HB Dobbin
FINANCIAL PLANNING

Siena Court
Broadway
Maidenhead
Berkshire
SL6 1NJ

WEALTH KNOWLEDGE

May 2020

In this issue......

Furloughed savers warned over relaxed workplace pension rules

Furloughed workers saving into workplace pension schemes are being warned to be on their guard about employers cutting their contributions without their consent.

Around nine million employees in the UK have been furloughed since lockdown measures were introduced.

Millions of other workers are considering reducing contributions or opting out of their workplace pension scheme to navigate the economic effects of the coronavirus.

However, the Pensions Regulator warns employers must not encourage staff members to opt-out, despite relaxing its rules to enable them to reduce some contributions without consent.

Most employers have to put at least 3% of an employee's pay packet towards their workplace pension, although some pay in much more than the minimum.

For those employers that have placed staff members on furlough, they can reduce these contributions without consulting those affected and the regulator will not take any action.

Employers that have non-furloughed staff, however, cannot take the same approach and a 60-day consultation period is mandatory for firms with more than 50 employees.

Joe Turner, head of auto-enrolment at the Regulator, said:

"These are unprecedented times and we are acutely aware of the pressure employers are now under.

"We are continually reviewing and updating our guidance to respond to the challenges as they unfold."

Coronavirus triggers surge in demand for will-writing services

Huge demand for will-writing services has been reported since the coronavirus pandemic hit the UK in March 2020.

As the awareness of mortality amid the COVID-19 pandemic rises, more people want to get their affairs in order.

However, not everyone has been able to write or update their wills with current restrictions making existing will-writing laws tough to uphold.

Ensuring a will is valid in England and Wales requires it to be witnessed by, and signed in front of, two neutral witnesses.

The law dates back to 1837 at a time of lower levels of literacy, less efficient record-keeping, and less advanced technology.

These rules have been severely tested during the lockdown and with social distancing measures in place.

Government guidance means social gatherings of more than two people who do not live together are unacceptable.

This makes it extremely challenging to witness a will and, in turn, for a will to be deemed legally valid in the eyes of the law.

Reports claim wills are being left on car windscreens, while signatures are being witnessed through windows and patio doors as people adhere to social distancing rules.

In 2017, the Law Commission called for the introduction of electronic wills in England and Wales.

However, the Ministry of Justice has no plans to relax the rules at present.

One in nine homeowners take mortgage repayment holiday

More than 14% of homeowners whose finances have been hit by COVID-19 have taken up the offer of a mortgage repayment holiday, according to UK Finance.

It said lenders granted more than 1.6 million mortgage breaks between 17 March and 24 April 2020.

In the fortnight between 25 March and 8 April 2020, mortgage repayment holidays soared – from 392,130 to 1,240,680.

This was a rise of nearly 850,000 or an average of around 61,000 payment holidays being granted by mortgage lenders every day.

As of 24 April 2020, around one in seven homeowners had deferred instalments for up to three months.

For the average mortgage holder, the average value of suspended payments was £755 a month.

Stephen Jones, chief executive of UK Finance, said:

"The current crisis is having a significant impact on household finances for people across the country.

"All the stops have been pulled out to give an unprecedented number of customers a payment holiday, and we stand ready to help more over the coming months.

"Lenders have a number of options available to help, and payment holidays aren't always the right solution for everyone.

"Any mortgage customers concerned about their financial situation should check with their lender."

Those requiring a mortgage payment break need to show their lender that their income has been impacted by the coronavirus.

Borrowers are advised to check their lender's website first and not to cancel direct debits before a payment holiday has been agreed, as this will count as a missed payment.

COVID-19 crisis wipes almost 9% off pension pots for near-retirees

The average saver who is approaching retirement has seen 8.7% knocked off their defined contribution pension pot in the first quarter of 2020, a report claims.

Market volatility saw pension savings among near-retirees slump by almost 9% in the three months to 31 March 2020.

This group of savers, who are two years off retirement, were better protected from market fluctuations as they were more likely to have investments in defensive strategies.

Isio, which conducted the research, said these defensive strategies typically had higher gilt allocations which offered a degree of protection in the first three months of 2020.

However, near-retirees who adopted less risky strategies don't have the time left to recoup any losses.

The financial effects of coronavirus on the pension pots of early-careers savers – those who have 30 years left until retirement – was much higher at between 13.2% and 20.8%.

The impact was worse for this group due to higher-risk equity-based strategies being generally the worst hit.

Diversified strategies are generally faring better so far this year, but finding positive returns has been challenging of late.

Mark Powley, head of defined contribution investment at Isio, said:

"Although younger members have been more affected by market volatility, future contributions will be the main driver behind their pot size in the future.

"On the flipside, recent sell-offs have illustrated the need to dial down risk as savers approach retirement. Getting this right has a massive impact on savers' retirement outcomes and chasing returns could result in disaster."