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Investor / Saver / Retired

Rising cost of pension transfers

Fees paid by individuals transferring out of their defined benefit pension scheme have hit their highest levels since 2018, according to XPS, which warned savers could run out of money 10 years earlier as a result. XPS Pensions Group's annual member outcomes survey, published this month, found members transferring in the year to March 31, 2021, faced average total fees of 1.9% each year, including new product charges and ongoing financial advice. This is a 10% increase from the 1.7% charged the previous year and is the highest level seen since XPS's survey began four years ago. XPS said the increase came as transfer values rose significantly over the same period. It found the number of people transferring was 23% down on the previous year but the average transfer value paid increased by 29% to £375,000. The slowdown in transfer activity over the last 12 months is, perhaps, unsurprising since most of the year was spent in lockdown. Interestingly, it's been those with the largest values who have continued to transfer. This, together with the reduction in choice for members transferring, may explain why average charges have increased by 10% since last year. While commentators believe that an average total fee of 1.9% does seem slightly high, it, perhaps, reflects IFA firms needing to recuperate more ongoing costs in order to make the initial advice and red tape worth it.

Individual advice should always be sought before considering transferring out of a defined benefit pensions.

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Property Owner

The end of cheap mortgages?

Homeowners are being urged to consider locking in with a low fixed rate mortgage, as the price of home loans may soon surge. This is because the price of mortgages partly reflects Bank of England base rate - currently at record lows of 0.1%. When interest rates were slashed from 5.5% to 0.5% during the financial crash 13 years ago, many assumed that the drop would be temporary. The UK had never had a base rate so low, and because rates had fluctuated between 4% and 7% since the early 1990s, analysts and bankers alike assumed the central bank would increase the rate again within a few years. Due to the slow economic growth that followed, however, the Bank of England's base rate stuck at 0.5% for seven years before a small fluctuation and then dropped to a record low of 0.1% last year as the UK grappled with the coronavirus crisis. But Bank of England governor Andrew Bailey warned recently that this rate could rise next year to help offset rising inflation. Homeowners could potentially hedge against this by taking out a fixed-rate mortgage, while rates are low. When you come to the end of your fixed rate, you can go to a lender and request to fix a deal six months in advance. Being able to prepare and look at your options now is important.

Property Owner

House price rises

House prices registered the strongest monthly rise for 14 years in September, pushing the average cost of a home to a record high and reversing a three-month decline in annual growth. Halifax, one of the country's biggest mortgage lenders, said last month the average cost of a home rose by 1.7%, or £4,425, to £267,587. The previous peak was £263,162 recorded in August. The average house price is now as expensive as it ever has been. The annual rate of house price inflation rose to 7.4% from 7.2% in August, reversing a downward trend since hitting a peak of 9.6% in May. Prices are up by more than £18,000 since last September and close to £28,000 higher than last June when the housing market reopened after the first Covid lockdown. A number of factors are affecting house price growth, given that most mortgages agreed in September would not have completed before the government ended the stamp duty holiday in England. The 'race for space' as people changed their preferences and lifestyle choices undoubtedly had a major impact. Looking at price changes over the past year, prices for flats are up just 6.1%, compared with 8.9% for semi-detached properties and 8.8% for detached homes. Wales continues to experience the strongest house price inflation in any UK nation or region, climbing 11.5% in September to an average of £194,286. Scotland remains ahead of the national average at 8.3%, with an average house price of £188,525, while the Northern Ireland market rose 9.3% to £166,299. The south-west remains the hotspot in England, reporting 9.7% growth in September to an average of £276,226, as the trend towards more rural living in a more flexible and remote working environment continues. Greater London remains the nation's growth laggard with house prices rising just 1%, albeit with the highest average price in the UK at £510,515. It was the only region to record a fall over the last three-month period (0.1%). Halifax warned the market could soften in the coming months as cost of living rises and tax increases gave buyers pause for thought. However, low borrowing costs and an improving labour market could keep the market buoyant.

Investor / Saver

Growing demand for green investment trusts

Booming demand for green infrastructure investments has helped power a record run of fundraising for UK investment trusts, with managers breaking the previous annual record for capital raising in the first nine months of 2021. UK investment trusts have raised £8.7bn in secondary fundraising so far this year, according to the Association of Investment Companies (AIC), already surpassing the previous 12-month record of £7.4bn set in 2019. Trusts that invest in renewable energy infrastructure from wind farms to biogas and batteries pulled in the most cash, with more than £1.7bn raised, followed by other infrastructure-focused vehicles at £988m. Although fundraisings often tap institutional investors and wealth managers, there has also been a rise in direct retail participation as trusts throw open their offers to ordinary investors. The rapid pace of fundraising highlights the robust appetite for green-tinted investments, and how investment trusts have gained popularity as a vehicle to invest in alternative assets. Income-conscious investors are also lured by the attractive yields on offer in the sector, according to managers. Investment trusts, a category of UK investment vehicles that are structured as listed companies, have proved useful to investors looking to tap long-term assets such as infrastructure. The structure allows investors to enter or exit their positions in the trust via the stock market while the trust company holds the underlying assets for the longer-term. In contrast, mutual funds generally need to buy and sell underlying assets to facilitate investors' moves in and out of the fund, a set-up that makes it more difficult to back years-long projects such as battery storage, renewable power generation or energy efficient infrastructure. With the increasing trend for companies to remain private for longer it is likely that there will be continued demand for these types of investment trusts, commentators believe. As they are highly unlikely to be able to invest in these companies directly, one of the best ways to access these illiquid assets is through investment trusts.

Property Owner

Signs of recovery in London's higher-end property market

The latest market snapshot of prime London by estate agency Benham and Reeves shows demand up 5.8% annually for homes at £2m and above, and by 1.8% for the £10m-plus niche. The index analyses the ratio of homes listed as sold subject to contract, or under offer, as a percentage of all homes for sale across the prime London market; it then highlights where high-end homebuyer demand is at its strongest, as well as how this demand has changed. The agency says that although lockdown restrictions have all but disappeared, it is clear the pandemic is still influencing homebuyer preference. For £2m-plus homes, Wandsworth has seen the largest annual uplift in demand at 31.6%, while Wimbledon also ranks high with a 26.5%. Highgate has seen a 21.5% rise. Wapping, Putney, Islington, Fulham and Richmond are all above 10%. For the £10m-plus sector, Wimbledon tops the table, having seen no demand for homes at £10m+ over much of 2020, the area has seen a 66.7% uplift in Q3 of this year - the largest annual increase of all areas. However, it is London's more traditionally prime areas that account for the largest degree of market activity at the £10m+ threshold. Notting Hill has seen demand increase by 22.1% annually, while Holland Park has also seen a double-digit uplift at 12.5%. Commentators are keen to stress that we're certainly not seeing a fully rejuvenated prime London market at present, and the pandemic continues to play a part both in terms of where buyers are transacting, as well as the ongoing absence of foreign demand due to travel complications. However, what we are seeing are strong signs that the market is starting to pick back up. Those areas offering a greater abundance of larger homes with more green space are still performing well but we're now seeing demand increase in the more traditional heartlands of the prime market where there was previously little to no interest at all.

All

When will energy prices bite?

High energy costs are forcing manufacturers to warn of higher prices for their goods as they pass on increases to consumers. Iceland boss Richard Walker said higher energy bills and other costs meant price rises were now "inevitable". The warning came as analysts predicted that household energy bills could rise by hundreds of pounds next year. They said the energy price cap, which protects domestic consumers, could soar by £400 in the spring. Cornwall Insight forecasts that the energy price cap will rise to about £1,660 by next summer. That is about 30% higher than the record £1,277 level for the cap set for winter 2021-22, which began at the start of October. With wholesale gas and electricity prices continuing to reach new records, successive supplier exits during September 2021 and a new level for the default tariff cap, the Great British energy market remains on edge for fresh volatility and further consolidation, believe experts. Energy regulator Ofgem said the price cap "will ensure that consumers don't pay more than is absolutely necessary this winter". But if gas prices stay high, the price cap will rise, Ofgem said. The regulator said its "number one priority is to protect customers" but acknowledged "this is a worrying time for many people". But while the price cap helps households, there is no such safeguard for businesses, which have to absorb the full impact of rising global energy prices. Mr Walker warned that Iceland's energy bill would go up by £20m next year. Alongside higher salaries to address lorry driver shortages and other new costs, he said grocery prices would have to increase.

Investor / Saver

VCTs surge ahead of dividend tax increase

The dividend tax rise announced last month is likely to increase demand for venture capital trusts (VCTs), expert say. This is because VCTs can offer a 30% income tax relief on an allowance up to £200,00 per tax year. Returns, which are paid through dividends, are also tax free. As a result, VCTs could be a solution to cut taxes and be especially attractive for high earners. If you are a high earner, once you've put as much as you can into a pension and an ISA, VCTs are one of the last remaining bastions of tax efficiency and an obvious next step. The fact VCT dividends are tax free is hugely valuable and will be even more so once the new rate of dividend tax comes in next April. Commentators also believe the dividend tax increase could see existing investors increase their allocations. This applies particularly to business owners who pay themselves with dividends, but also to many other investors looking to generate income from their investments. The squeeze on incomes has encouraged more people to consider tax efficient investments. This is because things like buy-to-let have become less attractive and the tax-free dividend allowance has slowly been reduced. It also helps that VCTs have performed well over the last few years, in part due to the rule changes on where VCTs can invest. They can now invest in fast-growing tech-enabled companies whose business models have prospered as a result of the pandemic. Much of this growth has eluded companies listed on the main stock market. However, it is important to bear in mind that VCTs are high risk investments focused on early stage, small and illiquid companies, so they certainly won't suit everyone.

Past performance is not a guarantee to future performance. You may get back less than invested.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts and reliefs from taxation are subject to change. The FCA does not regulate tax advice.

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