Insight

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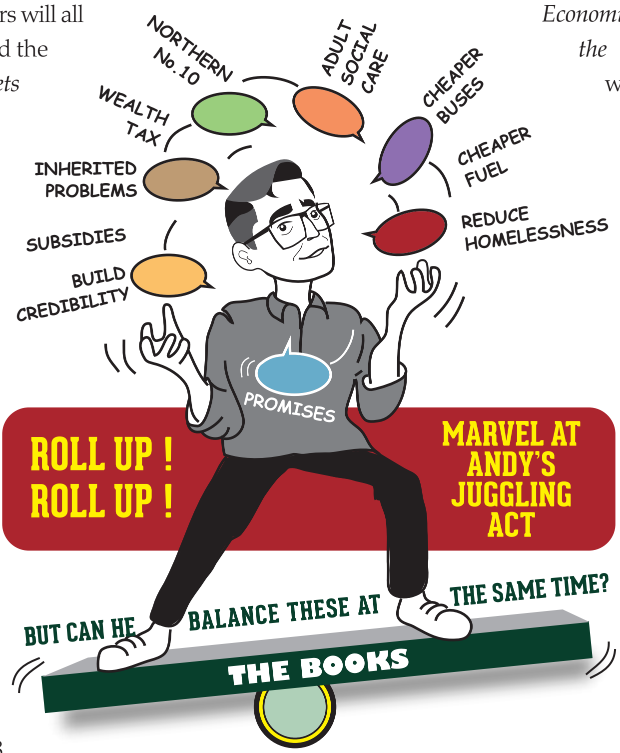
Key issues in personal financial planning **August 2026**

New Government

***Andy Burnham** has become the UK's seventh prime minister in a decade. For savers and investors, a new administration brings yet another wave of uncertainty. The books need to be balanced, and the government needs to prove its credibility with markets.*

The incoming administration faces all the same financial challenges that dogged the ***Keir Starmer*** government. Borrowing is high and bond markets are febrile. Any hint that the incoming government will not respect the fiscal rules is likely to see borrowing costs rise. Taxes have already risen significantly, with the tax burden at its highest in a generation. Yet any hint at addressing some of the largest cost centres ~ such as welfare spending ~ could prompt a rebellion from the back benches.

Homeowners, small businesses and investors will all want reassurance that Burnham has learned the lessons of his predecessors ~ *that bond markets are not to be trifled with*. The UK can ill-afford a repeat of the ***Liz Truss*** episode. It continues to be punished by global investors with higher debt costs than many of its international peers, and a second bout of fiscal irresponsibility may create a significant crisis.



The second concern is that Burnham sticks to the fiscal rules, but only by raising taxes. Many savers, investors and property owners will feel that they have already been clobbered by the previous Chancellor and can ill-afford a second round of tax rises. *Burnham has refused to rule out a wealth tax*. There is already a de faqto wealth tax coming down the line with properties over £2m due to pay a *'High Value Council Tax Surcharge'* from April 2028.

Burnham has committed not to raise any of the major taxes ~ income tax, corporation tax, VAT and NI ~ in line with the 2024 Labour manifesto. However, this means that to raise any money, he has to tinker around with capital taxes, including those on property and investment. Inevitably, this increases uncertainty, particularly for those that rely on savings and investment to create an income.

Tom Selby, director of public policy at ***AJ Bell***, says: *"Reeves recognised that markets don't like uncertainty and was able to offer bond vigilantes a modicum of reassurance about government spending plans by sticking to her self-imposed fiscal rules, but she failed to recognise that uncertainty is the enemy of ordinary Brits too, who struggle to make plans for the future with confidence if they don't have certainty the goalposts won't be moved."*

Unhelpful uncertainty around the recent budgets has already prompted some wealth-destructive behaviour. For example, fevered speculation about possible cuts to the tax-free allowance on pensions pushed some retirees to cash in more of their pension than was prudent, leaving them with higher tax bills. Most UK savers and investors could do without more pre-budget speculation from September onwards.

The positive news it that the appointment of ***John Healey*** as *Chancellor* suggests that Burnham is taking fiscal responsibility seriously. Healey is seen as a safe pair of hands, a pragmatist rather than an ideologue. His has experience as both *Economic Secretary* and *Financial Secretary to the Treasury* in the New Labour era, which suggests he understands the importance of market confidence and that spending needs to be backed by funding.

Gilt markets have been relatively calm in response to the Chancellor's appointment, with the renewed war in Iran exerting a great influence on yields. The pound is up a little. Nevertheless, there remains a nervousness in bond markets that Healey will need to manage

Burnham who has also made a lot of spending commitments already. He has announced a cut in VAT on fuel bills, designed to help households with the cost of living. He has also promised subsidies for transport, while also needing to find money for defence, infrastructure and housing. There is some fiscal headroom left by ***Rachel Reeves***, but a lot of that could be removed if the ongoing conflict in the Middle East lifts oil prices and inflation.

The new government inherits the same thorny fiscal situation as its predecessor and is unlikely to find any magic bullets to address it. The solutions may require more time and political capital than Andy Burnham has in his arsenal.

For investors, the best hope is stability of policy and no nasty surprises in the upcoming budget.

FORGET A NATION OF SHOPKEEPERS, THE UK IS A NATION OF PROPERTY OWNERS.
Around two-thirds of Brits are property owners. This is far higher than in, say, Germany where rates are below 50%. However, property ownership among younger generations is dropping as affordability concerns mount.

Property remains popular as a source of retirement wealth. Over half of all private landlords in the UK are using property as part of their retirement planning. Small scale landlords form about a quarter of the total. They consider their properties as long-term investments to contribute to their retirement income.

Many people like the tangibility of property. If it all goes wrong, at least they can live in it. This can give it an edge over, for example, stock market investments, which can seem theoretical. At the same time, rental increases have been relatively buoyant in recent years, which has kept income rising ahead of inflation for most people.

However, there is no question that the maths has changed. Tax changes have made it less efficient to own buy to let property, particularly the ability to offset mortgage interest. At the same time, the UK's stagnant property market has limited the capital appreciation for many landlords and changed their long-term calculations.

Schroders data shows that property does not stack up well in terms of returns. In the five years to the end of 2025, UK house price growth was 3.3% a year. That puts it below inflation (at 5.1% a year) and significantly below global equity prices, which were up 10.9% a year in sterling terms. That rises to 13% a year in total returns if dividends are included. House price gains have been even weaker in some areas, notably London.

That said, it could be argued that the statistics have been distorted by a very weak period in the property market. The market was dented by a significant hike in interest rates in 2022. It has also been a very strong period in stock markets, where the technology sector has seen unusually large gains.

Long Term Weakness

However, ***Schroders*** data finds that a similar disparity is evident over the longer-term as well. Over the last 20 years, the value of the average UK property has only managed to roughly rise in line with inflation, while global equities are 7.3% p.a. ahead of inflation over the same period (including dividends). It says: *"Based on these numbers, in cumulative terms, a property worth £100,000 in 2005 is now worth £103,000 in inflation-adjusted terms. £100,000 in global equities is worth £410,000. In nominal terms, your £100,000 house would be worth £182,000 but your stocks would be worth £728,000 (£450,000 if dividends are excluded from the calculation)."* This sounds bad, but it doesn't include rental income. Rental growth has been relatively strong and average gross rental yields at 6% (over 20 years) are higher than the yield on stock markets. That said, there will be expenses associated with rental income ~ such as estate agent fees ~ that does not exist for dividends.

Liquidity

Another problem is the lack of liquidity and tax wrappers. Property cannot be put in an ISA or SIPP, leaving all income and gains fully exposed to tax. Even for unwrapped stock market investments, they can be sold in segments to maximise capital gains tax allowances. This isn't an option with property investment.

Property cannot be readily sold to raise capital. For many owners, the only option would be to remortgage to release equity, but this also has associated costs and can be an expensive option over time.

A final consideration for property is that risk is concentrated. Average growth statistics can mask the fact that an investor can pick the wrong property in the wrong area and make nothing at all. Even in central London, property has not been a route to riches in recent years. Property ownership comes with huge upfront costs, including stamp duty, legal fees and ongoing maintenance.

Schroders says that stock market investment has generally proved safer than property ownership over time. *"Since 1969, five-year average UK house price growth has exceeded inflation 71% of the time. Pretty good. But global equities have done it 77% of the time. Switch to 10-year periods and house prices have beaten inflation 85% of the time but stocks 87%."*

Property is not always as 'safe as houses'.

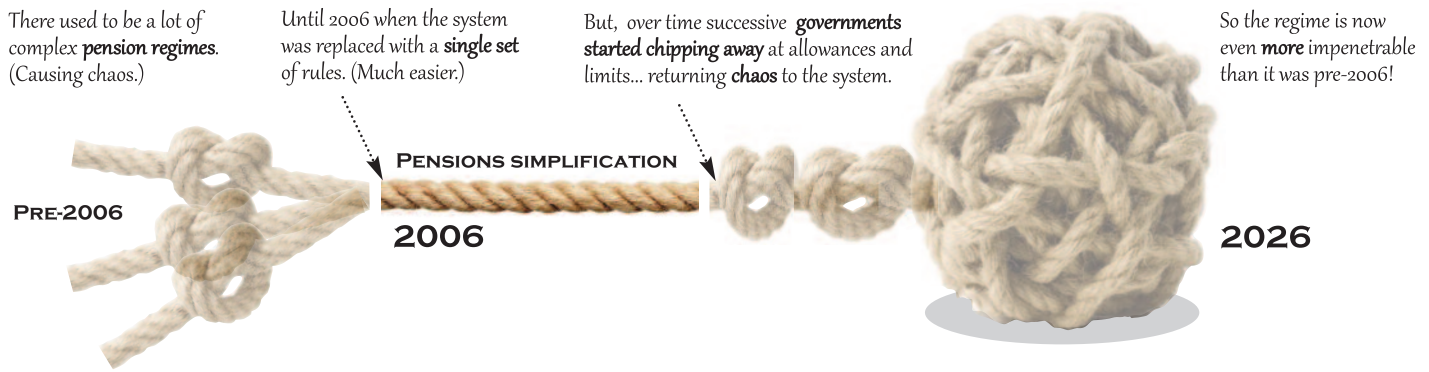
PENSION SIMPLIFICATION?

*Twenty years ago, policymakers promised '**pensions simplification**', introducing a new, straightforward framework designed to ease the burden of retirement planning. That ambition was worthy at the time but has been thwarted by successive governments who have added layer upon layer of complexity. Today, the pensions' regime is, if anything, more impenetrable than it was prior to the simplification initiative.*

Pension simplification was introduced on 6 April 2006 *(A-Day)*. It replaced a series of complicated pension regimes, each with different tax rules, limits and HMRC approval requirements. The new framework created a single set of rules.

However, pension benefits are expensive at a time when governments are strapped for cash. Successive governments have sought to chip away at pension allowances and shift limits to help balance the books. Each time they have done so, it has created complex transitional provisions and anti-avoidance rules.

That said, important elements have remained in place. Despite rumours ahead of every Budget, the tax relief on pension contributions has remained in place, up to the top rate of 45%, alongside the 25% tax-free cash. This has ensured pensions remain the most tax efficient way of saving for retirement. For most people, it will still beat an ISA.



Even though pensions can be a knotty problem to solve, for most people they are still the best place to save for retirement

CHANGES OVER TIME

Nevertheless, there have been myriad changes over the 20 years since pensions simplification. The annual allowance has changed frequently, as has the lifetime allowance ~ the amount investors can save into a pension without being charged additional tax. The lifetime allowance was eventually abolished in 2024, to be replaced with two new allowances ~ the lump sum allowance (LSA) and the lump sum and death benefit allowance (LSDBA).

This means there is no longer a lifetime allowance charge however large a pot grows. Instead, the Chancellor has chosen to limit the tax-free cash that can be taken at retirement. This is capped at the new LSA ~ currently £268,275 *(25% of the old LTA).*

INHERITANCE TAX TREATMENT

The other main change has been to the inheritance tax treatment of pensions. The rules had been generous since 2015 when the tax charge on lump sums from crystallised funds was removed for deaths under 75, as was income tax on pension income via drawdown or annuity. The restriction for income to be paid only to dependants was also removed.

This opened an opportunity for wealthier individuals to consider their pension as a wealth transfer vehicle for their wider family. However, these benefits were controversially abandoned by Chancellor Rachel Reeves from April 2027. From 6 April 2027, most unused pension funds will be included in the deceased's estate when calculating IHT. IHT will be payable on the pension unless there is sufficient IHT nil rate band available to set against the unused funds.

This will have to be factored into any long-term financial planning. It may be more beneficial to secure an annuity, for example, and make potentially tax-free gifts to family out of income. It can also be worth leaving more to a spouse or civil partner. Fortunately, pensions can still be used flexibly. Retirees have the choice of annuities, drawdown or a blend of the two.

For deaths before age 75, there will not normally be any income tax to pay for beneficiaries, but for deaths after age 75, there could be both IHT to pay on unused pension funds and income tax to pay on amounts taken by a beneficiary, an effective rate of 64% for a higher rate taxpayer. Any planning needs to mitigate the risk of this 'double-whammy'.

AGES

Retirement ages have also changed. Pension savings can be accessed from the normal minimum pension age, currently age 55, although some clients may be able to take benefits earlier if they have a protected pension age. This is set to rise to age 57 from April 2028. The state pension age continues to rise, with those in their fifties having to wait until they are 67 to receive it.

Twenty years on, pensions remain the best place to save for retirement for most people. The exposure to IHT from next year may influence estate planning in the future, and this will add another layer of complexity. When it comes to pensions, simplification remains a worthy ambition, but still elusive.

NEW WINNERS FROM AI?

*The stock market has decided that AI winners will be a handful of large capitalisation technology companies. However, as the new technology builds momentum, there are a range of other areas that are likely to be beneficiaries. Fund management group **Man** highlights an overlooked industrial area, crucial to solving AI's next infrastructure challenge.*

Investors will be well-aware of the bottlenecks in the build-out of AI infrastructure. Semiconductors and memory companies have seen huge share price gains this year on the back of vast capital spending programmes from US technology giants such as ***Meta***, ***Microsoft*** and ***Alphabet***.

However, there are other, less high profile, bottlenecks. In particular, ***Man*** highlights constraints with the physical wiring connecting AI processors.

It says: *"Overcoming this bottleneck requires a fundamental shift in hardware, creating an opening for the European industrial specialists that manufacture the necessary components required to enable the next generation of architecture."*

Training AI models requires over a million chips to work in harmony, constantly exchanging data with each other. It is a vast undertaking, costing billions of dollars. That cost increases all the time, as the models become more sophisticated.

This inter-dependency means that failures can multiply. A million-chip cluster experiences a hardware failure roughly every three minutes. This is expensive for companies that are training the models.

The network can also become a bottleneck. ***Man*** says that the consensus appears to be that about 80% of data centre traffic is now chips talking to each other. Congestion in the system means processors can sit idle for 20% to 30% of the time, waiting for data. Again, the cost is significant. There are also significant energy costs ~ network switching alone can consume around 15% of total data-centre power.

The industry calls the constraints that this brings about *'the copper wall'*. ***Man*** says: *"At the fastest speeds currently being deployed (1.6 terabits per second), copper wiring can no longer carry signals between server racks. At the next generation of speeds, it cannot reliably span even a single rack, and no software update will be able to fix this."*

Nevertheless, there are solutions ~ using optical interconnectors rather than electrical interconnectors ~ these transmit data as light rather than electricity. This addresses all three problems simultaneously. Optical circuit switches redirect light between fibres to manage data-centre traffic. Both technologies are now moving from pilot projects to full-scale procurement by the hyperscalers. It promises to be a huge market.

Man suggests it could grow to over $90 billion by 2030, an annual growth rate of around 40%. To date, Europe has been a laggard in the AI revolution, but there are European companies making this possible.

These include groups such as Switzerland's ***Huber+Suhner***, the UK's ***Oxford Instruments*** and Germany's ***Aixtron***, who all make optical switches, laser fabrication equipment and crystal growth reactors which sit at critical points in this supply chain. The technology know-how to do this has been built up over decades and is difficult for new groups to replicate.

The physical limits of copper wiring are forcing a redesign of data centre architecture. The European industrial companies supplying the infrastructure that makes it all work have been overlooked in the wider excitement about AI.

EXAM SUCCESS

At Churchill, we are delighted to see our team members continue to pursue their professional development. We have had a number of recent exam successes. Jordan has passed AF4 (Investment Planning), an Advanced Diploma examination and part of the route towards Chartered Financial Planner status. The Advanced Diploma builds on the core Diploma qualification and focuses on more complex areas of financial planning.

Charlie has also made strong progress since joining the team last year, passing R01, R02 and R05 as part of the Diploma in Financial Planning. These examinations cover financial services regulation, investment principles and financial protection. We congratulate Jordan and Charlie on their progress and look forward to supporting them as they continue their studies.

FOR FURTHER INFORMATION

Our website **www.churchillinvestments.co.uk** contains our regular newsletter *Insight* and other publications and articles of interest.

Churchill Investments plc was incorporated on 13th November 1995.

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