



WEALTH KNOWLEDGE

In this issue.....

- Base rate cuts have significant effect on savings market
- COVID-19 prompts 1 in 10 workers to stop pension contributions
- UK economy experiences biggest monthly fall in GDP
- Retirement saving fears as 600,000 roles wiped out by lockdown

July 2020

Base rate cuts have significant effect on savings market

Dwindling interest rates have seen average savings rates for ISAs drop to their lowest levels since records began in 2008, according to Moneyfacts.

During the first six months of the year, the average easy access ISA rate collapsed to a low of 0.45%, from 0.85% in January.

Cuts to the base rate of interest from 0.75% to 0.25% on 11 March 2020, and to 0.1% on 19 March, followed by COVID-19, were behind the fall.

At the same time, the number of savings products available, including ISAs, slumped from 1,785 in January to 1,456 available in June - down by 329.

Moneyfacts expects the choice of ISA products available to savers to plummet further in the second half of the year.

It said ISA providers are adjusting their rates or withdrawing offers entirely as savers look for a safe haven.

Rachel Springall, finance expert at Moneyfacts, said:

“It is clear to see the pandemic and subsequent base rate cuts have had a catastrophic impact on the savings market.

“Savers may have more disposable income as a result of the lockdown, and wish to protect this by using a savings account.

“Easy access accounts continue to be a firm favourite, but more so for savers’ convenience than for the interest they can earn.

“With the unsettled landscape the pandemic has instilled, savers should have emergency cash they can access quickly.”

COVID-19 prompts 1 in 10 workers to stop pension contributions

One in ten workers have stopped or reduced their pension contributions as a result of the coronavirus, a report claims.

Scottish Widows polled 2,251 workers during the COVID-19 crisis and found that short-term financial pressures were affecting long-term saving goals.

Around one in five (19%) experienced a fall in income since lockdown measures were imposed in the UK on 23 March 2020.

Taking a closer look, 43% of self-employed workers saw a drop in their income, compared to 16% of employees.

Some 24% worry about paying for essentials like food and energy, while 20% have fears about repaying a mortgage or rent.

To ease the pressure on their finances, 10% of workers paused or stopped paying into their pension pots.

The number of self-employed respondents who stopped making pension contributions was higher than the average, at 19%.

Pete Glancy, head of policy at Scottish Widows, said:

“COVID-19 has revealed a painful lack of financial resilience in the UK, leaving millions of people exposed with little or no safety net to fall back on.

“As the full impact of this pandemic becomes clearer, more people may feel forced to pay for today’s essentials with tomorrow’s savings.

“This will only prolong the economic pain of coronavirus and could result in more people facing poverty in retirement.”

UK economy experiences biggest monthly fall in GDP

The UK’s economy experienced the largest monthly contraction on record in April 2020, shrinking by 20.4%.

The sharp fall in GDP came as the UK spent its first full month in lockdown to halt the spread of COVID-19.

The Office for National Statistics (ONS) said the 2020 decline was three times greater than at any time during the entire 2008/09 recession.

Analysts also published figures for the three months to April 2020, which showed a decline of 10.4%.

With lockdown being eased in May, however, April’s fall in GDP is likely to mark the worst month in the crisis.

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

“The economic turmoil caused by coronavirus is unparalleled. The fall in activity is steep, and is likely to scar the UK economy for some time.

“Having provided businesses life support, the Government must now figure out how to stimulate activity.

“To help spur business investment, the Government must make good on its commitment

to broaden existing tax reliefs for research and development.

“Waiting until later in the year to act will risk more businesses and jobs being lost.”

In May 2020, Chancellor Rishi Sunak said "just a few days of impact from the coronavirus" in March had put the economy into decline.

The official figures for April to June 2020 have not been published yet, but they are likely to confirm a recession.

Retirement saving fears as 600,000 roles wiped out by lockdown

Falling rates of employment could considerably affect the UK’s retirement prospects, according to Aegon.

The Office for National Statistics (ONS) revealed last month that the number of workers on UK payrolls fell by around 612,000 between March and May.

At the same time, the number of people claiming work-related benefits - which includes the unemployed - was up 126% in the same period to 2.8 million.

The early estimates reflect the impact of around six weeks of lockdown, in which large parts of the UK economy were shut from 23 March 2020.

Economists suggest the full effect on employment will not be felt until after the furlough scheme ends on 31 October 2020.

The furlough scheme is currently suppressing unemployment and protecting 9.1 million livelihoods, although savings habits are changing.

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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