WEALTH KNOWLEDGE

FEBRUARY 2022

ROSEMOUNT

OMICRON FEARS SAVE CONSUMERS £4BN LAST CHRISTMAS

Consumers reportedly saved a total of £4 billion at the end of last year, amid concerns over the spread of the Omicron variant of COVID-19.

The identification of the new variant and the subsequent surge in positive cases caused many to put festive plans on hold late last year.

While that saw hospitality businesses suffer during their busiest trading period of the year, 35% of consumers polled managed to save money.

YouGov surveyed 2,069 adults on behalf of Quilter and found that of those who saved, the average saving worked out at £212 per person.

The report, which used weighted figures based on the sample size, suggests a total saving of around £4bn if representative of all UK adults.

With inflation soaring and the UK on the brink of a living costs crisis in the spring, many consumers might be grateful to save for a rainy day.

Emma Prince, of Quilter, said:

“With the cost of living rising, having cash savings to fall back on can help to relieve financial pressures should the need arise.

“While we often like to save for something in particular, it is important to first have a ‘rainy day’ fund in case of emergencies.

“It is generally a good idea to aim to have three to six months of expenses in this pot.”

We’re happy to discuss your saving options.

UK ECONOMY SURPASSES PRE-PANDEMIC LEVELS IN NOVEMBER 2021

Stronger-than-expected economic growth in November 2021 saw UK GDP exceed pre-Covid levels for the first time.

The Office for National Statistics (ONS) said the UK economy grew by 0.9% between October and November 2021.

That surpassed expectations of 0.4% and made UK GDP 0.7% higher than in February 2020, when the pandemic began.

Unusually dry weather and raw materials becoming easier to get hold of saw construction output rise 3.5% in the month.

The ONS also said higher growth in services helped to propel economic output above the forecasts and pre-Covid levels.

However, November 2021 also saw the emergence of Omicron, which is expected to have stalled growth in the months since.

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

“The latest figures confirmed a significant uptick in growth in November, before the emergence of Omicron and the implementation of Plan B.

“This is likely to be followed by a modest fall in output in December and January, as consumer caution to socialise and spend, and mounting staff absences sparked by Omicron and Plan B, limit activity

“While the UK economy should rebound once Plan B measures are lifted, surging inflation and persistent supply chain disruption may mean the UK’s economic growth prospects remain under pressure for much of 2022.”

Talk to us about your finances.

PANDEMIC LOWERS DEMAND FOR FIRST-TIME PENSION POT ACCESS

The total number of pension plans accessed for the first time in 2020/21 decreased 12%, according to the Financial Conduct Authority (FCA).

The 2020/21 number fell to 596,080, down from 673,831 in 2019/20, largely due to the COVID-19 pandemic during the FCA's reporting period.

Year-on-year annuity purchases also slumped 13% in 2020/21, from 69,519 to 60,383 in the 12 months to 31 March 2021.

Plans fully withdrawn at first time of access in 2020/21 also fell by 9% to 341,404, with 90% of those for smaller pot sizes worth less than £30,000.

Analysis of the FCA's figures by NFU Mutual claimed 15,296 fully withdrawn pots were worth £50,000 or more, and 61% of those were taken without advice.

Those who cash in large pots in one go risk paying 40% or even 45% income tax on part of their withdrawal, while also losing valuable inheritance tax protection.

Pension pots do not usually form part of an individual's estate for inheritance tax purposes, with policyholders having to nominate beneficiaries.

Sean McCann, of NFU Mutual, said:

"It's concerning that more people are fully cashing in large pension pots without taking advice first.

"If investors are concerned about market volatility, talking to their pension provider about lower-risk funds may help them avoid an unnecessary tax bill.

"Although it sounds counter-intuitive, for those who can afford to, pensions should be the last investment they access in retirement, due to the protection they offer from inheritance tax."

Get in touch for tax-efficient advice.

TREASURY'S PENSIONS TAX RELIEF BILL SOARS PAST £42BN

The costs involved with providing pensions tax relief are predicted to have increased to £42.7 billion in 2020/21, according to HMRC.

Forecasts for the 2020/21 tax year showed another steady annual rise, following estimates of £41.3bn in 2019/20 and £38.2bn in 2018/19.

The 2020/21 figure of £42.7bn was split between £22.9bn in income tax and £19.8bn in National Insurance contributions.

Taxpayers receive this relief at their marginal rate of income tax, meaning those in the basic-rate band get 20% relief, rising to 40% and 45% in the higher and additional-rate bands.

Meanwhile, employer contributions to occupational schemes got £21.1bn in relief in 2019/20; £8.6bn went to the public sector.

The statistics also showed that employer tax relief on contributions to defined-benefit pensions grew by £400m to £15bn over the four years to 2019/20, while tax relief to defined-contribution schemes rose £4bn to £11.6bn.

The data reignites speculation that Chancellor Rishi Sunak may again be tempted to cut a costly burden for the Treasury.

Steve Cameron, pensions director at Aegon, said:

"The figure mixes employer and employee contributions and to date, suggestions for pensions tax relief reform have focussed on employee tax relief, although moving to a flat rate might require higher-rate taxpayers to have employer contributions taxed as a benefit-in-kind to avoid a salary-sacrifice loophole.The other major factor is defined benefit versus defined contribution.

"Reforms will be particularly complex for defined benefit but omitting the latter would be grossly unfair and would also significantly reduce any 'saving' for the Treasury."

Contact us to discuss pension planning.