Higher workplace pension contributions on the way

New legislation has paved the way for important changes to automatic enrolment in workplace pensions.

At the start of October, automatic enrolment in workplace pension schemes quietly celebrated its eleventh anniversary. The latest data (April 2021) from the Office for National Statistics shows that 79.4% of employees were members of workplace pension arrangements, a rise from 46.5% in April 2012. At a time when the ability of UK governments to implement any long-term project successfully is being questioned, automatic enrolment has been an undoubted success.

However, the roots of automatic enrolment are now over two decades old and reforms could be said to be overdue. The government published a review in 2017, but that kicked reform proposals down the road to the mid-2020s.

With that deadline coming into sight and no signs of action from the Department for Work and Pensions (DWP), last year a private member's bill was introduced in Parliament that set in train two of the recommendations made in 2017:

- Lowering the minimum age for automatic enrolment from the current 22 to 18; and
- Removing the lower qualifying earnings threshold so that the minimum 8% contribution level is calculated from the first pound of earnings, rather than an initial £6,240 being ignored.

Like many private members' bills, this one did not progress beyond its first reading. However, the effort did achieve the underlying goal – to prompt the government into action. The DWP gave its support for a replacement version of the bill that eventually passed into law as the Pensions (Extension of Automatic Enrolment) Act in September.

The Act makes no immediate changes. Instead, as with much current legislation, what it does is give the relevant department the power to introduce secondary legislation to bring the proposed changes into being at an as yet unspecified date.

In practice, the next stage will be consultations on the structure and implementation of the changes. Nothing is likely to alter before 2025 and the ending of the lower qualifying earnings threshold will probably be phased in to avoid a payments shock for low earners (and their employers).

In the meantime, if you think contributions based on all earnings are a good idea, there is nothing to stop you personally making the change now to boost your pension pot.

Powers of attorney move one step closer to the digital age

The administration of lasting powers of attorney (LPA) is on its way to becoming fully online.

In an ideal world, you should have an LPA (or its Scottish or Northern Ireland equivalent) sitting beside your will. The absence of either can complicate matters considerably for your family. Without a will, the distribution of your estate defaults to the laws of intestacy, which may not match your (or your family's) wishes. Similarly, if illness means that you cannot manage your own affairs, then in the absence of an appropriate LPA, the Court of Protection will be your family's first port of call to make decisions on your behalf. Going to the Court can be an expensive and slow process.

In England and Wales, the LPA process is dealt with by the Office of the Public Guardian (OPG). Over the years, technology has gradually crept into what has traditionally been a heavily paper-based system. You can now prepare an LPA for property and financial affairs and/or health and welfare matters online (https://www.lastingpowerofattorney.service.gov.uk/lpa/type). These LPAs are basic, government-drafted documents, but you may prefer to use a solicitor to include specific provisions that the standard issue version does not contain.

However your LPA is prepared, it will need to be registered before it can be used. While in theory registration can be delayed until your attorney needs to act on your behalf, in practice it is best to register your LPA as soon as it has been completed. That involves signing the document and sending the paperwork to the OPG (with a fee of £82 per LPA). The OPG says that it takes "up to 20 weeks" to register an LPA, provided there are no mistakes in the application.

The Powers of Attorney Act 2023, which received Royal Assent in September, paves the way for LPA registration to be completed online (as is currently possible in Scotland with powers of attorney). The paper option will also remain available.

If you do not have an LPA, then do not let the passing of the Act be an excuse to carry on without one until the technology is in place. Even the Chief Executive of the OPG says "…it's important to recognise that we've still got a long way to go." You – and your family – could need an LPA before that journey is over.

Footnote: In October, the Law Commission launched a consultation on allowing wills in England and Wales to be made and stored in electronic form.

UK tax revenues set to break new records

Research has confirmed what your pocket already knows: UK taxes are at historically high levels.

Measuring how taxes have changed over time involves much more than simply looking at tax rates. Politicians are well aware of this, but they also know that it tends to be changes in rates that make the headlines.

Over the years, the result has been that adding extra money to the Exchequer's coffers has involved considerable creativity on the part of the Treasury. Favourite methods have included:

- Tweaks to national insurance contributions which, thanks to the name, much of the public fails to recognise as a tax in reality;
- Freezing allowances, exemptions and tax thresholds, allowing inflation to dictate how much extra revenue is raised; and
- Increasing taxes on businesses and leaving them to pass on the impact to their (individual) customers.

One way that economists use to cut through the smoke and mirrors of tax policy is to calculate for any particular year how much tax the government raises from all sources as a percentage of the size of the economy (gross domestic product (GDP)). This approach has the advantage of avoiding both the billions and the distorting effects of inflation.

In September, the independent Institute for Fiscal Studies (IFS) carried just such an exercise. Its conclusion, published two days before the Conservative Party conference was due to start, was: "This has been the biggest tax-raising parliament since records began, pushing UK tax revenues to historically high levels."

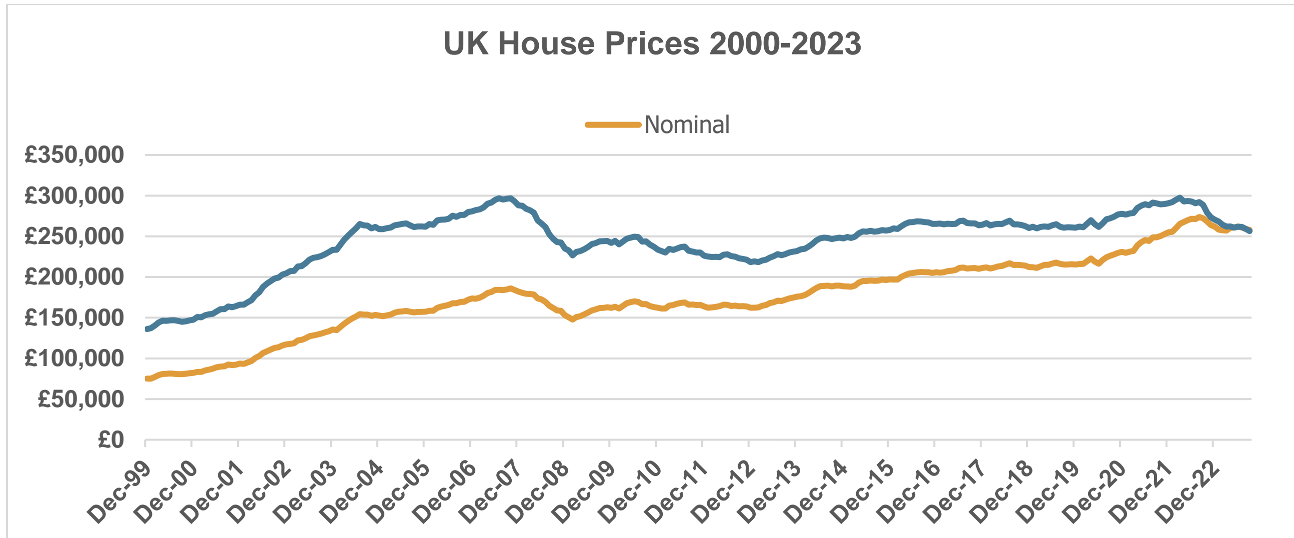
At the time of the last general election (December 2019), UK tax revenue was 33% of GDP. When the next election arrives, assumed to be in 2024, the IFS calculates the corresponding figure will be around 37%. That extra 4% is equivalent to about £3,500 more tax per household, although as the IFS notes, the rise will not be distributed evenly.

According to the IFS, a rate of 37% takes tax levels back to the 1940s, but perhaps surprisingly the Institute says that the COVID-19 pandemic is "far from the only – or even most significant – explanation." The main reason has been higher government spending "on things that pre-date the pandemic," such as expanding NHS and police workforce numbers.

Given an ageing population, there seems little likelihood that the government's tax take will fall any time soon. How much you contribute towards it will depend on your financial planning.

UK house price decline continues

The rise in mortgage rates since early 2022 has taken its toll on house prices.



Source: Nationwide, ONS.

In 2023, an annual fall in house prices has become an almost standard news item around the turn of the month, when Nationwide and Halifax release their latest data. For example, Nationwide reported a yearly fall of 3.3% for house prices in October, despite an unexpected rise of 0.9% for the month alone. Halifax also reported a slightly higher increase at 1.1% for October, but highlighted the figure still represents a 3.2% drop in house prices on last October's level. The two major mortgage lenders rarely agree on this figure, as each calculates its house price index using their own mortgage data.

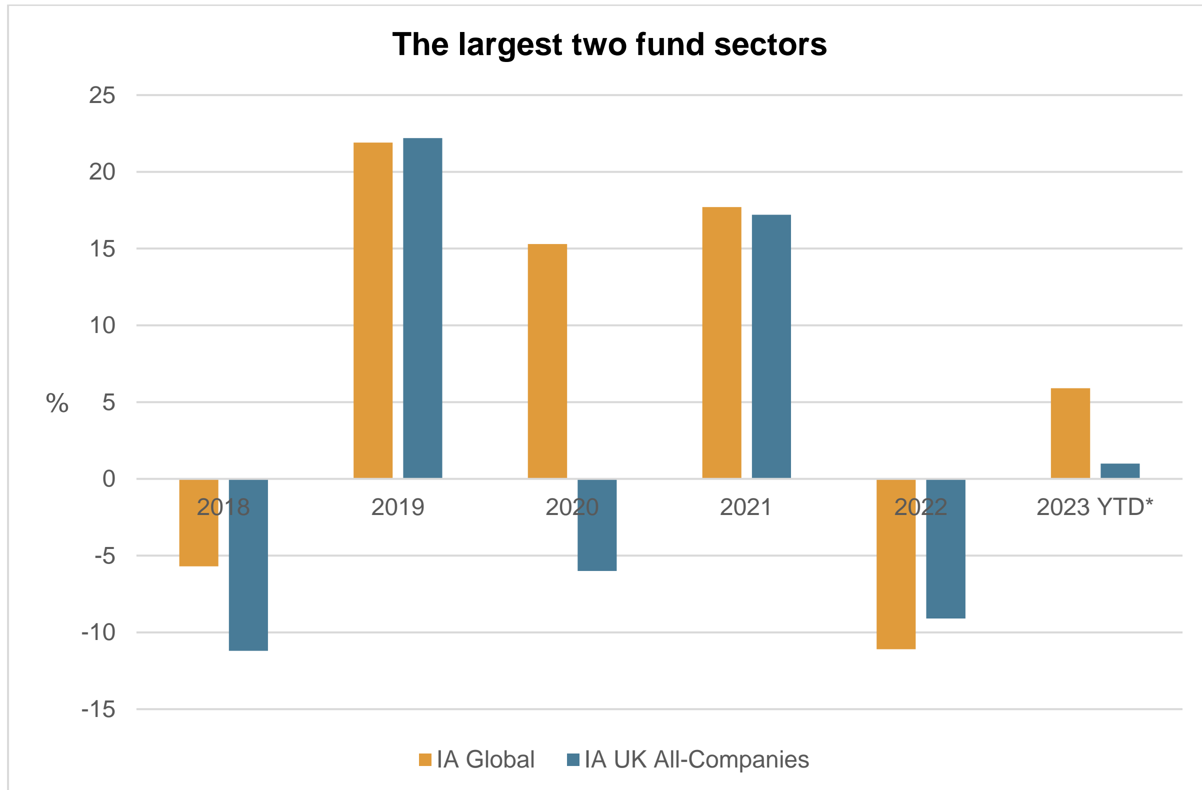
A broader measure is published by the Office for National Statistics (ONS), drawing on land registries throughout the UK. Crucially, the ONS covers all UK property sales – mortgaged and unmortgaged – so its database is almost four times the size of Halifax and Nationwide combined. However, the ONS figures receive less attention as they are much slower to emerge – the provisional September data will not be out until mid-November and is likely to be revised in December. There is another time lag relative to the lenders because they use prices at mortgage approval stage, whereas the ONS looks at completed sales. At the time of writing, the ONS's latest numbers (August 2023) show an annual increase of 0.2%.

Despite the differences in approach, the house price trends recorded by the ONS, Nationwide and Halifax closely follow each other. For instance, Nationwide and Halifax both say house prices peaked in August 2022, whereas the ONS says November 2022 was the high point.

The graph above shows Nationwide's figures from January 2000 to September 2023. The blue line is more commonly seen and shows the average house price figure since the turn of the century. The orange line is an inflation adjusted version of the blue line, showing how real property prices have grown. This has a much steeper final drop than the blue line because of the recent burst in inflation. It also illustrates a fact that does not make many commentaries about house prices – the average real price today is virtually unchanged from 15 years ago…

A tale of two fund sectors

The Global sector is the largest fund sector, according to the Investment Association, but it might not be quite as global as you think.



** To 17/10/2023*

Source: Trustnet.

The largest fund sector by value is Global, according to the Investment Association (IA), the UK's investment trade body. At the end of August 2023, Global funds accounted for £171.1bn of investments, about a seventh of the IA's fund total, which covers over 50 sectors. Second on the list, at £138.9bn, was the UK All-Companies sector. Three years previously, the UK All-Companies sector had been top dog with £149.7bn worth of assets.

The decline in popularity for the UK All-Companies sector goes back a long way. The IA data shows it to have been the worst sector for individual investor sales in six of the last ten years (2013–2022). As of August 2023, the sector had also been at the bottom of the pile for ten of the last twelve months, suggesting 2023 will be another bad year.

The prolonged decline of the UK All-Companies sector has a range of causes:

- Investors, both individual and institutional, have become increasingly internationally focused. The advantages of diversification are now widely understood and have encouraged a global outlook to creating portfolios.

- The importance and relative size of the UK stock market has waned. For evidence of this, look no further than the various announcements from UK companies that their main listing will be in the US, not the UK.
- The UK stock market offers investors little exposure to the technology and communications sectors, which account for only about 2.5% by value.
- The performance of UK shares has been lacklustre compared with other international markets, as the graph above indicates.

The IA requires funds in the Global sector to invest at least 80% of their assets globally in equities. In addition, the IA says funds must be diversified by geographic region. You might expect the IA rules mean global funds are broadly spread around the world. However, that is not necessarily the case. Many global funds use either the MSCI World or MSCI ACWI indices as their portfolio benchmark. The former has a near 70% weighting to the US, while the ACWI, which also includes emerging markets, has a 62% weighting.

As ever, if you want to know what you are buying, it pays to look past the name to the list of ingredients and seek advice.