encourage the retention of employees who might otherwise be laid off.
- Waiving 2020/21 business rates for all businesses in the retail, leisure and hospitality sectors.
- Providing grants of up to £25,000 for businesses that qualify for the Business Rates Retail Discount.
- Delaying the introduction of private sector off-payroll working rules (IR35) for a year to April 2021.
- Deferring the next quarterly VAT instalment to the end of the financial year plus, for the self-employed, the July self-assessment payment until January 2021.

Market volatility has rocked many formerly solid sectors, but this is not a repeat of 2008. The government has made sure that the banks are in a much stronger financial position than they were at that time. What Covid-19 represents is a left field shock to the entire global economy that looks certain to lead to a recession. If there is a lesson to learn from 2008, it is that markets can overreact and, although it seems impossible at the time, economies do recover. For now, the focus is on people, their lives and livelihoods.

✢ Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances. The Financial Conduct Authority does not regulate tax advice. Tax laws can change.

PENSIONS

National Living Wage versus the new State Pension

One is growing much faster than the other…

The new State Pension has failed to keep up with the National Living Wage in the years since they were both set up in April 2016.

The National Living Wage (NLW) and the new State Pension (NSP) both began in April 2016. Each aims to set an income floor – the NLW during working life and the NSP from State pension age. You might therefore expect their values to be closely related, but that has not turned out to be the case.

- The NLW has risen by 21.1% since 2016.
- The rate was originally set at £7.20 an hour, equivalent to £252.00 a week for a 35-hour week. For 2020/21, the rate is £8.72 an hour, which is equivalent to £305.20 a week.
- In contrast, the pension increased by only 12.6% over the same period – starting at £155.65 a week in 2016 and rising to just £175.20 by April this year.

A growing gap

Viewed another way, the NSP was 61.8% of the 35-hour week NLW in April 2016, while four years later it will be 57.4%. That difference will probably widen by 2024, with the government objective to raise the NLW even further.

These numbers are further proof that you will need to supplement your State pension with your own savings if you want a reasonably comfortable retirement.

North Laine Financial Management Ltd **Tel:** 01273 76 59 60 **Fax:** 01273 77 53 11 **Email:** mail@nlfm.co.uk **Web:** www.nlfm.co.uk

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PENSIONS

Lessons from five years of pension flexibility

It's been five years since people in retirement were given the freedom to draw directly from pension savings.

The reforms, introduced back in April 2015, gave certain defined contribution pension holders "complete freedom to draw down as much or as little of their pension pot as they want, anytime they want," according to the Chancellor of the time.

We can now draw some conclusions about the changes from experiences in both the UK and countries like the US and Australia who have had similar rules for longer, and derive some lessons for the future.

After an initial rush to fully encash pension pots, the average amount withdrawn per person quickly declined as more people engaged with flexible arrangements. If you are at the stage when you are beginning to consider your retirement, there are

some lessons to learn from half a decade's experience of pension drawdown:

- A full withdrawal can make sense for small pension pots, even though 75% of the amount received is subject to income tax through PAYE. As the pot size increases, income tax and the operation of PAYE become much more of an issue.
- Flexi-access drawdown is by far the most popular means of drawing from pension plans valued at £100,000 or more. However, it is probably still too early to say whether those who choose this option without taking professional advice are making a sustainable level of withdrawals.
- Flexibility in law may not mean flexibility for your pension plan. Many providers of pre-2015 pensions chose not to offer all the options that legislation permits. Some only have a full withdrawal option. If you find yourself with such a plan, you may wish to seek advice about transferring to a more flexible arrangement.

Whatever you decide about managing your retirement income, do seek expert advice.

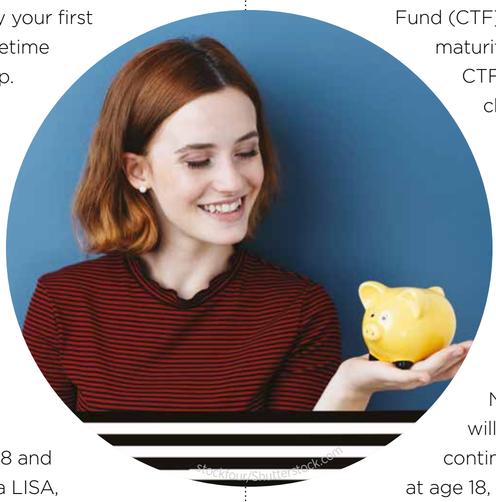
✢ *The value of your investments and the income from them can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Occupational pension schemes are regulated by The Pensions Regulator.*

INVESTMENT

Shifts in the savings landscape

Government incentives to save – like ISAs – are valuable, but recent changes present new opportunities while removing some old ones.

If you are aiming to buy your first home, investing in a Lifetime ISA (or LISA) could help. The recent withdrawal of the Help to Buy ISA means that the LISA is now the only tax-incentivised savings plan for first-time buyers. Existing Help to buy ISA holders can still contribute until November 2029.



You must be between 18 and 40 (inclusive) to open a LISA, and qualifying savers can invest up to £4,000 per tax year. Like other cash ISAs it grows free of tax, but also benefits from a 25% government bonus, added to the contributions made before reaching age 50. So, for every £4,000 invested, the government will add another £1,000.

The trade-off for the generous LISA benefits is the risk of a "government withdrawal charge" if you cash in your LISA before age 60, and you aren't using the funds to buy your first home. The charge is 25% of the amount withdrawn, which can be a trap for young savers who need to access their LISA savings early.

For younger savers, the first Child Trust Fund (CTF) accounts reach maturity this September. CTFs were available to children born between 1 September 2002 and 3 January 2011, when they were withdrawn. CTFs enjoy similar tax rules to ISAs (including the new £9,000 contribution limit for 2020/21). New regulations will ensure that these continue after CTF maturity at age 18, even if the now adult account holder takes no action.

Both the maturity of CTFs and the complex rules surrounding LISAs serve as reminders that financial advice is needed at all ages.

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BANKING

The 40% overdraft challenge

High street lenders, including HSBC, Santander, Nationwide and Lloyds, are pushing up overdraft interest rates to 39.9%.

In many cases, these rates have doubled, meaning that customers face significantly higher borrowing charges, even if they only dip into the red occasionally.

Banks have increased these rates after new rules will ban them from charging higher rates on unauthorised borrowing with effect from April 2020. So rates are rising on agreed overdrafts to make up for this lost revenue.

If you use overdraft facilities you should check with your bank whether other forms of borrowing may be more cost effective for you. For example, the average credit card levies an interest rate of around 20%, similar to the previous overdraft charges, but the exact rate charged depends on individual credit scores.

Alternatively, take a closer look at spending and saving habits. If you are considering alternatives such as long-term loans, it is wise to seek advice before committing.

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