

PENSIONS

The missing element in pensions change



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Promised adjustments to pension law are missing a key element: increasing minimum contribution levels.

The first King's Speech of the new parliament included a Pension Schemes Bill, largely dealing with administrative matters, such as automatic consolidation of pension pots. What was glaringly absent was increasing the minimum level of automatic enrolment contributions, which would do more to improve retirement prospects than any of the Bill's draft contents.

At present, for an eligible employee, the minimum contribution is set at 8% (3% employer minimum/balance paid by employee) of annual earnings between £6,240 and £50,270. There is widespread agreement among pension experts that current contribution levels are too low. The last government accepted this and introduced legislation giving it powers – so far unused – to reduce both the minimum age and lower level of qualifying earnings.

The *Financial Times* recently reported that a group of "eight financial services veterans" had sent a letter to Rachel Reeves recommending that the minimum percentage rate should increase by 1% a year until it reaches 15%.

The Chancellor, like her predecessor, is in a bind on contribution increases. Someone will have to pay, which means annoying employers and/or employees when the impact of recent high inflation is still being felt. Raising contributions also hits the Exchequer's coffers because of tax relief given to contributors.

Just because the government chooses masterly inaction, you do not have to. If you want a comfortable retirement, talk to us now about how much more you could be putting in your pension.

✦ *The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.*

The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.

Occupational pension schemes are regulated by The Pensions Regulator.



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INVESTMENT

Ensuring green means green

Many of us are taking steps to tackle some of the environmental challenges we face. This might be switching to a renewable energy tariff, reducing plastic use or ensuring our money is invested sustainably.

There is now a wide range of 'green' investment products and funds, designed to appeal to the eight out of ten adults who say they would like to see their investments 'do some good' as well as deliver a financial return.

Until now, it has been difficult for ordinary investors to see whether the underlying investment strategy matches environmental claims, leading to industry concerns around 'greenwashing' – misleading advertising or marketing.

The Financial Conduct Authority introduced a new anti-greenwashing rule from 31 May 2024 to tackle this problem. This sets out new product labels and standardised definitions to help investors better understand how their money is being invested, aiding consumer choice.

Financial companies also now need to evidence relevant marketing claims, whether they relate to green credentials, sustainability or having a positive impact on the environment or wider society. This should enable regulators to act against firms who say one thing but do another when it comes to environmental and sustainability claims on funds. As a result, there may be fewer 'green' investment products on the market, but investors should have confidence that those remaining are proven sustainable investment options, that do what they say on the tin.

✦ *Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.*

Interest rates take a step down

As the Bank of England cuts interest rates for the first time in over four years, what are the implications for your investments?

The Bank of England did something this summer unseen since 19 March 2020: it cut the Bank rate. After nearly a year with the Bank rate stuck at 5.25%, investors are now pondering two new questions: how fast will rates fall and how far will they drop?

The answer implied (not guaranteed) by the UK money markets is that the Bank rate will be 3.5% by the third quarter of 2027. Assuming no further global pandemics or escalating international incidents, UK interest rates look set on a downward path, which has several consequences for investors, including:

- New investors will see the return on fixed interest securities, such as government bonds, fall. This move is already underway, as investors buy to lock in current returns.



- Falling long-term bond yields go alongside a drop in annuity rates. If you are thinking about fixing all or part of your retirement income, delay could prove costly.
- Returns on cash deposits will drop as the Bank rate falls. Inertia is now a serious risk if you are sitting with cash on the investment sidelines. Wait too long before making your move into long-term assets and you could miss investment profits.

- Lower interest rates will benefit companies, particularly smaller companies which tend to have higher borrowing. In the US, which is at a similar stage in the interest rate cycle, there have been signs that investors are switching their attention from the mega companies towards smaller companies.

For advice on how you should approach an investment landscape of falling interest rates, talk to us soon – the longer you defer, the lower rates could drop.

✚ *Investments do not offer the same level of capital security as deposit accounts.*

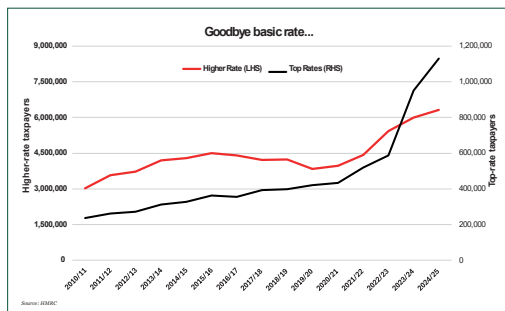
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TAX

Joining the boom in top-rate taxpayers?

New data from HMRC show there are now more than a million people paying income tax at a rate of at least 45%.



(throughout the UK), despite the over 20% surge in inflation since April 2021.

The additional-rate tax story is worse, because the previously frozen threshold was cut from £150,000 to £125,140 in 2023/24, followed by the Scottish advanced addition in 2024/25.

At the time of the last Budget, the Office for Budget Responsibility estimated that by 2028/29 nearly one in five income

taxpayers would be paying higher rate and more than one in thirty would be subject to additional rate.

If you find yourself in, or heading to, higher- or additional-rate tax, it is unlikely any Budget in the next few years will help. If the proportion of your income lost to tax in the future reduces, it is much more likely to be the result of careful personal tax planning than any Chancellor's generosity. To find out more about the range of those planning options and the tax savings you could make, please get in touch.

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Each year HMRC produces an extensive set of tables about income tax, which accounts for about 30% of all tax revenue. In recent times, Scotland has complicated these tables by creating extra tax bands. For example, in 2024/25 a new Scottish advanced rate was introduced, so HMRC decided to group Scots who pay the new advanced rate (45%) and top rate (48%) together with those in the rest of the UK who pay the additional rate (45%).

The Scottish distortions have failed to alter a clear trend in the data: a sharp rise since 2020 in the numbers paying higher- or additional-rate (as HMRC defined) tax. The higher-rate taxpayer population boom is a direct result of the freeze on the higher-rate threshold at the 2021/22 level

TAX

October tax deadlines

There are two other important tax dates in October, besides the Budget.

The final date for filing your 2023/24 tax return is 31 October 2024 if you do not want to file online (which has a 31 January 2025 deadline). These days, HMRC discourages paper tax returns and will only issue them on request. For 2022/23, over 97% of returns due were filed online.

As the relevance of 31 October has faded, another October tax date has become more important – 5 October. This is the deadline for telling HMRC if you need to file a tax return and have not been sent one before. For example, a return would be required if you started self-employment in 2023/24 with income exceeding £1,000 or realised capital gains above the annual exempt amount (£6,000 in 2023/24). HMRC has an online tool that allows you to check whether you need a return: <https://www.gov.uk/check-if-you-need-tax-return>

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