Intestacy limit breach delays uplift

"Get a will and keep it up to date" is advice that often appears in the personal finance pages and elsewhere. A recent lapse in concentration from the Ministry of Justice illustrates how important that advice can be.

The lapse from the Ministry of Justice involved a key intestacy limit that was due to increase in December 2022. Instead, the timing was overlooked… until July 2023, potentially leaving beneficiaries worse off.

To cover the legal background, in 2014, an amendment to the Administration of Estates Act 1925 was added stating that "the Lord Chancellor must, before the end of a period of 21 days" increase the fixed monetary amount if the consumer price index (CPI) measure of inflation had risen by more than 15% since the figure was last set.

The aim of the amendment was to ensure that the fixed monetary amount for intestacy legacies did not suffer the fate of, for example, the inheritance tax nil rate band, and have its value seriously eroded by inflation over time.

In November 2022, the CPI triggered the increase clause, but the Ministry of Justice failed to notice. In fact, it was not until 26 July 2023 that the overdue increase took effect. By then inflation was enough to mean the increase applied was 19.3% – a £52,000 rise from £270,000 to £322,000. An embarrassed Ministry did not issue any accompanying press release and made no reference to the seven-month delay in the explanatory note to the regulation introducing the higher limit.

The House of Lords Secondary Legislation Scrutiny Committee was unimpressed, saying that the Ministry had made an "inexcusable error in timing" and "breached the law". The Committee also noted that "some estate beneficiaries may have lost out because they have received amounts that are significantly lower than they would have been entitled to…".

The intestacy rules for England and Wales state that where there is no will, if on first death the deceased leaves children, grandchildren or great grandchildren, the surviving spouse or civil partner is entitled to the deceased's personal chattels plus the lesser of:

- the value of the deceased's residual estate; and
- a fixed monetary amount plus half the remaining estate.

Intestacy rules differ throughout the UK and there are no automatic increase triggers in Scottish or Northern Irish legislation, where fixed cash amounts applying in similar circumstances have not been revised since February 2012 and January 2008 respectively.

The significant lapse by the Ministry of Justice is just one more reason why having a current will is such an important recommendation. So what are you waiting for?

The case for increasing pension contributions

A new think tank report highlights the need to increase pension contributions.

Over time, good ideas start to age. Take, for example, automatic enrolment into workplace pensions, which is now eleven years old. In some respects, it has been highly successful – about 80% of employees are now benefiting from pension contributions compared with 46% in 2011. However, other aspects of the legislation have started to look outdated after more than a decade.

Since April 2019, the mandatory minimum level of contributions has been 8% of band earnings (those between £6,240 and £50,270 in 2023/24). Of that 8%, the employer must pay at least 3%, with the employee picking up the balance. Those percentages were legislated for in 2008, almost another era in financial terms. Were automatic enrolment being designed today, the minimum contribution rate would be considerably higher.

A report in September from the capital markets focused think tank New Financial neatly summarises the problem with 8%. It says, "… contributions are not high enough to ensure a comfortable retirement for the majority of people in the UK." The report finds that in many other countries, minimum contribution rates are higher. Both Denmark and Sweden have a minimum of 15%, while Australia and Ireland are moving their contribution rates to 12%. As well as higher contributions, an international comparison reveals that in all other markets, employers pay more than employees (and in Australia employers pay the entire minimum contribution).

In the short term, the chances of the UK modernising its mandatory pension structure are limited. At the time of writing, there is a private member's bill – not a government bill – going through parliament that opens the way to higher contributions by making the 8% apply to *all* earnings up to £50,270. The backdrop of a cost of living crisis and an impending general election do not provide the conditions in which the government – or opposition – would want to call for higher pension contributions.

Nevertheless, the issue will not disappear. As the report says, "The biggest single lever that can be pulled to increase the value of a future pension is the contributions paid into it over time."

And you do not have to wait for the government, of whichever variety, to pull that lever.

An uncertain future for the Triple Lock

State pension increases could be outpacing inflation next April, and there's no guarantee of the Triple Lock surviving the next election.

In mid-September, the Office for National Statistics (ONS) published the latest earnings data, covering the period May to July 2023. Earnings data has been the focus of much attention recently because a fall in the pace of pay growth is seen as a pre-condition for the Bank of England to consider a pause – and eventually cuts – in interest rates. However, the data that emerged in September was doubly important as, in theory, it sets the level of increase for the old and new state pension from April 2024.

Both the old and new state pensions are subject to the Triple Lock, which means they are due to increase by the greater of:

- Annual earnings growth (including bonuses) for the May to July period;
- Annual CPI inflation to September; or
- 2.5%.

Given the publicity it receives, you may be surprised to learn that the Triple Lock is nowhere to be found in pensions legislation. The Triple Lock is a discretionary feature that the government can ignore, although with an election almost certain in 2024, it would be difficult to imagine that it would depart much from its requirement this year.

May to July earnings total earnings growth this year was 8.5%, 0.3% higher than expected, a surprise that the ONS attributed to NHS and civil service one-off payments in June and July. That means from next April the old state pension will rise by £13.30 to £169.50 a week and the new state pension (applying to those who reach state pension age after 5 April 2016) will increase by £17.35 to £221.20 a week, unless the government decides to suspend the Triple Lock. It did so in 2022/23, when Covid-19 distorted earnings data and for 2024/25 it could tweak the earnings definition to exclude those one-off payments.

Whether the Triple Lock will survive beyond the next election is unclear. Shortly before the earnings data was published, the Prime Minister refused to commit to the Triple Lock being in the Conservative manifesto. At about the same time, the Institute for Fiscal Studies published a critical report saying that the Triple Lock created uncertainty both for the government and for individuals planning their retirement.

If you find yourself thinking you could retire on £221 a week, think again. It represents less than two thirds of this year's 35-hour week National Minimum Wage.

Savings rates: don't be caught in the numbers net

National Savings & Investments has launched two top of the savings league table one-year bonds, but the headline rates may not be your net return.

The primary role of National Savings & Investments (NS&I) is "cost-effective financing for the government." In the current financial year, NS&I has been charged with raising between £4.5 billion and £10.5 billion for the Treasury coffers, a relatively modest sum compared with a projected £237.8 billion of government bond sales. However, NS&I saw net outflows in June and July totalling £0.3 billion according to the Bank of England.

In response to those outflows and the continued upward pressure on interest rates, in August NS&I went on the offensive and raised the returns on many of its offerings, from the Direct ISAs to the Green Savings Bond. The change that attracted most attention was the new rates for the one-year Guaranteed Growth Bond (GGB) and Guaranteed Income Bond (GIB).

Both of these one-year bonds now offer a 6.2% annual equivalent rate (6.03% payable monthly on the Guaranteed Income Bond). Their previous rates had been 5.0% and 5.12% AER. The 1%+ increases took both bonds to the top of the one-year league tables, where they remain at the time of writing. It is unusual to find an NS&I product sitting in a number one position in any savings league table, not least because it calls into question the product's cost effectiveness. NS&I has traditionally relied upon its 100% Treasury guarantee to allow it to pay below the best the internet can offer.

Arguably, 6.2% is a good rate, but unless you are a non-taxpayer (once the NS&I interest is added), you will need to factor in tax to assess your net return. This is complicated by the personal savings allowance (PSA), which is £1,000 for basic rate taxpayers, £500 for higher rate taxpayers and nil for the newly expanded band of additional rate taxpayers. Crunch the numbers on a £20,000 GGB and the net returns depend on how much unused allowance you have:

Tax rate	With full PSA %	With no available PSA %
Nil	6.20	6.20
Basic	5.96	4.96
Higher	4.72	3.72
Additional	N/A	3.41

As is often the case, the lesson is to ignore the headline number and focus on the net figure. You could find a cash ISA with a lower headline rate that offers a better net return.

A spring Budget cycle will resume shortly

The Chancellor has announced that he will issue an Autumn Statement on 22 November.

Perhaps it was just coincidence, but a year to the day after Liz Truss was elected Prime Minister, the current Chancellor (and her second) announced that there would be an Autumn Statement on 22 November 2023. In autumn 2022, Ms Truss's first chancellor, Kwasi Kwarteng, presented The Growth Plan, which was widely labelled a mini-Budget, but strictly speaking was no such thing. Budgets need to be accompanied by an Economic and Fiscal Outlook, produced by the Office for Budget Responsibility (OBR), something Mr Kwarteng studiously avoided.

Mr Kwarteng's non-mini-Budget was rapidly overtaken by events, and an Autumn Statement 2022, with accompanying OBR report, was presented by Jeremy Hunt in mid-November. Surprisingly 2022 ended as a year with plenty of "fiscal events", but no formal Budget. By the time Mr Hunt delivered the spring 2023 Budget, over 16 months (and three Chancellors) had passed since the last Budget in October 2021.

If you find yourself wondering whether Budgets are autumn or spring affairs, you are not alone. Back in November 2016, the then Chancellor (Philip Hammond) announced that he would return to an earlier practice and have a single Budget each autumn. The move was welcomed by many independent observers, such as the Institute for Government, which saw it as a way of preventing what had become a pattern of an alternating pattern of Budgets and quasi-budgets every six months or so.

The goal of one big Treasury event every autumn soon fell victim to election timings (2019), Covid-19 (2020, 2021) and then the Ukraine war (2022). The choice to make an Autumn Statement in 2023 is probably also down to election scheduling, as the spring Budget 2024 is widely seen as setting the backdrop to the next general election.

Mr Hunt is not expected to produce much in the way of surprises on 22 November. Attention is likely to be on the OBR's forecasts, which will indicate how much wiggle room there is for tax cuts next March. Whether or not they emerge, there is one other Budget tradition that is set to repeat soon – the first Budget after an election is the one in which the bitter tax increase medicine is generally administered.