EADON & CO

Autumn Newsletter 2021

Social Care Reforms

New tax to fund health and social care

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Inside this issue

Welcome to the Autumn edition of our quarterly client newsletter, which provides topical financial articles.

If you have any questions in relation to the articles contained within this newsletter, please do not hesitate to contact us and we will be happy to provide any guidance required.

Whatever your financial need, we are always pleased to speak with you.

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Health and social care reforms

New social care reforms

This September saw the Prime Minister Boris Johnson hold a press conference on social care reforms. Boris Johnson announced a UK-wide "health and social care levy" to address the funding crisis in the sector.

The challenge of adult social care

People in England have been required to pay for all of their care needs in full, until their capital reduces to £23,250, at which point the state would start to provide some support. At an already difficult time in their lives, people suffering medical conditions such as dementia faced losing their life savings. Successive governments have pledged to reform the system but none have brought about long-term change.

These changes only apply to England

Social care is devolved, so the money the UK Government spends on social care will only affect England. Scotland, Wales and Northern Ireland have separate arrangements for social care. These three nations will collectively receive an extra £2.2 billion a year as a result of the new tax.

From October 2023

No one starting care in England will be forced to spend more than £86,000 in care costs over their lifetime. Anyone with assets between £20,000 and £100,000 will be expected to contribute to the cost of their care but will also receive state support, which will be means-tested.

"This means that pensioners in England can now have certainty about the cost of social care, and the least well off will have it paid for".

Changes to national insurance

The new tax (UK wide) will begin as a 1.25% rise in National Insurance from April 2022. It will apply to employees and employers liable for class 1 NICs and self-employed individuals liable for Class 4 NICs.

Once systems have been updated, this rise will be replaced by a separate tax of 1.25% on earned income from 2023 and will also apply to those working above the State Pension age.

Changes to dividend tax rates

Dividend tax will rise by 1.25% from April 2022, it is paid by individuals who receive dividend income from shares.

Shares held in Individual Savings Accounts (ISAs) are not subject to dividend tax and, due to the £2,000 tax-free dividend allowance and the personal allowance, the majority of individuals with dividend income outside of ISAs are not expected to pay any dividend tax or be affected by this change in 2022-23. This change will apply UK-wide.

Triple Lock - expect a wobble!

The Government is to scrap the "triple lock" mechanism that ensures state pensions rise by at least inflation, wage growth, or 2.5%, whichever is the highest, for the 2022/23 financial year. The average wage increase won't be included, due to wage anomalies during the pandemic.

The pension triple lock will return the following year, in 2023/24.

Deferring your State Pension

Have you thought about deferring your State Pension?
Deferring your State Pension could be a good move if you are still working and face a large tax bill.

If you want to defer your State Pension
You should get a letter no later than 2 months before you reach State Pension age, telling you what to do. Deferring your State Pension could increase the payments you get when you decide to claim it. But Professional advice could be vital when making such a decision.

If you reach State Pension age on or after 6 April 2016
Your State Pension will increase every week you defer, as long as you defer for at least 9 weeks.

Your State Pension increases by the equivalent of 1% for every 9 weeks you defer. This works out as just under 5.8% for every 52 weeks.

Example: You get £179.60 a week

By deferring for 52 weeks, you'll get an extra £10.42 a week (just under 5.8% of £179.60).

This example assumes there is no annual increase in the State Pension. If there is an annual increase, the amount you could get could be larger.

If you reached State Pension age before 6 April 2016
You can usually take your extra State Pension as either:

higher weekly payments or a one-off lump sum

When you claim your deferred State Pension, you'll get a letter asking how you want to take your extra pension. You'll have 3 months from receiving that letter to decide.

Higher weekly payments
Your State Pension will increase every week you defer, as long as you defer for at least 5 weeks.

Your State Pension increases by the equivalent of 1% for every 5 weeks you defer. This works out as 10.4% for every 52 weeks.

The extra amount is paid with your regular State Pension payment.

Example: You get £137.60 a week (the full basic State Pension).

By deferring for 52 weeks, you'll get an extra £14.31 a week (10.4% of £137.60).

This example assumes there is no annual increase in the State Pension. If there is an annual increase, the amount you could get could be larger.

Lump sum payment
You can get a one-off lump sum payment if you defer claiming your State Pension for at least 12 months in a row. This will include interest of 2% above the Bank of England base rate.

Inheriting a deferred State Pension
You can usually inherit your partner's extra State Pension (once you have reached State Pension age), although certain criteria will apply.

The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than you invested.

Will you be affected by the lifetime allowance freeze?

Don't let the Lifetime Allowance (LTA) freeze cast a cloud over your finances.
The Spring 2021 Budget saw one significant change for pensions, by announcing the Lifetime Allowance (LTA) would be frozen at £1,073,100 until April 5 2026. The LTA was expected to increase from April 2021 with the Consumer Price Index each year, as it has done since 2018.

What is the lifetime allowance (LTA)?

The LTA is the maximum amount of tax relieved pension savings an individual can build up over their lifetime across all of their pensions (but excluding the State Pension) without incurring the LTA charge.

Breaching the lifetime allowance incurs a tax charge on the excess.

The lifetime allowance applies to all UK registered pension schemes

The lifetime allowance applies to the total of all the pensions you have, including the value of pensions promised through any defined benefit schemes you belong to, but excluding your State Pension.

Charges if you exceed the lifetime allowance

If the cumulative value of the payments from your pension pots, including the value of the pay outs from any defined benefit schemes, exceed the lifetime allowance, there will be tax on the excess – called the lifetime allowance charge.

The way the charge applies depends on whether you receive the money from your pension as a lump sum or as part of regular retirement income.

Protection from the lifetime allowance charge

Two forms of protection, fixed protection 2016 and individual protection 2016 were introduced on 6 April 2016. They were introduced when the lifetime allowance reduced to £1 million. These schemes may help you avoid unnecessary additional tax charges.

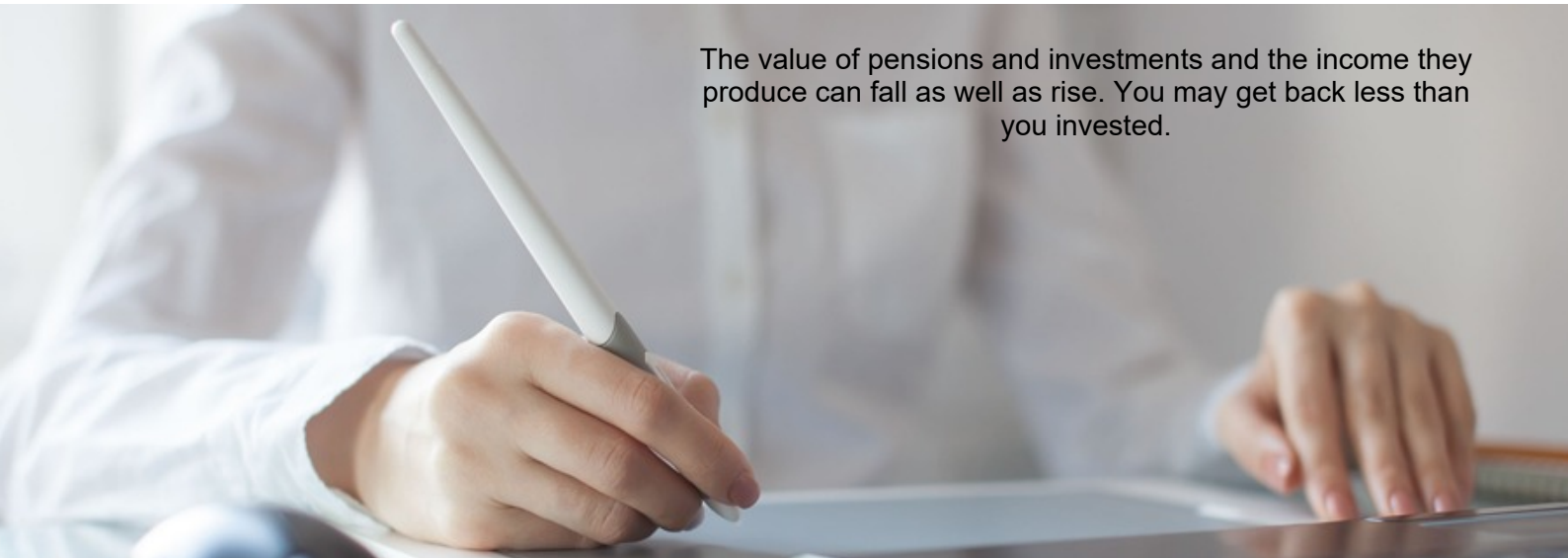
What to consider if you're close to or over the LTA.

The freeze may once again see many with substantial pension funds both reviewing the benefits of continuing to make further contributions and for those over the minimum retirement age, reconsidering whether they should crystallise their pension sooner rather than later.

A personal pension becomes a 'crystallised pension' as soon as you start to access your benefits or, if sooner, on your death before age 75 or on reaching age 75 and start taking your retirement benefits. You can crystallise your pension from the age of 55 and can access your crystallised pension via drawdown, an annuity, UFPLS or scheme pension.

To crystallise your pension you must be aged 55 or older, or meet strict conditions for accessing your pension early. You can choose to crystallise your defined contribution or personal pension anytime from the age of 55.

The best course of action will depend on your individual circumstances and we would certainly recommend seeking professional advice if you are in this position.



The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than you invested.

September - the first income protection awareness week

September marked the first Income Protection Awareness Week (by Income Protection Task Force).

Do you have your bases covered when it comes to losing a salary?

Income protection is an insurance policy that covers you in case you lose income for any medical reason. It's valuable cover to have in place if you want peace of mind that you'll always have money coming in, even if you can't work.

If you can't work because you've had an accident, fallen sick. Income protection insurance can pay an agreed portion of your salary each month. You can then use the money to cover debt repayment, bills and other costs.

It can be of particular importance if your employer doesn't offer sick pay, you're self-employed, you're the main earner or you have little savings.

How much does income protection cost?

Income protection will pay out a regular income if you're too ill or injured to work until you can return, retire, or the policy ends. It can be difficult to put a value on that, but often income protection is cheaper than you think.

The price of income protection is based on a combination of the cover you buy and several other factors relating to you. There are many variables to choose from when buying income protection cover, all of which can affect the cost – including:

- How much cover you buy
- How long you're insured for
- Length of cover (full-term or short-term)

Key Points:

- Income protection covers you if you lose your income for any medical reasons
- The price of income protection will be different per person because it depends on the cover you buy and how much of a risk you are to insure
- Your age, health, occupation and lifestyle all contribute to the cost of income protection
- Having a health condition or a risky hobby or occupation can make it more expensive to get covered.

Whether you are single or you have a small army of dependents, if you are suddenly unable to work, your income could disappear. Whilst many of us cover our lives, we often forget about our income.

Generally, these plans have no cash in value at any time and will cease at the end of the term. If premiums are not maintained, then cover will lapse.
The definitions vary between product providers and will be described in the key features and policy document, if you go ahead with the plan.

Savings tips to beat those low rates

Even though savings rates are relatively low, it can still be important to save knowing that you're prepared for a financial emergency which can take a huge weight off your shoulders.

There's no easy way to predict the future and the costs it may bring with it. From your boiler breaking down, a car to replace to an extra holiday.

Put money away each month

There are some accounts offering better rates than others.

Some of the best interest rates can be found with regular savings accounts, where you put aside money each month. Some of these accounts also offer other incentives like prize draws.

Keep your savings in a separate account

It might seem silly but by keeping your savings and spending money separate, you might be less likely to dip into your money for everyday treats and go over budget.

Cancel direct debits

Check your bank statement and go through all your existing direct debits. Perhaps reconsider things you no longer use like Netflix, a magazine subscription or a gym membership. Over time small regular amounts of money can add up.

Kids get great rates

The interest rates on children's accounts are often much better than those on adult accounts.

Junior cash ISAs often pay good rates, too. These are long-term, tax-free accounts into which you can put up to £9,000 each tax year on behalf of a child under 18 living in the UK. If the child already has a child trust fund (CTF), the CTF must be transferred to a JISA and closed first before being eligible to subscribe to a JISA.

Shop around or fix your rate for a better return

Some of the best interest rates are offered by fixed-rate savings accounts, where you often need to tie up your money for a year or more.

These deals come and go, so keep a close eye on the tables on Moneyfacts's to see who is offering what.

https://moneyfacts.co.uk/savings-accounts/

Make use of government top-ups

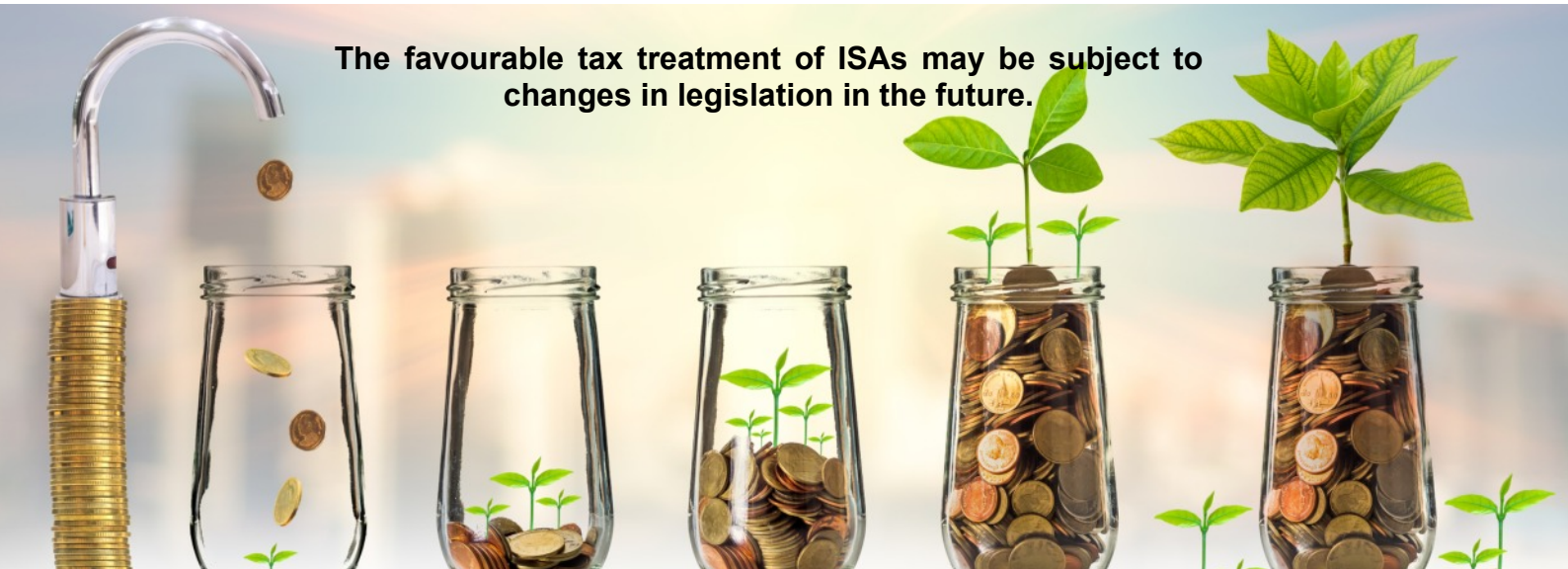
The lifetime ISA lets people save for either a first time property purchase or retirement. You can put away up to £4,000 each year until you are 50, and the government will add a 25% bonus to your savings, up to a maximum of £1,000 a year.

Use your personal savings allowance

Your personal savings allowance (PSA) is a **tax-free allowance** that lets you earn interest on your savings without paying tax on that interest. The allowance you get depends on what rate of income tax you pay: Basic-rate (20%) taxpayers: can earn £1,000 in savings interest per year with no tax.

Don't forget about Cash ISAs

Individual Savings Accounts (ISAs) continue to provide a tax-free shelter for your savings. Your annual ISA allowance for 2021-22 is £20,000.



The favourable tax treatment of ISAs may be subject to changes in legislation in the future.

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