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Investor / Saver

Neil Woodford: two years on

Two years after the collapse of Neil Woodford's Equity Income fund, and with 300,000 investors still awaiting answers from the regulator despite being set to lose £1bn from its liquidation, industry commentators are calling for a solution to be found sooner rather than later in order to reinstate the public's faith in financial services. The Financial Conduct Authority (FCA) launched an enforcement probe in June 2019, but it recently admitted to the Treasury Select Committee this was unlikely to conclude until the end of this year, with no "precise timeline" for its outcome. Campaigner Gina Miller slammed the FCA's credibility as a fit-for-purpose regulator, calling for the watchdog to finish the statutory inquiry as soon as possible and then launch an independent investigation of its own regulatory "failures". The update from the FCA to the Treasury Select Committee indicates their investigation is likely to take three years to complete and, according to campaigners, does not cover its own regulatory role in this scandal, or that of Hargreaves Lansdown. According to the True and Fair Campaign, the last time the FCA made any referral to Woodford in its board minutes was October 2019. The FCA investigation is focused on the behaviour of Woodford and Link Fund Solutions, and whether they acted in the interests of all its investors by reducing the liquidity of the fund. Leigh Day, one of the law firms representing investors in the former fund, said that the FCA does not operate to the strict deadlines imposed by a court timetable in a litigated case, making it possible that a court judgment may be obtained before the FCA finally concludes its investigation. But it noted that as the investigation drags on, investors are suffering.

All

Towards a classless society

Worldpay's Global Payments report 2021 claims that cash payments in UK shops in 2020 made up 13.4% of total payments, down from 27.4% in 2019. By 2024, it predicts, they will be down to just 6.9%. By the same year it will be down to just 0.4% in Sweden. The Bank of England's statistics for the number of banknotes in circulation tell a somewhat different story to Worldpay's report: they have surged by 14% over the past 12 months, from £70.2 billion worth to £80.0 billion. Far from dumping cash in response to the pandemic we are hoarding more of it than ever – and Covid seems to have accelerated the rate at which we are stashing it away. Why? There was a similar upwards jerk in the quantity of cash in circulation during the financial crisis of 2007/08. That is perhaps to be expected: in times of financial crisis, some people start to lose confidence in banks and other financial institutions, and start to see cash as a relatively safe option. Those fears have only increased as a result of the bank bailouts just over a decade ago. If we really did surrender our right to use cash, the option of protecting ourselves in this way would be gone. We would be forced to keep our money in electronic form and to pay whatever charges the payments industry fancied charging us, given that they would no longer have to compete with the free option of using cash. And that's just the half of it – we would face a future in which a handful of corporations had the power to cut us off from the right to spend money at all. We would also face a future in which central banks could attempt to control the economy by means of negative interest rates – something which they would struggle to do at the moment, as savers could respond by withdrawing their savings and keeping it in cash. Many people can see these arguments against a cashless society and will not give up the right to use cash willingly. The banknotes statistics show the scale of potential resistance. Yet there remains a big threat to cash: inflation. It is one thing to keep a large quantity of cash stashed beneath the mattress when its real value is diminishing by less than one per cent a year, but what if the buying power of a £20 note was being eroded to the tune of five percent a year? – something that could happen given building inflationary pressures.

Property Owner

House prices set to keep on rising

House prices are likely to continue rising for some time despite hitting a new record high in May, one of Britain's biggest mortgage lenders has said. The monthly snapshot of the property market from Halifax showed a 1.3% jump in the cost of a home in May, taking the average selling price to a record £261,743 as homebuyers raced to complete purchases before the stamp duty holiday begins to run down at the end of this month. Halifax said almost £22,000 had been added to the average house price since May 2020, when the UK experienced the first easing of national lockdown restrictions, and the gradual reopening of the housing market after a temporary freeze. It marks a 9.5% annual increase, the fastest rate of growth in seven years. The report echoes similar findings from a survey by Nationwide last week, which showed prices rising 10.9% year on year, the fastest rate since August 2014. Commentators note that, heading into the traditionally busy summer period, market activity continues to be boosted by the government's stamp duty holiday, with prospective buyers racing to complete purchases in time to benefit from the maximum tax break ahead of June's deadline, after which there will be a phased return to full rates. Prices could continue to rise after the end of June, given that some Britons had built up "unexpected" savings during lockdown that could now be used to fund larger deposits on bigger properties. That is on top of a fundamental shift in the kind of homes that buyers are looking for in light of the pandemic, which has ushered in a home working boom and fuelled interest in larger homes with gardens and outside city centres. These trends, coupled with growing confidence in a more rapid recovery in economic activity if restrictions continue to be eased, are likely to support house prices for some time to come, particularly given the continued shortage of properties for sale.

Property Owner

Home movers overtake first time buyers

The proportion of first-time buyers has risen over the last decade and outnumbered movers in 2019, according to research by property listings site Zoopla. However, this trend is set to reverse in 2020 and through to the beginning of 2021 because of the impact of Covid-19. Demand from first-time buyers cooled in June, correlating with mass withdrawal of higher LTV mortgages from the market, Zoopla found. At the same time, demand from existing homeowners is 37% above pre-Covid levels. The search for space, a "once in a lifetime re-valuation of what a home is worth" and the stamp duty holiday have helped push homeowners into moving, according to Zoopla. And a large portion of existing home owners have either no mortgage or smaller loans so affordability is less of a barrier than for first-time buyers. The divergence between the two groups is most prominent in the South East, Scotland and the South West. The activity from movers is stimulating more supply which is coming to market at higher prices, according to Zoopla. House prices are up 2.6% year on year, up from one per cent a year ago, with sales agreed running three per cent above those achieved in 2019. Zoopla predicted another spike in the property market in line with an increase in coronavirus cases and tightened social restrictions from the government. Housing market conditions remain strong as new restrictions are introduced to control the spread of Covid.

These changes are likely to continue to support housing demand in the near term as the importance of the home grows. However, the housing market will not remain immune to the impacts of weaker economic growth and rising unemployment. Experts believe a change in the mix of buyers is supporting market conditions with sustained demand from equity rich existing owners seeking more space and a change in location. In contrast, first-time buyer demand is weakening. First time buyers have been a driving force of housing sales over the last decade. They remain a key buyer group but lower availability of higher loan to value mortgages and increased movement by existing home-owners means a shift in the mix of home buyers into 2021.

Investor / Saver / Retired

How much for a comfortable retirement?

Couples typically need £26,000 and single people need £19,000 a year for a comfortable retirement, new research reveals. This amount would cover essential bills plus regular short haul holidays, leisure activities, alcohol and charity giving. A couple would have to save private pensions worth £154,700 between them to hit their retirement target, while an individual would need to build a pot worth £192,290, according to the study by consumer group Which? That is based on people investing their pension at 65 and drawing it down over 20 years, with investment growth of 3%, inflation at 1% and charges of 0.75%. A single person needs to save much more into private pensions to account for only having one state pension, and only benefiting from one tax-free personal allowance. The amount of savings required is also much higher if you want your income to be guaranteed until you die, by buying an annuity rather than relying on stock market returns, which can be very volatile. A couple would need combined savings of £265,420 to buy an annuity at 65, not including inflation and paying 50% to the surviving partner, to help them generate the target sum. An individual would require a pot worth £305,710 to buy an annuity that helped them reach their target income. People need to save even more for a luxurious retirement, defined by Which? as including long haul holidays to farther flung destinations, health club membership, expensive meals out and a new car every five years. Couples need £41,000 a year to achieve this kind of lifestyle, while single people need £31,000.

All

What next for the economic recovery?

The fastest monthly growth of the services sector since 1997 and a fall in the number of workers on furlough signalled that the UK's recovery from the coronavirus crisis remained on track in May, as lockdown restrictions were relaxed across all four nations of the UK. A steep fall in unemployment claims in the US and new data showing an acceleration in the recovery across Europe also indicated that the Covid-19 vaccination programmes across the developed world were helping drive a rebound in economic activity. However, the improved economic situation failed to ignite financial markets after analysts cited concerns about the potential for the boom to peter out due to severe constraints on essential supplies and a lack of skilled workers. There are still so many factors for investors to weigh, such as whether the economy will overheat or whether new Covid variants could prompt a further economic downturn. There is also an element of having to second guess how central banks and governments will respond to the rapidly shifting backdrop. All of this uncertainty is making it tricky for the markets to make concerted progress as we move towards the halfway point of 2021. In its monthly snapshot, IHS Markit and the Chartered Institute of Procurement and Supply (CIPS) reported the biggest surge in UK business and consumer spending in May in the services sector for the last 25 years. Employers reported the strongest rate of hiring for more than six years amid a spring boom in the economy, which follows the worst recession for more than 300 years in 2020. The monthly survey of businesses in the sector that includes hotels, restaurants, finance and IT showed mounting pressure on staff wage bills, raw materials and transport fuelled the steepest rise in costs since July 2008. The IHS Markit/CIPS purchasing managers' index (PMI) – a closely watched gauge of activity in the services sector, which is responsible for almost 80% of the UK's national output – increased to 62.9 in May, up from 61.0 in April. Any reading above 50 denotes that the sector is expanding. The snapshot comes as employers sound the alarm over staff shortages exacerbated by the pandemic and Brexit, as fewer EU workers travel to Britain to find a job. Separate figures from HMRC showed that 1.3 million fewer workers accessed the furlough scheme in March and April, as hiring picked up with employers preparing for the reopening of the economy. According to the tax records, 3.4 million employees remained on furlough at the end of April. Rishi Sunak said the figures showed the government's programme of job support was working.

Investor / Saver / Retired

State pension underpayments scandal

The state pension has been underpaid for an estimated 200,000 women, and Britons are being urged to check their entitlement. State Pension payments are understandably important to millions of people right across the UK as a source of income in retirement, however, due to an error at the Department for Work and Pensions (DWP), thousands of women may find they have been underpaid their entitlement. The issue arises for those claiming the old state pension due to rules about how much a woman could receive. Under the system, married women who were looking at a limited state pension in their own right were permitted to claim a 60% basic state pension sum. This was based on the National Insurance record of their husband at the time. Women were only allowed to undertake this action, however, if the sum was bigger than the state pension they would have received based on their own National Insurance record. An uplift to the state pension sum should have been applied automatically since March 2008. However, due to a system error, in certain circumstances some women did not have this increase automatically applied. Individuals retiring before this date needed to make what is being described as a "second claim" to uplift their state pension sum. These women will have needed to take action, however, the DWP stated it wrote to those affected telling them what they could do next. Issues, however, arose when certain women stated they received no such correspondence and were thus left out of the loop. Women who have been impacted will have missed out on potentially years of higher state pension payments. However, another issue is arising for women which is causing further strain. Under present rules, individuals can only get backdated payments for the boosted state pension sum for 12 months. This means many have missed the opportunity to receive years of contributions. Rectifying the issue, though, is likely to provide significant peace of mind to the female state pensioners who have been impacted. The DWP is now taking action to reach out to those individuals who may have been hit by the error. However, experts such as former pensions minister Sir Steve Webb have urged women to take action by contacting the DWP if they feel they have been affected.

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