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Financial Review

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A new style retirement for changing times?



Inside...

Income protection

The simple safety net for your peace of mind

Inflation returns

The potential impact of rising prices on your investments

No fault divorce

Revisions to divorce law smooth the process in 2022

Dilemmas of the pension triple lock

Next April's potential increases to state pensions create a dilemma for the Chancellor.

What percentage increase will apply to state pensions in 2022? For the last ten years, the triple lock has protected the old basic state pension and the new state pension, meaning the increase is the highest of the CPI change to September, earnings growth or 2.5%. However, the triple lock is not law: the statutory rules simply link rises to earnings growth.

Measuring earnings growth

Even that is not straightforward, because the method of measuring earnings growth is left for the Secretary of State at the Department for Work and Pensions to determine. The practice to date has been to use the year-on-year increase in average weekly earnings (including bonuses) in the May-July period. In 2020 the pandemic produced a 1.0% drop in earnings.

As the UK economy has recovered, earnings have rebounded. Some of the rise is a statistical quirk, but the net result is dramatic. The latest (April-June) annual rise was no less than 8.8%.

If that is applied to the basic and new state pensions, the Treasury must find over £4bn extra a year according to some estimates.

Moving towards change

Unsurprisingly, there are press reports of differences in government on what action to take. The Prime Minister is said to be reluctant to renege on his manifesto pledge. For the Chancellor, the extra £4bn would cancel out the savings on the controversial foreign aid cut. Mr Sunak may also be assessing a golden opportunity to reform the triple lock, which many economists have criticised as an overly generous provision.

You can check a forecast of your expected state pension on www.gov.uk/check-state-pension. If Mr Johnson wins the argument - a big if - then the new state pension will rise to about £194 a week from next April. Still a long way from enough for a comfortable retirement...

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