WEALTH KNOWLEDGE

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SAVERS WARNED OVER RAIDING PENSION TO INVEST IN PROPERTY

Retirement savers in their mid-40s and early 50s have been urged to think twice about accessing their pension to invest in buy-to-let property.

YouGov polled 2,014 over-45s on behalf of Royal London and found 15% of over-55s are considering investing in property to fund their retirement.

That percentage almost doubled to 29% for those approaching the age at which they can access their retirement savings.

Since April 2015, savers have had more choice when it comes to accessing their retirement savings through pension freedoms.

The first 25% of a pension can usually be taken as a tax-free lump sum from the age of 55, although anything above this percentage will attract income tax.

Royal London also claimed that investing in property could make these individuals liable for property taxes, such as stamp duty in England and Northern Ireland.

Fiona Hanrahan, business development manager at Royal London, said:

"Many retirees consider taking their pension as a lump sum to purchase a buy-to-let property.

"They risk being clobbered with tax to the extent they are unlikely to be able to afford the property they were hoping to buy.

"There is little understanding of how pension lump sums are taxed and people could find out too late and lose many thousands of pounds."

Seek expert advice before accessing your pension.

FCA REMOVES THE SHACKLES FOR 'MORTGAGE PRISONERS'

Homeowners who are trapped with expensive mortgages will be allowed to switch to potentially cheaper loans under new rules.

The Financial Conduct Authority's (FCA) responsible lending rules aim to remove barriers that stop people from renegotiating.

Tighter lending standards have been in place since 2008, despite interest rates falling to – and remaining at – historic lows.

This led to some 'mortgage prisoners' paying interest way above the market rate, and being unable to afford new loans.

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

"Unaffordable borrowing is a cause of significant harm and mortgage prisoners are often stuck on more expensive loans.

"We have removed barriers to switching and we would like to see firms make changes to their own processes quickly in order that customers can benefit."

In response, UK Finance warned the FCA about managing expectations among those affected.

Jackie Bennett, director of mortgages at UK Finance, added:

"There is a risk that the changes could unduly raise expectations among some customers on reversion rates.

"This may include customers who are in negative equity, in current or recent arrears or on an interest-only mortgage with no repayment strategy."

Contact us about your personal finances.

LIFETIME ALLOWANCE INCREASE 'FAILS TO KEEP UP WITH EARNINGS INFLATION'

The lifetime allowance may be becoming less generous to pension savers, despite rising to £1.075 million for 2020/21.

At a time of political uncertainty and after the cancellation of Budget 2019, the lifetime allowance is one of the few figures set in stone for next April.

The 2020/21 threshold uses the consumer prices index rate of inflation from September, which was pegged at 1.7%.

The lifetime allowance for defined contribution pension savers should rise from £1.055m in 2019/20 to £1.075m for 2020/21, subject to rounding to the nearest £5,000.

This is the maximum amount people can put into their retirement savings without incurring a tax charge, usually of 25% or 55%.

While the lifetime allowance is on the increase, Aegon said the forthcoming hike is not in line with earnings inflation.

Steve Cameron, pensions director at Aegon, said:

"With wage growth remaining much higher than inflation, this means in earnings terms the lifetime allowance is becoming less and less generous.

"It is leaving more individuals, and not just particularly high earners, at serious risk of breaching the limit."

The £40,000 annual allowance that individuals can contribute towards their pension has been in the spotlight recently.

High net-worth individuals in NHS pension schemes have refused extra work or retired early to avoid exceeding the annual and lifetime allowances.

The Office for Tax Simplification recently published a report which called for a review into these pension allowances and the money purchase annual allowance.

Talk to us about planning your retirement.

STATE PENSION POISED FOR BIGGEST UPRATING SINCE 2012/13

Retirees are set to receive the highest increase to their state pension in eight years in 2020/21.

The state pension increases each year by whichever is the highest of average wage growth, the consumer prices index (CPI) rate of inflation or 2.5%.

With inflation coming in at 1.7% in September 2019, average earnings growth of 3.9% in July 2019 is the figure poised to be used to uprate next year's state pension.

This means a full new flat-rate state pension is expected to increase from £168.60 a week next April to £175.20, boosting retirees' coffers by £343.20 in 2020/21.

Those on the older basic state pension will see an increase from £129.20 a week to at least £134.25, an annual rise of £262.60.

A total of 30 qualifying years of national insurance contributions are required to receive the basic state pension, worth at least £6,980.48 in 2020/21.

Transitional arrangements apply to those with a national insurance record from before and after April 2016, when the flat-rate state pension was introduced.

The Department for Work and Pensions, however, said the state pension increase has to be approved by Parliament before it is officially confirmed.

With Parliament dissolved prior to the General Election on 12 December 2019, retirees have to wait to discover if they will get the biggest state pension increase since 2012/13.

Get in touch about the state pension.