

# BIRCHWOOD

## INVESTMENT

MANAGEMENT LTD

## NEWSLETTER



October 2020

*It's plain sailing...*

## Are you taking full advantage of your pension allowances?

According to research, it appears that many people over the age of 50, are re-thinking their retirement plans in the light of the Coronavirus pandemic. People in this age group are more likely now to push back their retirement age by 3 years on average and are even considering working on indefinitely as a direct consequence of Covid 19.

Typically, at the age of 50 people begin to feel that retirement has quietly crept up on them and with the potential for a reduction in household income, as a direct result of Covid, it can leave you with a feeling of gloom.

However, before making any impulsive decisions about your retirement age, it's worth considering what your options are before deciding that postponing your retirement age is the only choice.

Regular saving into a pension is one of the most tax-efficient ways to build a pot of money for your retirement. Investing into a pension enables you to build up your retirement savings for the most part, free of tax, and by providing tax relief on the contributions you make.

For those whose retirement plans may have been impacted by the health issues, it is worth investigating how to make the most of the allowances available through pension savings to

enhance your retirement pot.

In addition, there has been wide speculation that there may be changes to the generous pension tax relief rules in the future. The chancellor is looking to 'balance the books', so it's worth making use of the allowances and reliefs that are available now in case they do get reduced.

There are a range of pension allowances that you should make good use of now. These allowances limit the amount of money you can contribute to a pension in a year, in addition to the total amount of money you can accumulate in your pension plans while still enjoying the full benefit of the tax allowances.

### Lifetime Allowance

All your pensions, including workplace pensions, count towards your Lifetime Allowance, however, State Pension and overseas pensions are not included. The standard Lifetime Allowance is £1,073,100 since 6 April 2020 and will increase with inflation each year.

You don't pay a tax charge until you take your pension savings over and above your Lifetime Allowance (or reach age 75, if earlier). The charge is only made on the excess money saved in your pension that is above your Lifetime Allowance.

This means that for most people there is an ability to save into a pension throughout their lifetime without being caught by the Lifetime Allowance.

### Annual Allowance

The pension Annual Allowance is the maximum amount of money you can contribute towards a 'defined contribution' pension scheme in a single tax year and receive tax relief on.

All contributions made to your pension by you, your employer or any third party, as well as any tax relief received, all count towards your Annual Allowance.

The standard pension Annual Allowance is currently £40,000, or 100% of your income if you earn less than £40,000.

### Carry Forward

Carry forward is the ability to increase your pension Annual Allowance in the current tax year. It can be used when your total pension contribution amounts for a tax year, exceed your pension Annual Allowance limit for that year. You can do this by carrying forward unused allowances from the previous three tax years to make contributions this year...cont



# Are you taking full advantage of your pension allowances cont.....

## **Tapered Annual Allowance**

This reduces the level of pension funding high earners (threshold income above £200,000) and their employers can make into pension schemes. If high earners exceed the threshold and adjusted income amounts, their Annual Allowance may be reduced.

## **Money Purchase Annual Allowance**

The Money Purchase Annual Allowance (MPAA) rules were introduced as an anti-avoidance measure to prevent widespread abuse of the pension freedoms which commenced from 6 April 2015.

It's intended to discourage individuals from

diverting their salary into their pension with tax relief and then immediately withdrawing 25% cash, tax-free. The MPAA applies only to money purchase contributions and has remained at £4,000 since 6 April 2017. It applies if you have taken an income out of your pension, so once you've taken this action, the maximum you can contribute is £4,000 a year.

## **Non-taxpayer or earning less than £3,600**

If you have no earnings, or earn less than £3,600 a year, you can still pay into a pension scheme and qualify to receive tax relief added to your contributions up to a certain amount.

The maximum you can contribute is £2,880 a

year. Tax relief is added to your contributions, so if you pay £2,880, a total of £3,600 a year will be paid into your pension scheme, even if you earn less than this figure or you have no income at all. Putting it another way, in this example the government pays £720 into your pension even if you do not have any income.

We don't know if the Chancellor will make changes to any of these allowances, but there has been a lot of speculation that he will do something to help make up the shortfall in the 'books'.

For this reason, now is the time to speak to your adviser to see if you can maximise the allowances while you can.

## History of the Trust

Most historians agree that the roots of the first concept of a 'Trust' came from medieval England. When knights went off to war they left their property at the disposal of other persons, often the parish priest. The priest, or 'trustee', controlled the money for the benefit of the Knight's family and was also able to implement the will of the Knight and was empowered to manage the Knight's property effectively.

However, the concept of trust is even older and was already present in Roman and Greek law. The Romans used the word Fiducia. The adoption of the trust law in ancient Rome resulted from cases where wealthy Romans trusted their friends to manage their property in favour of the principal's wife and heirs after their death, because under the Roman law, unless the wife was a Roman citizen, she could not inherit by herself. However, former friends broke the promise due to the absence of the

relevant legislation. Following separation from the Roman legal system, English law developed independently. It is in English law that the concept of 'trust' acquired its modern status.

In the middle of the 19th century a number of laws were enacted which consolidated the position and rights of trustees and beneficiaries even more clearly, so the scope of trust relationships has grown considerably.

Currently, trust matters in the United Kingdom are regulated by numerous statutes and case law established by the courts while examining various trust-related legal cases. Accordingly, the concept of trust, which appeared under the influence of particular historical and specific circumstances generated by the feudal social structure of England in the Middle Ages, is currently widely used to meet the modern needs of social development.

## **Note:**

Fiduciary relationships, depending on the legal framework of a particular country, have two basic concepts:

1. In common or Anglo-Saxon law countries this is the Trust.
2. In civil or continental law countries this is Fiduciary management.

The difference between both legal systems is relevant because property is one of the key concepts of any legal system.

So, centuries later, this ancient principle remains the same. The difference is that the main use of trusts today is to mitigate tax bills.





# Market Report

October 2020

## Global Review



Global equities in aggregate have recovered all losses from their March lows although there has been a distinct bifurcation of the market in favour of those companies expected to benefit from the 'new normal' imposed by Covid-19 and restrictions in working and home lives as a result. For example, the stock price of Amazon.com has risen by almost 90% from the lows on the expectation of increased online sales, whilst the stock price of International Consolidated Airlines, the owner of British Airways, has fallen almost 85% year-to-date as travel restrictions continue around the world.

Whilst economic activity is unlikely to return to pre-Covid-19 levels in the near future the gradual lifting of restrictions from full lockdown and the return to (a new) normal has boosted sentiment. Government aid combined with the massive global effort to find a vaccine for the coronavirus and the promise of an imminent treatment have added momentum to the rally in financial assets.

## UK



Figures from the Office for National Statistics have confirmed that UK economic activity contracted by 20% in the second quarter with lockdown measures causing widespread disruption in the services, production and construction industries. With the recent introduction of new measures designed to curb the resurgence in Covid-19 infection rates, the government announced a new Job Support Scheme to replace its previous Job Retention Scheme as fears of

mass unemployment in the worst affected sectors grow.

Mirroring the fall in economic activity, public sector debt rose 20% in the 12 months to the end of July, with government borrowing of £150bn in the second quarter almost three times that of the entire previous financial year. The Bank of England, whilst admitting the economic recovery has so far exceeded expectations, also remain in a very accommodative mode, with plans to explore the implementation of negative interest rates should a second wave of infections or Brexit derail the recovery.

## US



The US Federal Reserve has been clear in its support for the economy with a policy shift toward prioritizing employment over inflation.

US unemployment hit a peak of 14.4% during the Covid-19 lockdowns but, whilst recovering at a faster pace than expected, was still 8.4% in August.

The central bank predicted that interest rates are likely to stay near zero for the foreseeable future and will allow inflation to run moderately above its 2% target for some time if necessary.

The approval of further government aid is in the balance as cross party brinkmanship continues to delay action ahead of November's presidential election. With confirmation of the record fall in US GDP over the second quarter still fresh in the minds of policy makers, both sides of the House recognise the need for further stimulus.

The country has now recorded over seven million cases of Covid-19 with over 200,000 deaths from the virus.

## Europe



In their first face-to-face meeting since the outbreak of Covid-19, European Union leaders finally agreed a €750 billion recovery package of grants and cheap loans to support embattled member states and struggling industries. As in the UK, European governments are being forced to impose a growing number of regional lockdowns to combat the spread of Covid-19. The latest reports indicate 2.85 million confirmed infections across the continent with Spain and France registering over 30,000 new cases a day.

Economic growth in the second quarter across the Eurozone declined -12.1% quarter-on-quarter with Germany, France and Italy all recording double digit falls. However, a stronger than expected rebound in activity saw the European Central Bank revise up its forecast for growth during 2020 to a -8.0% contraction. The Bank also expects a return to growth in 2021 with a 5% expansion predicted. There are growing expectations that the ECB will introduce further stimulus, heightened by initial estimates of negative inflation in August.

## Japan



The Bank of Japan have also upgraded the country's economic outlook with a forecast of a -4.7% contraction for the fiscal year ending in March. This followed a revision of economic growth in the April-June period that estimated a contraction of -7.9% in activity from the previous quarter. Whilst this was the best of the G7 nations, the magnitude of the fall

in economic performance was surprising given Japan's relative success in dealing with Covid-19. Japan has recorded 83,000 cases compared to the 7 million plus now confirmed in the US.

The resignation on health grounds of long standing Prime Minister Shinzo Abe, architect of the country's widespread economic reforms over the last 8 years, failed to upset the market recovery. Abe has been succeeded by Yoshihide Suga, a long-serving cabinet member and close ally of the former Prime Minister, who is expected to provide continuity and stay true his predecessor's policies.

## Asia



Macroeconomic indicators in China were broadly positive for August with industrial production, retail sales and fixed asset investment all surprising on the upside. Both domestic and export demand have turned positive following a period of contraction. As the first country to lockdown in response to the pandemic, most of the economic pain was felt in the first quarter with a v-shaped recovery in the second. China's National Bureau of Statistics have indicated that the economy has contracted by just 1.6% over the first half of the year.

After hitting one million confirmed cases of Covid-19 in July, India now has the second highest number of infections globally at 6.3 million, behind only the US. Prime Minister Narendra Modi did announce a Covid-19 support package of \$265 billion back in May, around 10% of GDP, but this included many existing measures.

The government may delay further stimulus until the pandemic is brought under greater control with reports that 40% of direct cash handouts from March's initial aid package have been saved.

# Women in relationships find gender pension gap has risen to £186,000

According to new analysis from Cebr (Centre for Economics & Business Research Ltd), the basic 'gender pensions gap' could be as high as £108,130, rising to £186,120 for women who are either married, or in a relationship.

Men expect that they will have an annual retirement income of £19,748 and women believe their income will be £14,833. However, the gap rising to £186,120 for women who are married, or in a relationship, men expect that they will receive £8,460 more each year than their partners in retirement.

The same income gap is also evident among younger couples in retirement. On average, men aged between 54-64 currently receive, or expect to receive a gross income of £5,964 higher than their female partner when they stop working. Single men also anticipate higher retirement incomes with those over the age of 55 receiving around £3,750 per annum more than single women of the same age. With women typically outliving men, this 'gap' can have serious knock on effect as they will struggle to fund a longer retirement while on a much lower income.

Most men (76%) and women (73%) over the age of 54 rely on their state pension, but men more than women are more likely to depend on private sources of income. Nearly half (47%) of men say their income comes from a final salary or defined benefit workplace pension, compared to just over one in three (37%) women. Furthermore, over a quarter of men (28%) use pension pot drawdowns to fund their retirement, compared to 19% of women.

Men are also more likely than women to have sole ownership of most assets that make up

their wealth in retirement. 42% of men aged 54 and over who are in a relationship said that their wealth was higher than that of their partner, compared to just 13% of women, further emphasising the wealth gap between men and women in retirement. Furthermore, half of the men surveyed said they had independent pension wealth, compared to just 39% of women. However, women over the age of 54 are more likely to have cash savings and property wealth independent of their spouse or partner. Over two in five (43%) women hold cash savings independently compared to 38% of men, while 26% of women say they are the sole owners of property wealth compared to 19% of men. However, 29% of women say they do not own property at all, compared to just a quarter of men (25%).

Dave Harris, CEO at more2life, commented: "Today's findings put a price tag on gender and suggest that while women may live longer, their financial circumstances often mean that this needs to be done on a more frugal basis than their male counterparts. This stark difference highlights not only the need to address the root causes of financial gender inequality but the need to better support women both in the lead up to and during later life. Part of that is encouraging them to think carefully about how they will fund their retirement using all of their available assets including their housing wealth.

"At a time when there has been significant disruption to many people's retirement savings, we need collaboration from industry and Government to encourage people to engage with long-term financial planning. While our findings show that men and women are broadly consistent when it comes to state pension engagement, there is a clear disparity

between the genders when it comes to utilising alternative retirement income sources.

Nowadays, people approaching later life often need to fund a longer and more active retirement than their parents, but with smaller pensions. As such, it's crucial for current and future retirees to consider how assets such as property could help them form a more holistic financial plan for their later years.

Equity release, for example, has proven to be a popular solution among older homeowners looking to make use of their property wealth to fund their retirement, and could enable more women to live with financial security and stability in later life."

Diane Watson, founder of She Can Prosper, added: "While the gender income gap is a well-known issue, the gender pension gap is often overlooked, and today's findings highlight that there remains a clear disparity between men and women when it comes to their income in later life. Cebr research reveals an extremely worrying reality that women are at risk of going into retirement less financially prepared than their male counterparts. What's more, the ongoing coronavirus crisis is set to exacerbate this problem for many more women over the years to come.

"There are great strides to be made in closing the financial gap between men and women in later life. It is crucial that the financial services industry encourages and empowers women to become more involved in financial planning earlier on in life, so that they can have more independence and security in retirement."

## We're still here to support you...

Nationally, the majority of us are continuing to work predominantly from home. Our advisers and support teams are still fully committed to maintaining the level of service, you as a client have come to expect. You can continue to email or phone your adviser using his or her usual contact details, or call our usual number 01438 840888 and you will be directed to the correct person.

We are still operating as we have been doing since the initial lockdown. We have embraced developments in technology with most of our

team operating from home using secure systems to enable remote working. Our advisers are here for you as we have always been. If you do need to talk to us you don't need to wait, with secure and confidential channels available for any video appointments or by telephone.

Your response to our technological changes is still positive so these will remain in place going forward, therefore if the UK ends up with even tighter restrictions this will still mean it's business as usual at Birchwood.

We will continue to provide our advisers with up to date information produced by our investment analysis and research committee, so they can best support you and answer any questions you may have.

We thank you for your support in this difficult time and we will continue to update our website with any news on how we are operating at the current time, as well as our latest thinking on the economy. We do hope you and your families are staying safe and we remain here for you when you need us.

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