financial

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Why official pension ages may change again – and soon!

With the election decided, one of the more electorally sensitive issues is likely to emerge in the months ahead: the State Pension age.

Currently 66 for both men and women, it will steadily rise to 68 by 2044-46. So those born after April 1977 will be affected.

However, the plans may change. A decision to accelerate the rises was delayed ahead of the election but will need to be dealt with imminently.

Any decision will have a major impact on financial planning, with not only State Pension ages affected but potentially also the age that private pension money can be accessed. Your 2plan adviser can help navigate the changes as they become clearer and help future-proof your personal plan.

What decisions have been made on UK State Pension ages?

The history is important. Previous governments have legislated for an increase from age 66 to 67 in 2026-28 and to 68 in 2044-46. However, the timing of the rise to 68 is in doubt and will be looked at by an independent review within the next two years.

Could it rise even faster?

Various think-tanks have warned about the unaffordability of the State Pension. The latest came earlier this year from the International Longevity Centre (ILC). It suggested the State Pension age would have to rise to 70 or 71 by 2050 to remain affordable.

The ILC warned of 'widening demographic imbalances' that would heap pressure on government finances. It also highlighted that younger people lack the savings and assets that their parents and grandparents had.

Is the State Pension affordable?

When the State Pension was introduced in 1909, it applied to people from age 70. But average life expectancy from birth was just 52. Between 1951 and 2020, life expectancy increased by 10 years. It is projected to rise by another four years by 2070.

Whilst longer lifespans are something to celebrate, they come with additional state costs.

The 'triple lock' is a further complication. It guarantees a minimum rise of 2.5% each year or the higher of inflation or wages. As a result, State Pension payments have grown relatively quickly over the past decade. The bulge in Baby Boomers reaching retirement further increases the cost pressure.

The Office for Budget Responsibility expects the cost of the State Pension as a percentage of GDP to rise from 4.8% to 8.1% by 2071. The stated aim has been to keep it below 6%, a level it would breach somewhere in the late 2040s (see table).

The primary ways to mitigate this are to either slow rises in the State Pension, which would involve watering down or abandoning the triple lock, or to increase the age of State Pension eligibility.

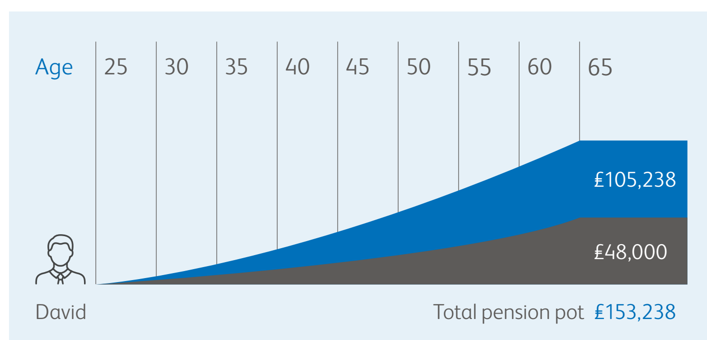
Year	2021 /22	2031	2041	2051	2061	2071	
State Pension cost as % of GDP	4.8%	4.9%	5.5%	6.2%	7.3%	8.1%	6% (cap)

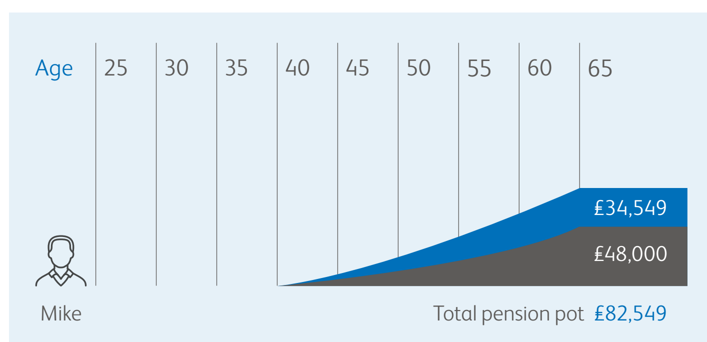
Source: Office for Budget Responsibility, 2023

How to respond to rising pension ages

If retirement is a way off, you still have time to take control of your own pension age. Time is a powerful weapon and the single biggest factor that determines the growth of your money - the longer, the better, although of course there are no guarantees.

The hypothetical example below shows that if David starts investing £100 a month when he is 25 and Mike invests £200 a month from the age of 45, they both save the same £48,000 by age 65 and reinvest the returns. Assuming a 5% annual return, the effect of growth, reinvestment and compounding have longer to work on David's investments, and so he ends up with almost twice as much as Mike.





Where do you save?

A company pension is a good place to start. Many employers will match or part-match contributions. Pensions are the best vehicle because of the tax breaks. Most people won't have to pay tax on contributions made from pay.

Private pensions and SIPPs (self-invested pensions) have the same advantage of escaping income tax on contributions, with the same generous annual limit of £60,000 for most people.

Bear in mind that there is also a 'private pension age' – the age at which you are allowed to access money in a company pension or SIPP. This is expected to remain fixed at 10 years below the State Pension age, as has largely been the case since a raft of rule changes in 2007. The previous government said this private pension age would rise from 55 to 57 on 6 April 2028, affecting anyone born on or after 6 April 1973. It also pledged to give at least 10 years' notice of further changes to state or private pension ages.

It is important to take control of your pensions, to get a holistic view and to have a plan. Your 2plan adviser can help develop that with you.

Author: Fidelity Adviser Solutions

Important information

The value of investments and the income from them, can go down as well as up, so you may get back less than you invest.

Investors should note that the views expressed may no longer be current and may have already been acted upon. Tax treatment depends on individual circumstances and all tax rules may change in the future. The value of investments can go down as well as up, so you may get back less than you invest. Withdrawals from a pension product will not be possible until you reach age 55 (57 from 2028). This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to your financial adviser.

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Busting the myths on protection

People are far more likely to insure their cars, mobile phones and pets than themselves, their homes or their families. Yet protection can provide you and your family with essential financial resilience if the worst should happen.

There are many myths and misconceptions surrounding protection. In this article we bust some of the myths to help you decide if protection could be the right solution for you.

Mythbuster 1: it'll never happen to me

It's human nature to avoid thinking about death or being diagnosed with serious illness but unfortunately these things can, and do, happen. Being diagnosed with a serious illness can be more common than you think and it can have a significant financial impact:

- Every 5 minutes one person suffers a stroke[1]
- 7.6 million people are living with a heart or circulatory disease in the UK[2]
- 4 out of 5 people with cancer find themselves on average £891 worse off a month as a result of a cancer diagnosis[3]

Mythbuster 2: protection is too expensive…

There's a negative perception that protection is too expensive, but not having protection in place could prove to be even more costly. The cost of £100,000 of life cover from Scottish Widows for a male or female, non-smoker, aged 32 for 33 years is £10.63 a month[4]. When you compare this to what you might pay monthly on things such as TV packages, your daily coffee, or insuring your pets, it doesn't seem so expensive. For example, the average UK household spend on hotels and restaurants is actually £150.80 a month[5].

Mythbuster 3: protection doesn't pay out

A common misconception is that insurance companies don't pay out claims. But data from the Association of British Insurers shows that in 2022 UK insurance companies paid out £6.84 billion in protection claims supporting 308,270 individuals or families when they needed it most. That is an average of £18.7m each day[6].

Here at Scottish Widows, in 2023, 99.4% of all Life Cover claims were paid and 92.3% of all Critical Illness claims were paid[7].

How can protection help?

If the worst should happen, some people might rely on their savings, the state, or turn to family or friends for financial support, but could this really be a long term solution?

Protection cover can provide you and your family with financial resilience in the event of serious illness or death.

1. Life Cover

Designed to pay out a tax-free cash lump sum if you die or are diagnosed with a terminal illness during the term of the policy. You can choose to have the cash paid out as a lump sum which could be, for example, used to pay off the remaining mortgage enabling your family to stay in the family home. Alternatively, you might prefer to have any cash paid out on a monthly income benefit basis. This could help your family meet other monthly commitments such as child care, credit cards payments, car loans and utility bills.

2. Critical Illness Cover

Pays out if you're diagnosed with one of the critical illness conditions covered by the policy during the term you want the cover to last. Having critical illness cover in place could help ease some of the financial burden and allow you some breathing space to focus on getting better. You can get a critical illness cover policy on its own, or you can get a policy that also includes life cover – a Life with Critical Illness Cover policy. This type of policy pays out if you're diagnosed with one of the critical illness conditions covered by the policy, diagnosed with a terminal illness or die, whichever happens first during the term of the policy.

For more information, contact your 2plan Financial Adviser to help make sure you and your family are financially protected.

Author: Scottish Widows

[1] NHS England, 2023

[2] British Heart Foundation, 2024

[3] Macmillan Cancer Support, 2022

[4] Scottish Widows, Direct to Customer Plan & Protect policy. Price correct as of 01/07/2024. This is the price a healthy person the same age as you might pay. The price may change based on your health and the amount and duration of cover you choose when you apply.

[5] ONS, 2022

[2] ABI, 2023

[3] Scottish Widows claims report 2023

The importance of professionally drafted wills

In England and Wales, will writing is not a regulated industry, and it's also technically possible for someone to write a will themselves, with no professional support at all. This means that in reality anyone can draft a will, regardless of their level of skill or expertise.

Co-op Legal Services provides fully regulated will writing and estate planning services, as they are authorised and regulated by the Solicitors Regulation Authority (SRA). This means that clients are fully protected when they carry out any estate planning with Co-op Legal Services. The services they offer include single wills, mirror wills, trust wills and lasting powers of attorney.

Benefits of regulated will writing

The Solicitors Regulation Authority (SRA) is the governing body for solicitors in England and Wales. A regulated will writing provider must observe the ethical and professional standards and requirements set out by the SRA, and also follow their principles. If any of the rules or requirements are breached, the will writing provider will be held accountable by the SRA and can face serious redress.

These principles include acting with independence, integrity, honesty and in the best interests of each client, in a way that upholds public trust and confidence. SRA regulation also ensures that clients have insurance covering any services they take out, and a robust complaints procedure should any issues arise. Non-regulated providers are not bound by these requirements.

The risks of a poorly drafted will

To ensure a will takes effect in the correct way, it needs to be drafted using the correct technical terminology, covering a range of potential scenarios and avoiding any ambiguity. Evidence of testamentary capacity also needs to be recorded, to demonstrate that the person making the will was capable of understanding what they were doing.

A will that does not meet all of this criteria could be at risk of being successfully challenged in the future.

The law in England and Wales entitles certain individuals to make a claim on the estate if they feel they haven't been sufficiently provided for in the will.

These individuals include:

- a person's current wife, husband or civil partner (or former, if they haven't entered a new marriage or civil partnership)
- a person's child (biological, adopted or stepchild)
- someone who was living with the person who died for the two years leading up to their death
- anyone who was financially dependent on the person who died right before their death

As such, a poorly drafted will could result in an estate being distributed differently to how the testator had intended, and it is less likely to hold up if challenged in the future.

Inheritance disputes attributed to DIY wills

In recent years the number of inheritance disputes has been increasing each year. This increase has been attributed to several factors, including the increased cost of living, the rising popularity of cohabitation, and an increase in the number of homemade and DIY wills.

The best way to reduce the risk of a successful challenge to a will is by seeking professional advice when making or updating a will, from a regulated will writing specialist.

A regulated professional, such as Co-op Legal Services, can ensure the will is clear and valid. As such, it is more likely to hold up against any future challenge.
purchase or improvements.

2Plan partners with Co-op Legal Services, one of the UK's most experienced regulated providers of will writing and estate planning services. For further information, please speak to your 2Plan adviser.

Author: James Antoniou, Co-Op Legal Services

Co-op Legal Services is the trading name for Co-operative Legal Services Limited, Company Number 05671209. Co-op Legal Services is authorised and regulated by the Solicitors Regulation Authority under registration number 56739.

The great allowance robbery

In previous articles we have talked about the changing economic landscape. ‘Fiscal drag’ as a concept is now frequently discussed in the mainstream media, and we have had it well explained to us on all those main news feeds.

Essentially more and more of us are getting dragged into paying more tax. And whilst we have seen the two most recent cuts to National Insurance being paraded as ‘tax cuts’ by the Government, the reality, according to the Institute of Fiscal Studies (a popular economic think tank) is that those reductions only give us back £1 out of the £4 that has been taken from us since 2021 thanks to fiscal drag.

Indeed, those who are no longer in the workplace and who are enjoying retirement don’t benefit from any reduction to National Insurance as they don’t pay it in the first place. That’s a lot of people. It’s far cheaper for a government than cutting income taxes!

Allowance rather than tax cuts!

Right now, in the summer of 2024 (not when Bryan Adams got his first real six string in 69), we really are well into a landscape where many of our previous substantive tax breaks have been cut. I should say more ‘slashed’ than cut, really. Let’s take capital gains tax (CGT). In the space of 730 days, the annual exempt allowance for CGT has been cut by a considerable 76% to £3,000, but for a basic rate taxpayer that equates to just £930 in real terms.

In 2016, the then chancellor George Osborne replaced the previously well-known dividend tax credit (which was used to prevent the over taxation of dividends to individual shareholders) with a new allowance for everyone set at £5,000.

Today that is now a miserable £500, a whopping reduction of 90%. Again, for a basic rate taxpayer that’s a real cost of £394. But this has an impact each year, whereas CGT is only triggered when you make an encashment that leads to a gain. Consequently, this now means that managing investments in the optimum tax wrapper is more critical than ever before.

Many people have been using these allowances over the years to help shelter their money but never more so than now. Retirees equally have used those allowances to help supplement their retirement incomes.

Dragging on your retirement too

And indeed, as the new state pension has been rising thanks to the triple lock (which means it increases by the greater of the price of inflation, average earnings, or 2.5%), we are at a point now where the new state pension takes up broadly 92% of the tax-free personal allowance which, right now, is caught by fiscal drag and is frozen until 2028.

All forms of pensions are always a political hot potato. As is the state of the nation’s finances. It is very likely that we will have a budget before the year is out and the new government will want to put “their stamp” on it which will no doubt bring us all more change that we will need to contend with.

With so many changes to tax affecting us right now, it is critical to take advice from highly qualified financial advisers. There are now new strategies that can be deployed to mitigate some of the changes I’ve laid out above. However, the real value of their advice will be helping you navigate the journey ahead as we move into a very different world. Traps will be set – and they will require that guiding hand to make sure you don’t give too much of your hard earned money to the tax man.

Author: Quilter

Demonstrating the value of advice by helping to protect clients from fraud

abrdn's Head of Savings Policy Alastair Black highlights the importance of being aware of the risk of financial crime and the value of the adviser / client relationship.

As a platform provider and partner to adviser firms, my colleagues and I at abrdn continue to see the potential risk of financial harm to consumers, particularly in the area of identity theft.

It's important to be aware that fraud makes up 40% of recorded crime in the UK and in its latest report, UK Finance highlights that:

- More than three-quarters of fraud starts online, mostly on social media.
- Purchase scams, where consumers order and pay for items online that never arrive, are among the fastest growing types of fraud.
- Authorised Push Payment (APP) fraud, where scammers trick victims into sending them money, is also on the rise.

Although the government's Online Safety Act, which is currently in consultation, includes requirements for tech companies to spot and remove content on their platforms that enables fraud, it won't be fully implemented until the end of 2025.

One other threat is the rise of AI-powered translation tools. As has been widely covered in the media, sophisticated scammers are able to take advantage of the technology and 'replicate' voices, for example.

While AI has provided fraudsters with powerful new technology and the implications are serious, one of the core drivers that enables scams remains – the idea that you or I would never fall for a scam. However, any one of us could be a victim of financial crime, especially with scams evolving and the ongoing cost-of-living pressures. Fraudsters also target people's emotions which means that the vulnerable may be most at risk.

The value of advice and a checklist

Because of the nature of the relationship, advisers are well placed to protect their clients from harm. Providing you with peace of mind that your assets are being looked after, with suitable fraud controls in place, is probably one of the most valuable parts of an adviser's service - demonstrating the true value of advice and the adviser's special relationship with their clients.

The short checklist below also offers just some suggestions to help ensure you're prepared and to help protect yourself from fraud:

- It can be easy to dismiss any alerts from your bank about the risk of identity theft as a scam, but for clarification, if you receive such an alert, contact your bank directly via a known number or secure messaging service.
- Be aware of the rise in AI-powered voice-cloning technology and to the potential of being scammed over the phone into sending money to someone you may believe is a family member.
- Be wary of any potential 'phishing' scams, where you may be tempted to click on an inviting online ad, especially if it's offering deals. Also, if you're expecting a parcel delivery, it's easier to then fall for scam emails and texts about missed parcels with fraudulent links to 'track package'.
- If you're contacted by a suspicious email or caller, authenticate the caller as you would expect to be authenticated by your bank, e.g. ask the suspicious caller something they should know.

Author: Alastair Black, arbdn

abrdn Wrap and abrdn Elevate are committed to tackling the risk of fraudulent activity to help protect both adviser firms and their clients. Our platform due diligence guides for Wrap and for Elevate to help combat financial crime.

The value of investments can go down as well as up and your clients could get back less than they paid in. The views expressed in this blog should not be regarded as financial advice

How to boost your pension pot with increased contributions

It can be hard to save enough for retirement if you're buying a home or raising a family, but it's never too late to give your pension pot a boost.

It's no secret that many of us struggle to put enough money into our pension pot during our working lives. Many other costs often take priority, from buying a house and raising a family to even day-to-day living expenses that can eat swiftly into disposable income.

Fortunately, it really is never too late to give your pension pot a boost, whether that's by increasing your regular pension contributions or considering a few one-off contributions. Even those who're planning to give up work in just a few years can always find ways to add to their pension savings. Keep reading to discover how to boost your pension.

1 Top up your State Pension

Almost everyone is eligible for the State Pension which provides a good base to build your retirement fund on.

The new State Pension offers £221.20 per week in the 2024/25 tax year, although only those who meet the National Insurance requirements qualify for the full amount. That means that pension contributions must have been paid for at least 35 years, while those with gaps in their National Insurance record – perhaps because of time spent abroad or periods of self-employment on low earnings – may not receive a full State Pension.

Curious about how to increase your State Pension? Everyone who's approaching pension age should firstly ask for a pension forecast online. You may be able to top up your National Insurance record by making voluntary contributions. Start by requesting your National Insurance record to establish whether it's possible to fill in the gaps.

The cost of topping up is subsidised by the Government, so it can be an effective way to increase your pension pot. The amount you'll have to pay and the periods for which you can make extra payments will vary according to your individual records.

2 Keep track of your pension pots

Have you had a few different jobs and experienced several home moves over the years? Make sure you've kept track of all your private and company pension schemes- these can be easy to forget or overlook. The Government offers a pension tracking service to help anyone who thinks they may have an entitlement from a former employer. You can also find out more about finding a lost pension in our guide.

Even those who're close to retirement age should consider putting as much as they can into their pension. This is especially important due to the generous pension tax relief. For higher earners, the government gives 40% tax relief.

What's more, the larger the sum you have in your pension pot when you retire, the greater flexibility you'll have about how and when to take your benefits.

3 Make additional contributions to your State Pension

As well as making the most of your State Pension pot, there's still scope to do more. So, how can you do this?

You could increase your regular contributions to your pension, if your budget allows. You may find that your employer increases their contribution too if you're in a workplace pension.
If you have a lump sum of money currently doing nothing in a savings account, you could consider adding some or all of it into a pension as a one-off contribution.

Both of these are brilliant ways of helping your pension savings grow and can come with some good tax benefits. Personal contributions made to a pension get tax relief on up to 100% of their relevant UK earnings (earned income). This tax relief is given at your marginal rate of tax, so if you're a 40% tax payer you'll get tax relief at 40% for as much as you pay it. However, there's an annual limit on the total contributions that can be paid into your pension in a tax year before you may be subject to a tax charge. This is known as the annual allowance and is currently £60,000. Those who are higher earnings and/or have flexibly accessed their pension could be subject to a lower annual allowance. See a financial adviser for further information.

Author: Royal London

If you would like to discuss any of these topics in more detail, please feel free to contact me to make an appointment. If you have friends, family members or colleagues who you think would be interested in these topics, please pass this newsletter to them.

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