The Investment COACH

Paying for England's social care reforms

In September, the government revealed its long-awaited plans to reform England's funding of social care, but many home care residents won't reap the benefits.

On becoming Prime Minister, Boris Johnson announced that he had "…a clear plan we have prepared" to deal with the funding of social care in England. The statement was met with a certain amount of scepticism, if only because governments of every hue had a track record of failing to produce and/or implement a social care plan.

A little over 25 months after Mr Johnson's statement, he and his Chancellor, Rishi Sunak presented details of that 'clear plan', parts of which remain unclear. The main part applies only to England as the devolved nations each have their own different care funding arrangements.

The main features of the proposals are:

- The plans will apply to anyone *entering care* from October 2023. Earlier entrants will continue under the current rules, even after 2023.
- There will be a cap of £86,000 (index-linked) on the total care costs. This is not as simple as it seems: it applies only to *personal care* costs, not the 'hotel costs' of care (accommodation, food, etc.). The government's one example of how the new regime operates was based on hotel costs of £10,000 a year – less than £28 a day.
- The capital limit above which an individual must meet *all* their care costs (until the cap is reached) will rise from the current £23,250 to £100,000 – a 330% increase.
- The corresponding lower capital limit, below which individuals are not required to use savings or the value of their home to meet care costs, will also rise, but by a more modest 40%, from £14,250 to £20,000.
- If individuals have capital between those two limits, they will be expected to make an 'income tariff' contribution from that capital, which the government says will be "no more than 20 per cent". In other words, if an individual's capital is £70,000, they could have to contribute £10,000 in the first year (20% of [£70,000 – £20,000]).

While the proposals will save some families hundreds of thousands of pounds, for others these changes will make no difference – many care home residents will not live long enough to reach the £86,000 cap.

The September mini-Budget

Double-digit tax increases to fund the latest social care reforms will have a ripple effect on taxpayers.

When the Chancellor announces tax rises that are measured in double-digit billions, normally you can assume he is presenting a Budget. That was not the case in September, when Rishi Sunak set out measures that will bring a net £12 billion a year into the Treasury's coffers from next April. That sum is about the same amount as would be raised by increasing basic rate income tax from 20% to 22%. Indeed, some experts suggested that is what the Chancellor should have done. Instead, he took a politically safer route:

- In 2022/23, all the main and higher rates of National Insurance Contributions (NICs) will rise by 1.25%. For example, if you are an employee under age 66 earning more than £50,270, then in the next tax year you will pay NICs at the rate of 13.25% (12.0% currently) on your earnings between £9,568 and £50,270 and 3.25% (2% currently) above that level. Your employer will also pay NICs on your earnings above £8,840 of 15.05% (currently 13.8%). If you earn £60,000 a year, your NICs bill will rise by £630 – about £52.50 a month.
- In 2023/24, the NICs rates will drop back to the current level and to capture the extra 1.25%, a new, separate Health and Social Care Levy will be introduced. The net effect of this will be the same as the 2022/23 NICs increase, but with one exception: the new levy will also apply to the earnings of anyone (employed and self-employed) above State Pension Age (66 currently).
- From 2022/23, 1.25% will be added to the tax rates that apply to dividends once the £2,000 dividend allowance is exhausted. Consequently, the top tax rate on dividends will rise to an awkward 39.35%.

The changes could have major impacts on your financial planning, particularly if you run your own business. To discuss how they affect you personally – and what actions you might be able to take – please contact us.

Are your young adults missing out on their Child Trust Fund?

HMRC says many teenagers are missing out on Child Trust Fund cash.

The first Child Trust Funds (CTFs) matured just over a year ago, at the start of September 2020. CTFs will continue to mature until January 2029 as their owners reach the magic age of 18. At present, about 55,000 CTFs mature every month.

HMRC has been looking at the CTFs that have already matured. Its interest is more than academic because over the life of the scheme, HMRC set up one million CTFs – about 15% of the total. HMRC took the CTF establishment role when parents or guardians had failed to do so within 12 months of receiving a CTF government voucher. HMRC randomly allocated an approved CTF provider to each such orphan.

In a recent press release, HMRC said "Hundreds of thousands of accounts have been claimed so far, but many have not". Annoyingly – and perhaps deliberately – HMRC does not spell out specific numbers of non-claimants, but said if only 10% miss the date, that amounts to over 5,000 a month.

It should come as no surprise that many parents, guardians and children have forgotten that a CTF exists. To judge by data issued earlier this year, over 80% of CTFs are worth less than £2,500, with many probably only valued in the hundreds, having received no more than one voucher of £250 or £500 before government payments ceased.

If you want to find a 'lost' CTF, the best starting point is HMRC's online tool (see https://www.gov.uk/child-trust-funds/find-a-child-trust-fund). To use this, you will need to create a Government Gateway user ID and password if you do not already have one.

CTFs that carry on beyond their owner's 18th birthday continue to offer the same tax benefits as ISAs – no UK tax on income or capital gains. However, the underlying investments may be unattractive – deposits with minimal interest rates, for example. The same investment drawbacks can apply long before maturity, so it is worth reviewing any existing CTFs. A transfer to a Junior ISA (JISA) could be a better option than carrying on with a CTF.

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Reconsidering your pension contributions

Increases to National Insurance Contributions (NICs) from next April have made employee pension contributions less attractive.

That headline is not one you might expect to see from a financial adviser, but there is some solid logic behind it. Consider Jane who works in Leeds, earns £40,000 a year and makes net contributions to her employer's workplace pension of £2,000 annually (equivalent to £2,500 once basic rate tax relief is included):

To earn £2,000 net, Jane must receive £2,941.18 of gross pay:

Gross pay	£2,941.18
Employee NICs @ 12%	(£352.94)
Income tax @ 20%	(£588.24)
Net pay	**£2,000.00**

In addition, Jane's employer will have to pay 13.8% NICs on her gross pay – another £405.88.

So, the total cost of putting £2,500 into Jane's pension is £3,347.06.

The alternative is for Jane and her employer to agree to a salary sacrifice arrangement under which she forgoes £2,941.18 of salary and in return has £3,347.06 paid into her pension by her employer – a gain of 33.9% over the personal contribution route. In practice, the benefit may be slightly less as some employers levy an administration charge for salary sacrifice arrangements.

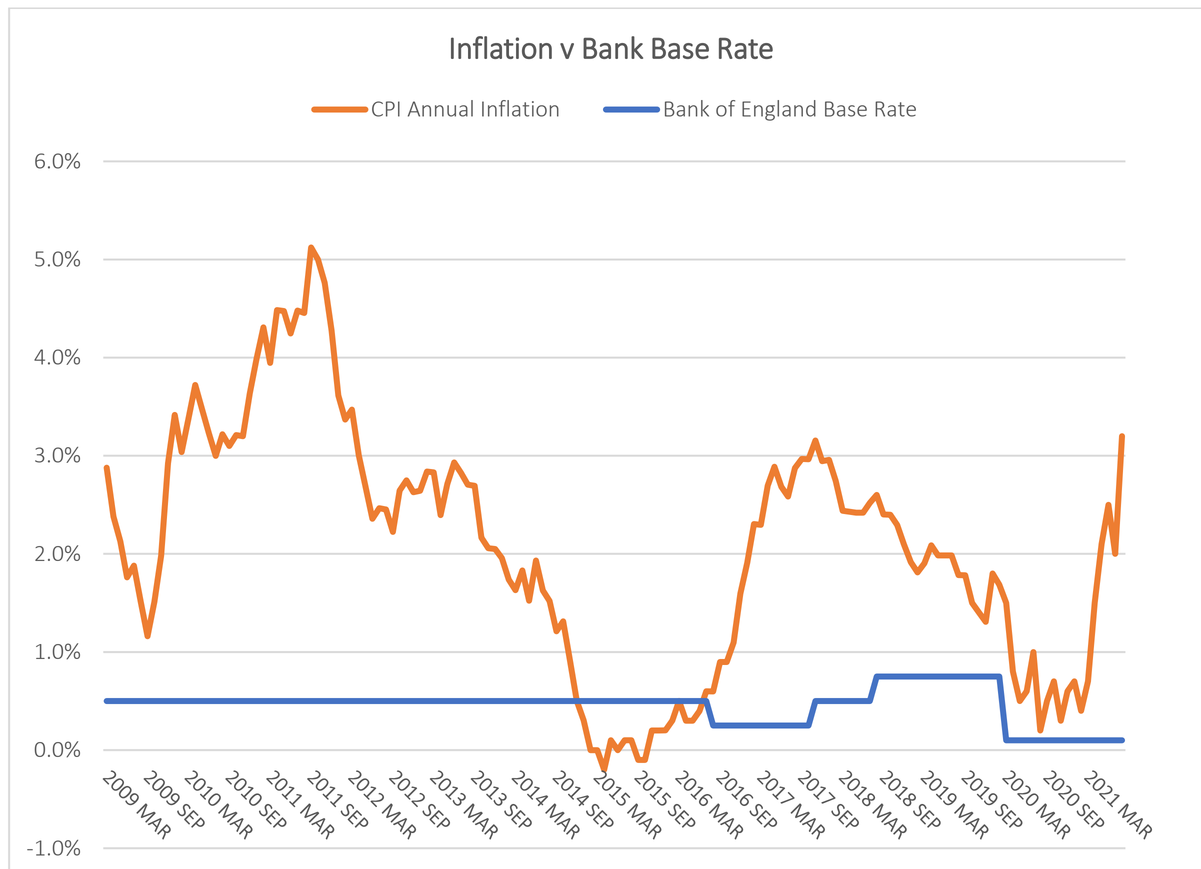
From April 2022, when NIC rates rise by 1.25% for employer and employee, Jane's potential gain increases to a maximum of 37.9%.

In this instance, higher rate taxpayers gain less because their marginal NIC rate will normally be less (2% in 2021/22, rising to 3.25% from 2022/23). Do the math and the benefit is 17.7% in this tax year and 21.6% thereafter (the figures in Scotland are marginally higher because its higher rate is 41% rather than 40%).

Despite the obvious appeal of the option, if your employer offers salary sacrifice for pension contributions, you should always seek financial advice before agreeing to a sacrifice arrangement. There can be disadvantages to salary sacrifice stemming from lower gross pay. If your employer does not offer salary sacrifice, then you may want to ask why…

Are you holding too much cash?

The Financial Conduct Authority (FCA) says many savers may have too much cash and face the risk of wealth erosion.



As the regulator for personal financial products, the FCA is rightly concerned about financial scams and savers who are encouraged to choose inappropriate high-risk investments. Both are serious issues:

- The FCA says that 3,378 consumers reported an estimated loss of £569 million to investment fraud in the year to 31 March 2021 – an almost threefold increase since 2018. On average, the loss was over £24,000 each. The oldest truism stands at a great starting point to avoid scams: if it looks too good to be true, it probably is.

- Research undertaken for the FCA highlighted a lack of awareness of the risks associated with investing. Nearly half of investors who chose not to seek financial advice failed to recognise that 'losing some money' was a risk of investing. Younger investors are taking high risks – 44% of cryptocurrencies such as bitcoin are held by the under-34s. However, nearly two thirds of that age group also claim a significant investment loss would have a fundamental impact on their current or future lifestyle.

Against that background, it is perhaps surprising to see the FCA also warning individuals against holding too much cash: "Many consumers who might gain from investing currently hold their savings in cash".

Other FCA research suggests that over a third of adults with ‘investible assets’ exceeding £10,000 hold that wealth entirely in cash. Lower the barrier to more than 75% in cash and the proportion rises over half. The FCA says – and the graph underlines – “Over time, these consumers are at risk of having the purchasing power of their money eroded by inflation”. At the time of writing, CPI inflation was 3.2% while the best fixed interest rate was 2.00% on a five-year bond.

We all need some cash as a rainy-day reserve to cope with the unexpected. Beyond that level, a different reason is required to hold cash in a world where interest rates are outpaced by inflation. For non-cash options that suit your risk profile, talk to us now. The longer you delay, the more inflation will erode the value of your cash.