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WEALTH KNOWLEDGE

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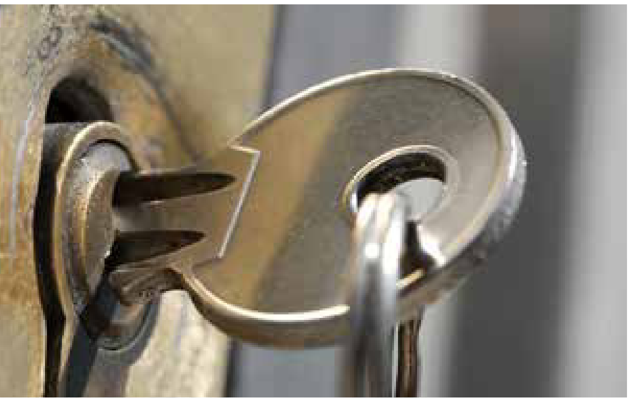

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Most savers opting to take pension lump sums

Nearly three quarters (72%) of pension pots have been accessed by savers under the age of 65, according to a new study.

The Financial Conduct Authority (FCA) polled 1,000 people and found 53% of pots accessed had been fully withdrawn, although 90% of those were worth less than £30,000.

94% who withdrew their full pension pots had other sources of income in addition to the state pension.

Over half (52%) of fully withdrawn pots were either reinvested or moved to other savings, while income drawdown proved two-times more popular than annuities.

However, the following issues emerged:

- people withdrew their full pots because they do not trust pensions
- those who withdrew their pots did so without expert advice
- providers are leaving the open annuity market – bringing risk of weakened competition.

Christopher Woolard, executive director of strategy and competition at the FCA, said:

“We have identified areas where early intervention may be needed either now or further down the track to put the market on the best footing for the future.

“Ensuring this market works well will require cooperation across government, regulators, the industry and consumer bodies.”

Potential solutions

The FCA has proposed the following measures to address some of the issues in the market:

- additional protection for people who buy drawdown without advice
- improving competition
- more tools and services to help consumers understand the options available.

Contact us to discuss your savings strategy.

Help to Buy benefits better-off buyers

Three in five first-time buyers are taking advantage of the Help to Buy scheme to purchase a more expensive property than they initially planned, a study has claimed.

Research from the Social Mobility Commission (SMC) found those benefitting from the scheme were earning one-and-a-half times more than the national working age average income.

The average income for individuals who used the Help to Buy scheme was £41,323 – just £6,205 lower than other first-time buyers who did not benefit from the initiative.

The findings prompted fears from the SMC that flagship government housing schemes are failing to help people on lower incomes and exacerbating inequality.

Alan Milburn, chairman of the SMC, said:

"While it is welcome that the government is acting to help young people get on the housing ladder, current schemes are doing far too little to help those on low incomes to become homeowners.

"Changes to the existing schemes are needed if they are to do more to help more lower-income young people and families become owner-occupiers."

Equity Loans

There are several options to stretch your money further when attempting to get on the property ladder.

An equity loan is one such option which can help you secure a home with 5% deposit and a 75% mortgage to make up the rest.

You can borrow 20% of the purchase price interest-free for the first five years, although the property you're buying must be newly built and worth less than £600,000.

Get in touch to discuss your financial planning.

Landlords affected by mortgage interest relief changes

Landlords are feeling the effects of the recent tax changes to mortgage interest relief, according to the National Landlords Association (NLA).

Out of 754 landlords surveyed, 16% with one property said they will be pushed into a higher tax bracket – a 7% increase from Q4 2016.

The NLA estimates a landlord with a single home would need to increase rent by more than 11% – equating to £116 per month for the average rental property – to achieve the same yield from the property.

Research from the NLA claims individuals who only let out a single property represent 62% of the landlord population, suggesting around 1.5 million landlords could be affected.

Richard Lambert, chief executive officer at the NLA, said:

"Single property landlords are responsible for providing a huge proportion of the UK's private rented homes, and these findings show that, slowly, more and more are waking up to the fact their tax bills could be significantly higher in the coming years."

Changes to relief on finance costs on residential properties were brought in on 6 April 2017, restricting costs to the basic rate of income tax.

Costs include mortgage interest, interest on loans to buy furnishings and fees incurred when taking out or repaying mortgages.

Landlords will only be able to deduct a share of finance costs when calculating rental profits, with the following changes being phased in over the next three years.

Tax year	Percentage of costs deducted from profits	Percentage of costs available at basic rate reduction
2017/18	75%	25%
2018/19	50%	50%
2019/20	25%	75%
2020/21	0%	100%

Talk to us if these changes affect you.

Under-30s struggling with retirement savings

70% of under-30s are not saving enough to reach their ideal retirement income, a report from Scottish Widows has claimed.

Out of 5,314 adults surveyed, 56% started saving for retirement since auto-enrolment was introduced in 2012.

The report found those aged 22 to 29 were making average monthly contributions of £184 (including employer contributions), which equates to a combined annual pension pot of £15,200.

Scottish Widows estimates that this age group needs around £23,000 per year to achieve a comfortable retirement.

In order to achieve this, a person aged 25 would need to save £293 each month and someone aged 35 would need to put away £443 a month.

However, only 48% were committed to remaining enrolled when contribution levels increase from April 2018.

Catherine Stewart, retirement expert at Scottish Widows, said:

"Young people have many competing financial priorities which can make it difficult to save for the long term. However, it's also clear that there is a lack of awareness among young people about how much they should be saving to achieve the income they expect to need in retirement."

Call for change

Scottish Widows has called for the following changes to simplify auto-enrolment:

- removing the £10,000 per year threshold so low earners and part-time earners can benefit from the scheme
- 12% contribution level from employer and employee to save for retirement.

We can help with your retirement planning.