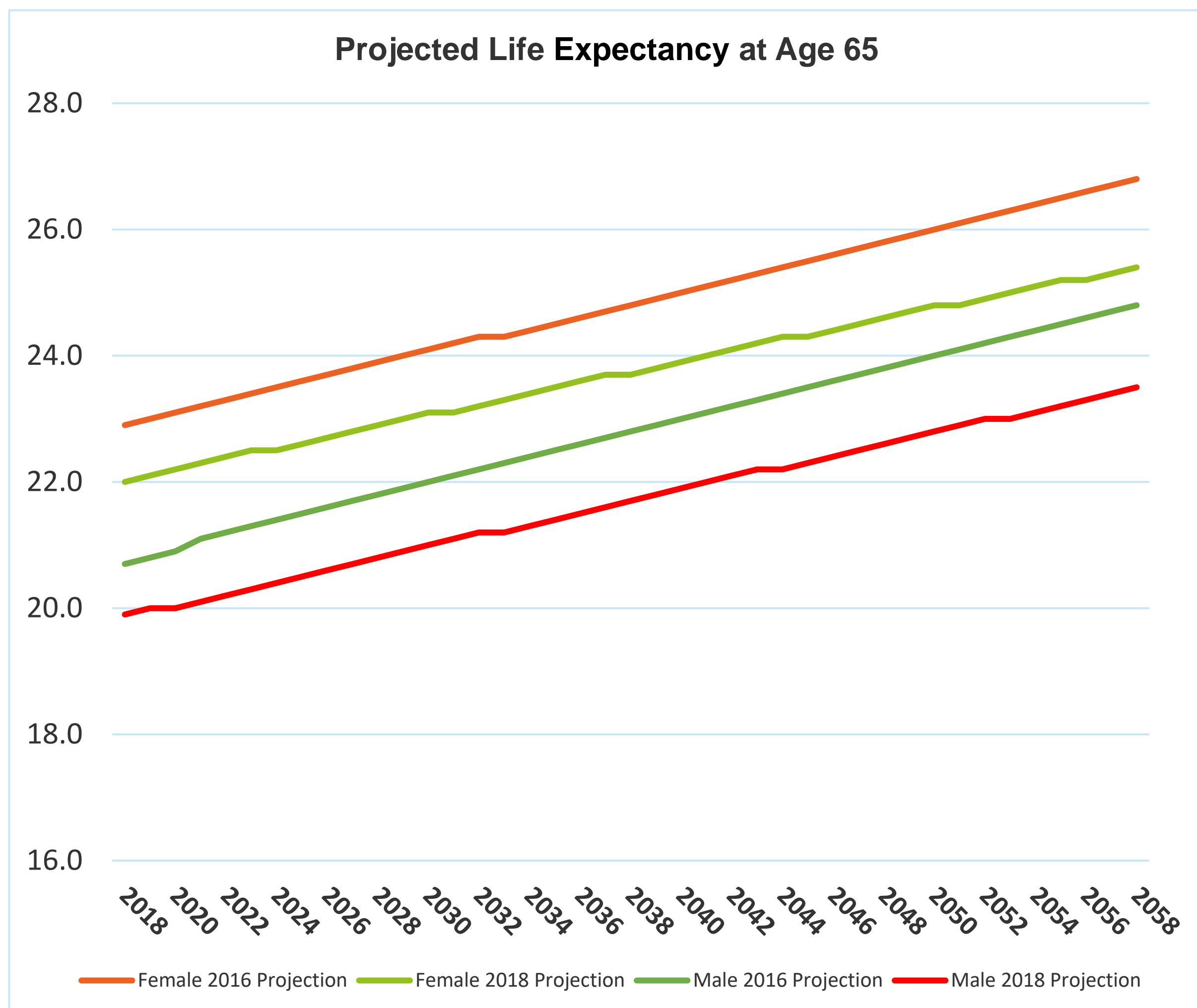
Life expectancy shortens…or does it?

New calculations from the Office for National Statistics have lowered life expectancies.



Source: ONS

Every two years, the Office for National Statistics (ONS) recalculates its national population projections (NPP). As part of the exercise, the ONS reviews and updates its assumptions about future mortality, which in turn will have an impact on population size.

The latest figures, released in early December, show a fall in life expectancies from those calculated in 2016, as the graph above demonstrates. As a headline, 'Fall in Life Expectancy' can be confusing. What it does *not* mean is that future generations will not live as long as the current generation. What it does mean is that future generations will live longer than the current generation, but not live quite *as long* as previously predicted.

You can see this in the graph. The projection made in 2016 was that a man who reached age 65 in 2040 would live, on average, another 23.0 years, whereas the latest projection (based on 2018 figures) brings that number down to 21.9 years. In 2014 the figure was projected to be 24.1 years. For women the figure has gone down from another 25 years in 2016 to 23.9 years in 2018.

The ONS reductions in life expectancy were unsurprising to the experts, as a near stalling in UK life expectancy improvements had already been noticed by health think tanks and pension funds, among others. The causes are the subject of some debate. As the Health Foundation remarked on its research, “These causes are multiple and complex – working across all age-groups, seasons and both sexes…some of the simplified explanations that have been advanced are clearly inadequate.”

One consequence of these new projections is that the ONS has had to update its life expectancy calculator (see the link below). It is worth looking at this, not only for the average life expectancy number, but also for the graph and other data which accompany the results. For example, a man aged 65 today (which is no longer State Pension Age, don’t forget – it’s about 65 and two-thirds), is expected on average to live until age 85, but has a 1 in 4 chance of reaching 92 and a 1 in 10 chance of achieving age 96. For a woman of the same age, the corresponding figures are all two years higher.

Those odds of reaching into the 90s are worth remembering next time you review your retirement planning.

ONS Life Expectancy Calculator:
https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/articles/lifeexpectancycalculator/2019-06-07

New government, new tax targets?

How will the new government affect your financial planning?

December's general election delivered a Conservative government with the sort of majority which consigns the knife-edge parliamentary battles of recent years to the past. So what will the new government do, apart from "get Brexit done"?

A look at the Conservative manifesto, easily the shortest of the three main parties, gives some limited clues.

Income tax There was a promise of no increases to income tax *rates* – although it is worth remembering that this does not extend to Scotland and Wales, which can both set their own rates. While Boris Johnson had talked about an £80,000 higher rate threshold during his campaign to become party leader, this idea did not reach the manifesto.

National Insurance Contributions (NICs) A no rate increase promise also applies to NICs, however, this may prove difficult to square with the abolition of class 2 self-employed contributions, which has been regularly deferred. The manifesto also promised an increase in the national insurance threshold to £9,500 in 2020/21 from the 2019/20 level of £8,632. That is worth a theoretical maximum saving of £104 a year for an employee (and £78 for the self-employed). The true saving is smaller, as the threshold would have risen to £8,788 through normal inflation linking. The manifesto expressed an 'ultimate ambition' – with no date specified – to raise the threshold to £12,500 (matching the current personal income tax allowance).

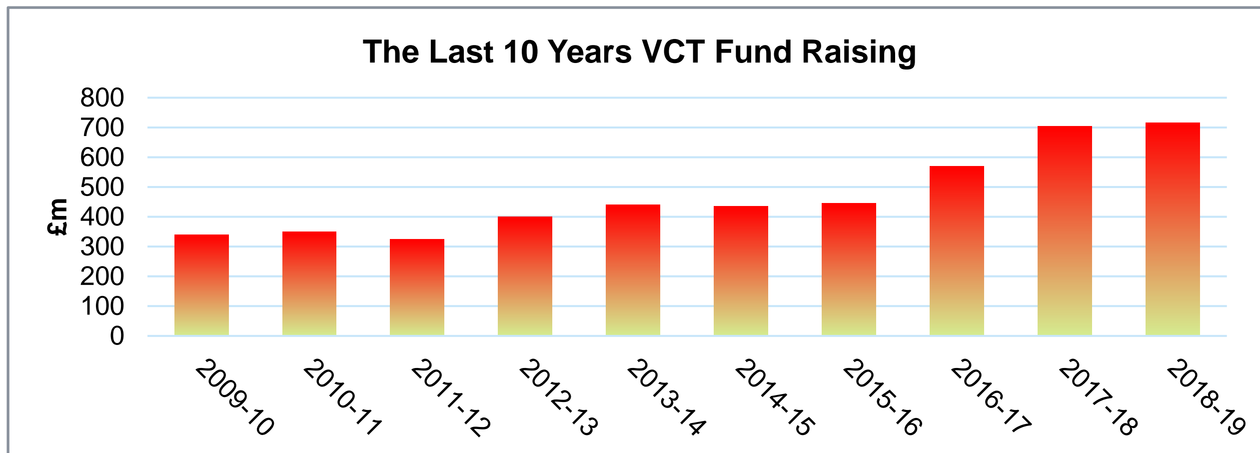
Social care After the problems Boris Johnson's predecessor encountered on this topic during her election campaign, the manifesto (and Queen's Speech) gave few clues beyond a commitment to build a cross-party consensus to solve the problem of funding social care. One condition of that solution would be that nobody needing care should be forced to sell their home to pay for it.

Corporation tax The rate cut from 19% to 17%, which was legislated to take effect from April 2020, will no longer happen.

The change in the NICs threshold represents over two-thirds of the tax cuts promised in the manifesto over the next four tax years. The financial picture should be made clearer in March, when the long-overdue Autumn Budget will now be delivered. In the meantime, if you want to see your tax bill fall, the solution looks to be in your own hands, not the Chancellor's.

Venture capital trusts continue to attract investors.

The latest statistics from HMRC show the inflows to venture capital trusts (VCTs) have more than doubled since 2009/10.



Source: HMRC

At the end of last year, HMRC published details of how much money was raised by VCTs in 2018/19. At £716m, the figure was the highest since 2005/06, when a temporarily higher rate of tax relief was on offer.

The increased popularity of VCTs in recent years is at least partly due to the restrictions on pensions, such as the tapered annual allowance rules. The tightened pension limits have made pension contributions tax *in*-efficient for some high (and not so high) earners.

In contrast, VCTs offer:

- A 30% tax credit on investments of up to £200,000 per tax year. This is clawed back if the VCT shares are sold within five years;
- All dividends are free of personal tax, provided the original investment was made within the £200,000 per tax year limit; and
- No capital gains tax on any gains (but no relief for losses, either).

While VCTs are being used as a pension alternative to obtain tax relief, in investment terms VCTs are very different. Your choice of pension investments is almost limitless and can be as high risk or secure as you wish. In contrast, a narrow investment choice and high risk are both inbuilt to VCTs.

At least 80% of the investments underlying VCTs must be in relatively young, small companies that are not listed (other than on the AIM market). Over the years, successive Chancellors have ratcheted up the risk element by excluding a wide variety of businesses, from market gardens to wind farms.

The latest change to VCT investment rules took effect in April 2018 and introduced a specific 'risk to capital' requirement to prevent 'safe' investments being made. That high risk focus makes it all the more important to take advice when investing in VCTs.

With the Budget now in March, the year end season for VCT capital raising is well underway. Some VCTs have already closed their issues for the year, so if you wish to invest in VCTs to cut your 2019/20 tax bill, the sooner you act, the better.

LISA left standing

The Lifetime ISA is now on its own as the ISA option for first time buyers.

At the start of December, the Help-to-Buy ISA was withdrawn for new investments. Its disappearance means that the Lifetime ISA (LISA) is now the only ISA plan that offers incentives for those savings towards their first home. However, anyone who started a Help-to-Buy ISA before 1 December can continue to contribute up to £200 a month and has until 1 December 2030 to claim their Help-to-Buy bonus.

The LISA was launched in April 2017 and is rather different from the traditional ISA:

- It can only be taken out by somebody aged between 18 and 39, with contributions payable up to age 50.
- The maximum investment is £4,000 per tax year (which counts towards the £20,000 overall ISA limit).
- There is a 25% government bonus payable on any contribution, meaning a maximum of £1,000 is added if the £4,000 annual limit is met.
- Withdrawals can be made penalty-free at any time after 12 months if the proceeds are used to buy the investor's first home and that home costs no more than £450,000.
- Withdrawal are also penalty free from age 60 onwards.
- Any other withdrawals (other than on terminal illness) are subject to a penalty of 25% of the amount withdrawn.

The withdrawal penalty is a controversial feature because it claws back more than just the government bonus. A recent Freedom of Information request revealed that HMRC had collected over £9m in penalties from LISA encashments between April 2018 and November 2019.

Not so lovely LISA…

Steve saved £80 a month in a cash LISA for 18 months from April 2018, gaining a £20 government bonus on each contribution. In November 2019 he was forced to cash in his LISA after being made redundant. Low interest rates meant that the face value of his LISA savings was £1,832. However, there was a 25% (£458) penalty on encashment, which meant he received £1,374, which is £66 *less* than he had saved.

With the Help to Buy ISA (which had no penalties) gone, there is a risk that more young savers will end up paying LISA penalties. It is a reminder that taking advice is a wise precaution, even for what look like simple savings plans.

The 2019 investment year

The world's share markets enjoyed strong rises in 2019.

Index	2019 Change
FTSE 100	+12.1%
FTSE All-Share	+14.2%
Dow Jones Industrial	+22.3%
Standard & Poor's 500	+28.88%
Nikkei 225	+18.2%
Euro Stoxx 50 (€)	+24.8%
Shanghai Composite	+22.3%
MSCI Emerging Markets (£)	+11.0%

2019 was a very different year for investors from 2018. Whereas 2018 saw a pattern of losses across all major markets, 2019 was the exact opposite: the red numbers that marked a year of negative performance in 2018 were replaced by black. A good global example of this was the MSCI ACWI, a broad global index covering both developed and emerging stock markets. In sterling terms, this index fell by 5.66% in 2018, but rose by 19.26% in 2019.

Despite all the trauma of Brexit politics during the year, the UK stock market posted double digit returns, as the table shows. Along with other major markets, the UK benefitted from starting at a relatively low level, following a sharp fall in the final quarter of 2018.

A point hidden in the index numbers is the performance of mid-sized UK companies – those in the FTSE 250, which sit below the top tier of FTSE 100. The strength of sterling during the year (up 4% against the US dollar and nearly 6% against the euro) had a greater impact on the multinational members of the FTSE 100 than the more domestically focused FTSE 250 constituents. The end result was that the FTSE 250 rose by 25%, more than double the increase in the FTSE 100.

The good performance of the pound – the opposite of 2018 – also took a slight edge off the returns from overseas markets for sterling-based investors. However, as the performance of the MSCI ACWI shows, in overall terms 2019 still offered greater profits for those who invested overseas.

2020 starts off with a reasonable investment outlook. The UK is now past its era of Brexit wrangles – at least until the EU trade negotiations begin in earnest. Meanwhile the US and China have just about agreed the first stage of a trade deal and interest rates remain at rock bottom levels, with few pundits expecting any move upwards in the year.

Against that backdrop, it may seem odd to suggest investors should consider selling, but as the tax year end nears, it could be worth realising some of those 2019 gains to take advantage of your £12,000 capital gains tax (CGT) exemption and reinvesting the proceeds – even perhaps in the same funds – via an ISA or a pension.