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WEALTH KNOWLEDGE

FEBRUARY 2020

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11,000 retirees set to be worse off when state pension boost ends

Thousands of retirees face being more than £3,500 worse off in retirement from April, when extra payments to adult dependants come to an end.

The adult dependency increase is usually paid to a spouse or civil partner who is below state pension age and financially depends on someone claiming the basic state pension.

These extra payments closed to new applicants in 2010, but those who were already in receipt of them at that time could carry on claiming it.

From 6 April 2020, all these payments will stop and around 11,000 people are set to be affected in 2020/21, according to a freedom of information (FOI) request obtained by Royal London.

The FOI request estimated that the total amount lost will be around £33 million, with each individual affected losing £70 a week or £3,640 a year.

Steve Webb, former director of policy at Royal London, said:

"Under the old state pension system, people claiming a retirement pension could get a significant extra amount for a spouse who was financially dependent on them.

"Although that addition was abolished for new claims in 2010, many people already in the system have continued to benefit.

"It will come as a shock to thousands of people to see their state pension cut by up to £70 per week.

"Losing over £3,500 per year overnight will make a material difference to the standard of living of those who are affected."

Savings habit increases in almost all areas of the UK during 2019

Savers in 10 out of the 12 regions in the UK stashed away a larger proportion of their annual income last year, compared with 2018, a report has claimed.

Only savers in the East Midlands and Northern Ireland decreased their average year-on-year savings in 2019 according to Opinium, which polled 4,012 people on behalf of Aldermore.

The average saver in the North East accumulated roughly the same amount in 2019 as in the previous year, although this was a larger proportion of their earnings due to the average income in the region falling.

Londoners led the way last year, saving 11% of their annual income in 2019, followed by those in the South West, East of England and Wales (all 9%).

Overall in the UK, the report claimed individuals are saving a slightly higher percentage of their average annual income from 7.4% in 2018 to 8.1% in 2019.

Ewan Edwards, head of savings at Aldermore, said:

"It is encouraging to see people are increasingly focused on getting into the positive habit of saving.

"Making little changes to spending and saving routines can be very rewarding in helping realise people's money goals.

"The data shows a positive correlation between saving for the future and a feeling of financial stability, so prioritising savings is crucial in helping people feel they have control and security over their finances."

Chancellor Javid plans inheritance tax shake-up in Spring Budget

Inheritance tax may be reformed or scrapped in next month's Budget, fuelled by pre-election comments from Chancellor Sajid Javid who admitted "there's a real issue" with the levy.

Speaking at an event in October 2019, Javid was asked if he would get rid of inheritance tax.

"We've already made some sensible reforms to that tax, but I understand the arguments against it," the Chancellor responded.

"When people pay taxes already through work or investments, capital gains or other taxes, there's a real issue with then asking them to pay taxes all over again.

"Sensible changes have already been made but it's something that's on my mind."

What Javid meant by these comments should be revealed when the Chancellor delivers his first Budget on 11 March 2020, and it could affect estate planning strategies.

If the Government were to abolish inheritance tax, it would need to plug a gap in the Treasury's coffers which was worth £5.3 billion at the end of March 2019.

Neither would the final incremental £25,000 rise to the residence nil-rate band – which is due to come in on 6 April 2020 – take place and raise this threshold to £175,000 for 2020/21.

With no inheritance tax, capital gains tax could possibly apply and replace some of the lost revenue or tweaks to income tax and VAT could result in wealthier individuals paying more. The latter seems unlikely as the VAT-registration threshold will remain at £85,000 until April 2022, and Javid has indicated the 2019/20 income tax rates and bands will be frozen.

Reform to the unpopular levy seems more likely, especially after a raft of recommendations from the Office for Tax Simplification.

Interest rates get a stay of execution for another quarter

The Bank of England has kept interest rates on hold at 0.75%, after coming close to cutting rates for the first time since August 2018 last month.

The Bank's Monetary Policy Committee (MPC) voted 7-2 in favour of retaining the rate for the next quarter, despite speculation a cut was in the offing.

Fears of a cut were prompted by the economy growing at its slowest rate for seven years in November 2019, according to the Office for National Statistics (ONS).

Then the UK's rate of inflation fell to its lowest rate in more than three years in December at 1.3% - way below the Bank's target of 2%.

But a revival in the housing market and a surge in jobs growth eased pressure on the Bank to lower the rate last month.

The decision to keep interest rates on hold in January 2020 may only serve to kick the can down the road.

The MPC determines the rate of interest on a quarterly basis, with the next decision due on 26 March 2020.

Rob Kent-Smith, head of GDP at the ONS, said:

"Overall, the economy grew slightly in the latest three months, with growth in construction pulled back by weakening services and another lacklustre performance from manufacturing.

"Long term, the economy continues to slow, with growth in the economy compared with the same time last year at its lowest since the spring of 2012."

The cut would have been bad news for people looking to put their money in savings accounts but good news for those with variable-rate mortgages, who would have had less interest to pay on their loans.

Important Information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future.

ISA eligibility depends on individual circumstances.

Pension eligibility depends on individual circumstances. Pension benefits cannot usually be taken until age 55.

Your home may be repossessed if you do not keep up repayments on your mortgage.

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