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NEWSLETTER

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It's plain sailing...

Pension Freedoms

In April 2015, the tax rules were changed to give people greater access and freedom to their pensions. Previously, 'drawdown' of pension income was taxed at a rate of 55% for full withdrawals but now tax is deducted at marginal income tax rates and the tax-free lump sum continues to be available. Simon Kirby, the Economic Secretary to the Treasury said "giving people freedom over what they do with their 'hard earned' savings, whether it's buying an annuity, or taking a cash lump sum, is the right thing to do".

There are six options available including, leaving the pension pot untouched, purchasing an annuity, getting an adjustable income (Flexi Access Drawdown), taking cash in chunks (Uncrystallised Funds Pension Lump Sum), cashing in the whole pot in one go, or a combination of any of the options.

Although you are no longer required to buy an annuity, in some situations it may still be the right thing to do and you should always take advice on this before making any final decision.

Recent figures released from HM Revenue and Customs (HMRC) show that a total of more than £9.2 billion has been released from pension pots since the new freedoms were introduced. Figures show that in the three months up to January 2017, more than £1.56 billion had been accessed by 162,000 people.

However, after all the hype and initial enthusiasm, fears are beginning to increase that pension freedoms, brought in by George Osborne during the last government, could potentially leave millions of people short of cash in their old age. Warnings from experts are starting to emerge saying that many people could be taking too high an income from their pensions, without seriously considering not only the length of time they will live, but how much money they will require for a comfortable retirement, particularly if they become frail and need to go into long-term care with the high costs involved. Pension freedoms did away with the requirement to buy an annuity, which allowed people to take a regular guaranteed income from their pots, therefore anyone considering Drawdown must take extra care when choosing how they take their income and how much is safe to withdraw.

It is important to get this right and although 4% may be fine for some people, it may not be for others. The size of the pot of money should be considered, as well as the age of the person and attitude to investment risk. What individuals entering retirement need, is a bespoke calculation tailored to their needs.

Steve Cameron, a pensions Director from Aegon says: "We always recommend that people speak to a financial adviser who can offer a personal recommendation, allowing for life expectancy, attitude to investment risk and retirement aspirations".

If you start by taking the natural yield of the pension fund you would virtually eliminate the risk of running down the value of the funds too quickly as you would not be touching the original capital. However, this may not be sufficient for some people but by starting at a lower level which allows the underlying funds to build up some growth, this may give you the potential to gradually increase the level of the income you can take in future without depleting the capital. By speaking to your adviser you will be able to discuss your needs in retirement to ensure that you can adopt the right course of action that will suit your particular circumstances and financial aspirations.

Average household debt rises across the UK

New data from the Office for National Statistics (ONS) shows that the average UK household now owes a record amount of £12,887, without mortgages even being taken into consideration.

The ONS found that the UK's total unsecured debt hit an all-time high of £349 billion in September 2016, the latest period for which data is available.

This figure takes into consideration the growing issue with Student Debt, but even with this removed the Bank of England put the total at £192 billion in November 2016 – the highest amount since December 2008.

"Interest rates are still very low, and are expected to remain so for the foreseeable future, so there are fewer concerns on debt servicing than there were in the past," said Andy Haldane, the Bank of England's chief economist.

"There are reasons not to be too alarmed about it ticking up, but it is absolutely something we will watch carefully."

Joanna Elson, chief executive of the Money Advice Trust, said: "The majority of borrowers will currently be able to cope with this extra debt.

"However, if the economy does indeed suffer this year, this borrowing could become more difficult to repay – and some households risk finding themselves exposed to sudden changes in financial circumstances."

In response to the data, the TUC said that the figures showed that unsecured debt as a percentage of household income had now reached 27.4% – the highest figure for the last eight years. It believes wage stagnation has led many households to become reliant on borrowing to get by.

"These increases in household debt are a warning that families are struggling to get by on their pay alone," said Frances O'Grady, the TUC's general secretary.

"Unless the government does more for working people, they could end the New Year poorer than they start it."

Banks reject cash LISA on launch

A grand total of zero banks and building societies opted to take up the Government's new Lifetime ISA (LISA) cash account on the day of its launch, it has emerged.

The news indicates that banking groups have taken very little interest in the new savings and investment vehicle, amid reports that they are complicated to use and potentially pose future regulatory issues.

The LISA, aimed at pension savers and first-time buyers, received criticism earlier this year after it was revealed that withdrawing cash for anything other than its intended purposes would result in the account holder losing money.

The cash version allows holders to deposit up to £4,000 each year, to which the Government will add a 25% top-up. However, the cash can only be withdrawn when the account holder turns 60, or when it is used to purchase a first home. Withdrawing early will incur a 25% penalty.

Just three providers – Hargreaves Lansdown, The Share Centre, and Nutmeg – launched the stocks and shares version of the LISA in April. Hargreaves Lansdown said it opened 3,349 accounts in the first 24 hours of its launch.

In December last year, Nationwide announced that it would not offer LISAs because they were "too complicated".

It added that it would continue with the help-to-buy ISA instead.

Experts have also warned that LISAs could pose future regulatory issues in the event that they are mis-sold to unsuitable clients.

Hannah Maundrell, editor-in-chief of Money.co.uk, said: "Yet again the government has promised consumers the chance of a shiny new savings vehicle without consulting with the industry on how and when they can deliver it."

Market Report

21 April 2017

Global Review

Financial markets maintained their positive mood for much of the first quarter as both business and consumer confidence remained robust. US President Trump's inauguration in January and his promise to deliver a raft of fiscal stimulus measures pushed global markets to new all-time highs with the S&P 500, NASDAQ and FTSE-100 peaking in mid-March. Economic growth prospects have continued to be upgraded and with inflationary pressures building there have been more hawkish tones from the Bank of England, Bank of Japan and US Federal Reserve, all of whom met in February.

Market sentiment turned abruptly on concerns that Trump would struggle to deliver on his promised policies. In his first big test the President failed to deliver healthcare reforms with opposition from within his own party helping to block changes to Obama's Affordable Care Act. With the impact of Trump's pro-growth policies already priced in, stock markets retreated on fears that similar opposition would prevent the introduction of proposed tax reforms and infrastructure spending plans.

UK

Despite opposition from the House of Lords, the Government successfully triggered Article 50 without amendments on 29 March. Britain's planned exit from the European Union has so far failed to curb economic growth with UK GDP expanding by 0.7% in the final three months of 2016, exceeding the pace of expansion recorded in the third quarter. The Bank of England have revised its economic growth forecast up to 2% for 2017, a significant upgrade from its estimate of 1.4% in November and two and a half times their prediction in the aftermath of last year's EU referendum.

The improving growth outlook has been accompanied by rising fuel, clothing and food costs causing inflation to jump well above the Bank of England's 2% target. Consumer credit growth of more than 10%, the fastest rate since 2005, pushed inflation to a four-year high of 2.3% in February. The Bank is likely to tolerate higher inflation, despite hawkish tones from some members of the monetary policy committee, and resist calls to raise interest rates on fears that this will impact employment figures.

US

The Federal Reserve raised US interest rates as expected in March with economic data, employment figures and inflation all remaining robust. The Bank increased the cost of borrowing by a further 0.25% following a similar hike in December, whilst confirming its plans for a further two increases in 2017 assuming current economic trends persist. This reinforced the idea that rates will be raised at a gradual pace and will remain below levels that are expected to prevail longer term. Trump's pro-growth agenda does create some uncertainty as any level of success will introduce additional inflationary pressure.

In his first speech to congress President Trump revealed plans to boost the US economy with "massive" tax relief and infrastructure spend totalling $1 trillion. If delivered the stimulus measures will boost US GDP by 0.1% according to forecasts from the International Monetary Fund. The prospect of stronger economic growth and higher interest rates, boosting Financial stocks, pushed all three main US equity indices to new highs in March with the Dow Jones breaking 21,000 points for the first time.

Europe

Political risk in Europe has receded following the rejection of the Italian referendum on constitutional reform and the failure of the far-right party to win a significant number of seats in the recent Dutch general election. Whilst anti-establishment parties are experiencing greater levels of support, a similar rejection of populism is expected in Germany leaving the EU bloc largely intact. The greatest risk remains France, the European Union's second largest economy, where the far-right Front National party, led by Marine Le Pen, lead the polls for the first round of voting. Le Pen, in favour of leaving the EU, is therefore likely to be one of the two surviving candidates that participate in the second round.

With the French and German elections looming, the European Central Bank are unlikely to tighten policy by either tapering the current bond buying programme or raising interest rates. Whilst inflation in the eurozone hit the Bank's target of 2% in February, this was largely due to rising energy prices with core inflation unchanged at 0.9%. Robust economic data also puts pressure on the ECB to tighten but limited wage growth provides some flexibility to the timetable.

Japan

Core inflation returned to Japan for the first time in over a year in January as energy costs contributed to a 0.1% rise in consumer prices. This compares to December's 0.2% fall and consensus expectation of flat prices. Japan has struggled with deflation for much of the past two decades and the return of inflation is a positive step toward one of the Bank of Japan's primary objectives. The recovery in commodity prices and the decline in the yen has raised expectations for inflation to 1% by the end of the year but this is still some way from the Bank's 2% target.

The Bank of Japan has also upgraded growth forecasts for 2017 and 2018 as the third arrow of 'Abenomics', including wide ranging workplace reforms, is expected to boost consumption. The unemployment rate has fallen to 3% and real wages rose for the first time in five years in 2016, both of which are expected to reverse falls in consumer spending. A resurgence in emerging market economies has also been positive for Japanese exports.

Asia

Consumer prices in India rose at an annual rate of 3.8% in March, with core inflation rising at closer to 4.9%. The economy also expanded at a rate of 7.0% in the fourth quarter, much faster than the 6.4% consensus estimate. Both were surprising given the withdrawal in November of all 500-rupee and 1,000-rupee banknotes, approximately 85% of the cash in circulation. The demonetisation was predicted to dampen activity throughout all of 2017 but 97% of the cash has found its way back into the banking system resulting in a sharp recovery in consumption.

The Reserve Bank of India were expected to cut the cost of borrowing in anticipation of falling economic activity but has held interest rates at each of its three meetings since demonetisation. The Bank have been concerned that the lifting of cash withdrawal restrictions added to rising energy and food prices would reverse the recent trend of falling inflation and jeopardise the 4% medium-term target. The implementation of the Goods and Services Tax bill from July will also add impetus to the cyclical recovery.

Robot Wars?

A report by Price Waterhouse Coopers (PwC) found that around 10 million workers are at risk of being displaced by automated machines as the robot revolution gathers momentum. Almost a third of UK jobs could be taken over by robots during the next 15 years, a study has claimed. However, the research also said that new Artificial Intelligence (AI) technologies could boost production, thus generating more human jobs.

The UK reportedly has fewer jobs at potential risk of automation than in other countries including Germany, the United States and Japan.

The findings show that jobs in transport, storage, manufacturing, wholesale and retail are most likely to be taken by robots, while the lowest risk jobs are teachers, health and social workers, the report said and as a result of that, male workers are more likely to see their jobs taken over by robots than their female counterparts.

John Hawksworth, chief economist at PwC, said: "A key driver of our industry-level estimates is the fact that manual and routine tasks are more susceptible to automation, while social skills are relatively less automatable. That said, no industry is entirely immune from future advances in robotics and AI." Despite the threat though, PwC says that the rise of automation is actually likely to boost productivity and generate additional jobs elsewhere in the economy in the long run. "Automating more manual and repetitive tasks will eliminate some existing jobs, but could also enable some workers to focus on higher value, more rewarding and creative work, removing the monotony from our day jobs," said John Hawkesworth of PwC.

The Reform think-tank in February also published a report showing that robots and computers could replace 250,000 public sector workers over the next 15 years. The group also went on to say that the use of websites and "chat bots" would remove the need for 130,000 Whitehall administrators by 2030 saving £2.6bn a year, 90,000 NHS administrative posts and 24,000 GP receptionists could be subjected to automation with savings, of more than £1.7bn, the think-tank claimed.

The co-author of the report, Alexander Hitchcock said "such rapid advance in the use of technology may seem controversial, and any job losses must be handled sensitively. But the result would be public services that are better, safer, smarter and more affordable."

It's difficult to know just how quickly these changes will be put into place but with refrigerators that tell you that you're running out of milk etc, the advent of the driverless car, or robots that can teach your children to read, it does not seem too far away. However, the ease of acceptance of all this new technology does seem generational. How often is it that when you are trying to make sense of a smart phone, an iPad, or even the humble TV remote control for example, that all you need is one of the growing army of tech savvy toddlers to sort the problem out for you. New technology just comes naturally to them; they are growing up with it.

But you only need to look back to the early 1960's at all the new innovations being rolled out into the workforce and in particular the 'computer'. Some people will remember, back in the day, TV programmes were extolling the virtues of such technology and how it would be more efficient, speed things up for workers, make our lives easier and give us more leisure time. This would mean that we would have so much spare time we would only have to work no more than four days a week and we could retire at 50. Nice idea, however, in a similar programme just a few years ago, what they had found is that instead of the taking the strain from the employees, the 'computer' and subsequent 'new innovations' did the exact opposite, with employees speeding up and working longer hours in an effort to keep up with the technology that supported a 24 hour lifestyle. We can't stop innovation and we wouldn't want to as so much of it has improved our lives but only time will tell just how much of an impact new technology will have on the size of any workforce, or in the growth of a whole new set of skills and services. We will just need to watch this space!

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