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WEALTH KNOWLEDGE

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COVID-19 forces Treasury to rethink the state pension triple-lock

The Government is reportedly considering scrapping the pensions triple lock in an attempt to recoup billions of pounds spent on coronavirus support schemes.

The triple-lock system is what determines the annual increase in the state pension by whichever is the highest of average wage growth, price increases, or 2.5%.

In April 2020, the state pension for 2020/21 increased by 3.9% in line with the average earnings increase seen by UK workers in July last year – a rise of £343 for new state pension recipients.

However, the *Telegraph* claims to have seen a report from the Treasury in which Chancellor Rishi Sunak is advised to abandon the triple-lock on state pension rises.

According to the report, the UK faces a £337 billion budget deficit this year due to the amount of support offered by the Government throughout the COVID-19 crisis.

The report claimed the Chancellor has also been advised to consider raising taxes this year and cut spending to raise up to £30bn needed to stabilise debts.

Scrapping the triple-lock or raising taxes from 2021/22 would go against two manifesto pledges made by the Conservatives in the run-up to last year’s general election.

Furlough scheme extends until the end of October

The coronavirus job retention scheme has been extended until the end of October, although employers will have to pick up some of the bill from August.

Chancellor Rishi Sunak said last month that the Government will continue to pay the wages of furloughed workers.

Employees who are furloughed by their employers will continue to receive 80% of their monthly wages up to £2,500 until 31 October 2020.

From 1 August 2020, employers will be asked to pay a bigger percentage towards the salaries of their furloughed staff. How much more they will have to pay remains to be seen.

Employer payments will cover contributions the Government is currently making, ensuring that staff continue to receive 80% of their salary, up to £2,500 a month.

The Treasury said last month that 7.5 million workers – around a quarter of the UK’s total workforce of 33m people – were covered by the scheme.

Suren Thiru, head of economics at the British Chambers of Commerce, said:

“While a swift ‘V-shaped’ economic revival as restrictions are lifted may prove too optimistic, Government support can play a vital role in avoiding a prolonged downturn.

“The extension of the furlough scheme was a crucial first step, but more needs to be done to ensure the right support is in place to deliver a successful restart of the economy.”

Coronavirus impact places the UK economy into ‘significant recession’

The UK is likely to be in the deepest economic recession since records began, after gross domestic product (GDP) contracted by 5.8% in March 2020.

Figures from the Office for National Statistics showed the economy shrank by 2% in the first three months of 2020.

Lockdown measures were imposed in the UK on 23 March 2020 in a bid to keep a lid on the coronavirus pandemic.

Chancellor Rishi Sunak said that “just a few days of impact from the coronavirus” in March put the economy into decline, while ”the UK economy faces a significant recession this year”.

Declining GDP in two consecutive quarters typically defines a recession, and that will be confirmed at the end of the month.

Economists said it was genuinely difficult to overstate the economic damage caused by COVID-19.

Tej Parikh, chief economist at the Institute of Directors, said:

“These figures provide a sobering first glimpse of the economic turmoil caused by the outbreak.”

Melanie Baker, senior economist at Royal London, said:

“The economic damage from roughly only a week of lockdown is striking, and activity growth for April will be much worse.”

The 2% economic contraction in Q1 2020 was slightly better than the Bank of England’s forecast of a 3% drop in the first three months of the year.

However, the Bank expects a 25% fall in GDP for the three months to June 2020, and for the UK economy to recede by 14% by the end of 2020.

Should that come to fruition, it would be the UK’s deepest annual downturn since 1706.

FCA introduces temporary measures for insurance customers

New temporary measures are in place to assist insurance customers who are experiencing financial difficulties due to the coronavirus.

The Financial Conduct Authority (FCA) has told insurers to offer options to customers with policies or premium finance products.

These include reassessing customers’ risk profiles to offer lower premiums, offering more suitable products, and waiving cancellation fees.

This could reduce monthly premiums for customers paying in instalments or partially refund premiums for those who have paid upfront.

The measures will be reviewed over the next three months as the coronavirus crisis unfolds and may be revised if appropriate.

Many insurers have already taken actions to support customers, such as offering premium reductions, discounts, payment deferrals and waiving fees.

Payment deferrals of up to three months can be claimed until 18 August, although some insurance firms have been going beyond three months.

A spokesperson from the Association of British Insurers said:

“Insurers have taken wide-ranging action to support customers who may be in financial difficulty since the start of the crisis.

“We have also set up industry-wide pledges in motor, home, travel, pet and business interruption insurance to assist customers during this difficult time.”

Income protection policies and life insurance claims have come to the fore since lockdown was imposed on 23 March 2020.

Some insurers have increased non-medical limits for income protection, personal sick pay and critical illness cover by 10%.