FINANCIAL SERVICES NEWSLETTER

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## Hammond favours pensions

The previous Chancellor, George Osborne, reduced the annual and lifetime allowances for pension savings and at the same time increased the allowance for Individual Savings Accounts ('ISAs'). This led many to assume that he intended that in the long term ISAs should become the principal means of saving for retirement.

This would have reduced the enormous cost to the Treasury of providing tax relief at taxpayers' highest rates on pension contributions. However, in his November 2017 Budget, contrary to expectations, the current Chancellor, Philip Hammond, made no changes to the current regime. "The dog that didn't bark".

This leads to the question of whether ISAs are achieving their objective.

The funds in which ISA and pension contributions are invested enjoy similar tax advantages, but whereas all but 25% of personal pension withdrawals are taxable, withdrawals from ISAs are completely tax-free. This makes ISAs a preferred first source of retirement income.

It appears, however, that in the government's zeal to promote ISAs they have muddied the water by creating too many variants and have in consequence succeeded in confusing savers.

Apart from the standard ISA, which permits £20,000 to be invested either in cash or investment funds, help-to-buy, innovative finance and lifetime ISAs are now available and there has been talk of a workplace ISA.

As far as concerns help-to-buy ISAs, the government had expected to pay out bonuses of £700 million up to the end of 2018, but the actual figure to date is only £77 million. This may have been due in part to the introduction of the Lifetime ISA, which similarly provides benefits to home buyers. But Lifetime ISAs have also fallen short of expectations, where forecasts of the bonus payments, which had been flagged as a key attraction of these ISAs, have been reduced by 40%.

Meanwhile, innovative finance ISAs have proved to be a dead duck, with investment levels at a mere 2.5% of what had been predicted.

Overall, the number of ISA accounts has declined from 14.6 million in 2012/13 to 11 Million in 2016/17. Most of these accounts are cash ISAs, whose attraction has been undermined by another government own-goal, namely the new £1,000 tax-free personal savings allowance for interest received from deposit accounts.

By contrast, savings into personal pensions increased from £20.9 billion in 2014/15 to £24.3 billion in 2015/16. This may of course have been prompted by fears of further reductions in pension allowances and these are still possible. For the time being, however, pensions are clearly the preferred medium for retirement savings, though for those who can afford ISAs as well, these are a 'must'.

## Long Term Care dilemma

Care home chains are in trouble. Demand for places is increasing with longevity and the rising number of cases of dementia, but funding is predominantly dependent on Local Authorities, whose own stretched resources are limiting their ability to pay and leading to their demanding places at below their cost price.

In consequence, care homes are having to look to self-payers to subsidise the cost of providing care to residents who are funded by their Local Authority, and according to a recent report they pay 41% or £236 per week more for living in the same homes.

Financial support from Local Authorities is available to people whose savings and income are less than £23,250. However, a person's home will be excluded from the means test if a partner or spouse is still living there.

Some homes target self-payers, and these are exacerbating the problem by taking custom away from the homes which cater for both self-payers and Local Authority residents, with the result that these homes are struggling to survive. A further problem they have is that of attracting staff in the Brexit world and having to pay the minimum National Living Wage which was introduced in 2016.

The problem of rising demand and reducing supply is one which may be addressed by the government in its forthcoming Green Paper on long term care, but there is a strong case for those who are financially able to do so to make provision for their own care, possibly by means of income drawdown from pension plans, releasing equity from their homes, or buying "impaired life" annuities.

## Payment Protection Insurance

Many people signing up for credit cards or loans have, sometimes unwittingly, also signed up for Payment Protection Insurance. This ensures repayment if the policyholder becomes unable to satisfy their liability on account, for example, of death, disability, loss of employment or illness.

Claims have been rife from people who are unhappy to find that they have signed-up for such policies, and these have been encouraged by claims management companies, which stand to benefit from any successful claim.

The Financial Ombudsman has warned consumers against becoming involved with claims management companies and has drawn attention to a free PPI questionnaire, which is available from the web site www.financial-ombudsman.org.uk Claims made before 29 August 2019 will be free of charge.

## Independent advice

The British Steel Pension Scheme is closing and members have been asked to choose between either moving their rights into the government's Pension Protection Fund or transferring into a new British Steel scheme. However, many members have been advised to consider a third alternative, namely requesting a valuation of their rights with a view to transferring into a personal scheme.

Addressing MPs, a spokesperson for the British Steel scheme bemoaned the fact that when searching the Register on the website of the Financial Conduct Authority to identify a suitably independent adviser "*it is only when you go to certain drop down boxes that it says restricted*".

As one independent financial adviser commented in the letters column of a leading financial publication, "*Restricted advice is the same as walking into a Mercedes Benz showroom and asking for advice on which car you should buy*"