

Technical Update No. 20

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Saver /Investor / Estate Planner

Potential lifetime allowance increase

The lifetime allowance (LTA), which governs how much can be saved into a pension over a lifetime before tax charges apply, is expected to rise to £1.054m, up from the current £1.03m, effective from April 2019. Although in some respects it is a relatively small change, it could make a not insignificant difference for savers. The limit won't just affect the wealthiest as people on middle incomes who have been saving into a Defined Benefit pension for a long time can also be caught by the tax hike that comes with surpassing the allowance. It goes without saying that, for people approaching the threshold, financial advice is particularly important.

Saver / Investor / Employee / Business Owner

What would a Brexit 'no deal' mean for your pension?

A no-deal Brexit could have harmful effects on retired people, as it could make it illegal to pay out some pensions, financial experts have warned in their recommendations to a Government committee. The committee, last week, heard how, in worst case no-deal scenarios, it may be possible for it to be deemed illegal to pay somebody the pension that they've paid into, dependent on the attitude of the regulator of the country into which the payment was being made. For instance, if it's considered a regulatory activity then it could be deemed illegal if the right consent was not sought and granted under a no-deal scenario. This underlines the need to bottom out what would happen to the continuity of cross-border financial contracts between the UK and EU, and what would this mean for firms and consumers. As well as pensions a no deal scenario would also leave insurance contracts in legal limbo, with firms unsure if they could legally pay claims for contracts drawn up before Brexit.

All

Surprise inflation fall

UK inflation fell to 2.4% in September, down from 2.7% in August, the lowest level this year. According to the Office for National Statistics, the Consumer Price Index decreased because of falling prices for food and non-alcoholic beverages as well as transport and recreation and culture. Analysts had previously expected to see only a slight fall in inflation this month, down to 2.6%. Commentators felt the downward move in inflation would be good news for the Bank of England which is averse to raising rates again, having moved from 0.5% to 0.75% in August. This gives it more room to breathe and watch the impact of Brexit negotiations. The easing off in inflation is also good news for consumers, suggesting that real wage growth has picked up further. But before we get too optimistic it is worth noting that despite the decrease in the headline rate, there remain signs that inflationary pressures are building in the UK economy.

Saver / Investor / Retired

Lost pensions could be worth £20 billion

A staggering 1.6 million lost pension pots worth nearly £20bn could be sitting unclaimed, according to new research from an insurance trade body. Frequent job changes and home moves are the main reasons why people lose track of their pensions, the Association of British Insurers (ABI) said.

Research carried out by the Pensions Policy Institute (PPI) on behalf of the ABI surveyed half of the private defined contribution (DC) pensions market. The PPI found 800,000 lost pensions worth an estimated £9.7bn. It estimates that, if scaled up to the whole market, there are collectively around 1.6 million pots worth £19.4bn unclaimed – the equivalent of nearly £13,000 per pot. And the figure could possibly be even higher as the research did not look into lost pensions held in the public sector, or with trust-based schemes typically run by employers.

Saver / Investor

A good year for income

Income continues to be the main concern for investors in the UK – both in the run up to retirement, where dividends reinvested can significantly boost total returns, and for those that have already started drawing on their pension, when dividends can help supplement their post-retirement income. FTSE 100 stocks may not offer the same potential for growth as their smaller counterparts, but broadly speaking the dividends paid by these megacaps are more secure than those paid by small and medium sized companies. Of note, not one member of the FTSE 100 is expected to cut its dividend in 2018, while 78 members of the index are forecast to increase it. Specifically, this year total dividend pay-out from FTSE 100 companies is expected to grow by 10.6%. The record £89.8 billion pay-out means the Footsie's yield - dividend pay-outs as a proportion of share prices - will be about 4.3%.

All

A cutting-edge deal: UK / US trade opportunities

A US trade representative has sent a letter notifying Congress that the Trump administration plans to seek a "cutting-edge" free-trade deal with the U.K. Getting such a deal done is one thing. The main requirement is political will – and that exists on both sides at the moment, so it seems. The U.S. accounted for 19% of the value of U.K. exports, is the country's largest single bilateral trading partner, and biggest export market. No country invests more in Britain than the U.S. A transatlantic agreement could, according to the Department of Trade and Industry, boost that trade and have knock-on benefits for the U.K.'s lagging productivity. But there are at least two significant roadblocks: The first is that this isn't a symmetrical negotiation. Brexiters speak often of the clout the U.K. has as the world's fifth largest economy. But this is a tussle between a \$19 trillion economy and a \$2.6 trillion one. Second, and even more significant a hurdle, is that whatever Britain agrees with Washington will have an impact on the trade deal it secures with the EU – a much larger trading partner.

Saver / Investor / Property Owner

Property: the Brexit affect

As the moment of departure in March 2019 approaches, estate agents say the unknowns surrounding Brexit are weighing on the property market, having remained relatively isolated from speculation to date. Bank of England governor Mark Carney has warned house prices could crash by a third very fast if no deal Brexit become reality and that mortgage rates could spiral upward. Mr Carney also warned the pound could fall along with inflation and many homeowners were at risk of being in negative equity. Some experts have said this is too pessimistic, but few think a no deal scenario will boost the house prices. The reality is, though, that in the event of a "no deal" next March, it would be hard to predict how the Bank of England would react. In theory, it would be pushed in two opposite directions — on the one hand to increase interest rates to defend the currency and avoid a spike in inflation, but on the other to loosen monetary policy and inject fresh stimulus into the economy. Time will tell but there is increasing concern that the fallout from any no-deal scenario is most likely to be felt hardest in the capital's commuter belt, where markets have moved too far and too fast.

Saver / Investor

Offshore pensions to decline

Measures to deter people from shifting their pensions offshore to reduce their tax bills has had a depressing effect on the flow of retirement cash abroad – evidenced by the fact that revenues from HMRC's newly introduced charge where no-where near as much as expected. In March last year, a new 25% tax charge came into effect which was imposed on all transfers of UK pensions to Qualifying Recognised Overseas Pension Schemes (Qrops). But only £1.4 million was paid from 30 transfers to HM revenue & Customs under the rule by expat retirement savers switching their offshore pensions in the 2017-18 tax year - HMRC had forecast the charge would raise £65 million. It seems fear of the charge and a lack of understanding how HMRC applied it has caused many people to have second thoughts about moving their pension overseas. Additionally, the pension freedoms may also have had an impact on the general decline in the number of transfers to QROPS as there is much greater flexibility in how people can access their benefits now in the UK.

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If you have any questions related to this update or indeed anything else then please contact your adviser at Champain.

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