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Talking Points

In this first edition of Talking Points, we look at the rising cost of transferring your pension, why you could think about locking in a low mortgage rate deal, the effects of the rise in energy bills – and more.

PENSIONS AND RETIRING

The rising cost of transferring your scheme

People who decide to transfer out of their defined benefit pension scheme will face the highest transfer fees since 2018, according to the pensions consultancy group XPS. This could affect long-term savings, leaving pensioners with dwindling savings earlier than they thought. The XPS report found members transferring in the year to 31 March 2021, faced average total fees of 1.9% each year – a 10% increase from the 1.7% charged the previous year and the highest in four years. There has been a slowdown in transfer activity in the last year, however, which could be attributed to the lockdown. Those with higher-value pensions have been the ones continuing to transfer. This, along with a limited choice of plans for members to transfer into, could explain the increase in charges overall.

PROPERTY

Clamour for rural living pushes up house prices

The average house price is now as expensive as it ever has been, with the strongest monthly rise for 14 years. Halifax reported the average cost of a home rose by £4,425, to £267,587 in September. Average prices are up by more than £18,000 since September 2020 and almost £28,000 higher than June 2020 when the market reopened after the first lockdown. A number of factors are behind this rise, including high demand for homes in rural areas with more space, a surge in buyers looking to take advantage of the stamp duty holiday and limited availability of homes in popular areas like the South West.

Those working from home are looking for detached or semi-detached properties, which have gone up in price at a faster rate than flats. Lenders are warning that the market could soften in the coming months as the cost of living rises and tax increases take effect. But current low borrowing costs and an improving labour market could keep the market buoyant.

MORTGAGES

Time to review your deal?

With the current base rate of interest at 0.1%, homeowners may feel a change in mortgage deals is not necessary. However, the Bank of England governor Andrew Bailey has warned this month that interest rates could rise in 2022 or earlier (to help offset rising inflation). With interest rates at a record low right now, it is a great time to review your mortgage.

Record low interest rates over the past decade were due to slow economic growth following the financial crash in 2008, and more recently the pandemic-induced economic slowdown. But if rates are likely to go up in the coming months, homeowners could hedge against this by taking out a fixed-rate mortgage now. It's worth remembering that you're able to fix a deal six months in advance with most lenders, so starting the process early if you're coming to the end of your current fixed-rate mortgage could help you in the long term.

SUSTAINABLE INVESTING

A great time for green investment trusts

UK investment trusts are seeing a surge in demand for green infrastructure investments this year, with managers breaking the previous annual record for capital raising in the first nine months of 2021. Trusts have raised £8.7 billion in secondary fundraising so far this year, surpassing the previous 12-month record of £7.4 billion set in 2019. Trusts that invest in renewable energy infrastructure like wind farms and batteries brought in the most funds. There has also been a rise in direct retail participation as trusts throw open their offers to ordinary investors.

Investment trust are types of investment vehicles that are structured as listed companies. They have proved useful to investors looking for long-term assets such as infrastructure. It 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. This structure works well for long-term green investment projects.

BUY-TO-LET

Landlords eager to grab sub 1% mortgages

Landlords can now benefit from the price war between mortgage lenders, with the first sub-1% buy-to-let product from lender Nationwide launching recently. Lenders have been offering low-rate mortgages since the summer, not just for owner-occupiers, but landlords looking for buy-to-let mortgages too. Buyers are encouraged to read the small print, however, as some products may not suit all property investors and could come with hefty product fees – up to 2% of the loan amount in some cases. This is high even for a buy-to-let product, leading advisers to stress that these mortgages are likely better suited to landlords who are not borrowing high amounts in the first instance.

PRIME REAL ESTATE

Demand for expensive London homes

Demand is up by 5.8% annually for London homes in the £2 million plus market, latest figures show, and by 1.8% for £10 million plus estates. Although lockdown restrictions have eased, it's clear the pandemic is still influencing homebuyer preference. Areas of London like Wandsworth, Wimbledon and Highgate have seen the largest annual uplift in demand. Commentators point out that we're not seeing a fully rejuvenated prime London market, 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. But there are strong signs that the market is starting to pick back up. Areas offering a greater abundance of larger homes with more green space are still performing well but there's now a demand for homes in the more traditional heartlands of the prime market where there was previously little to no interest at all.

Did you know?

Life expectancy is getting longer. If you are 50 right now, you're likely to live into your late 80s*. If you're looking to retire when you're 60, you'll have fund at least 25 years with your pension. It's not too late to make sure you're financially ready for retirement.

*ONS Life Expectancy Calculator

ENERGY PRICES

The cost of living is set to rise

High energy costs are forcing manufacturers to warn of higher prices for their goods as they pass on increases to consumers. Analysts predict that household energy bills could rise by hundreds of pounds next year. The energy price cap – which protects domestic consumers – could soar by £400 in the spring. 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 energy market remains on edge for further consolidation, experts say.

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. Supermarket chain Iceland has said its energy bill will rise by £20 million next year to power its stores, and in turn grocery prices will rise to accommodate this issue as well as the higher salaries to address the lorry driver shortages.

TAX-EFFICIENT INVESTMENTS

The advantage of venture capital trusts

A dividend tax rise was announced last month and is likely to increase demand for venture capital trusts (VCTs), expert say. VCTs can offer a 30% income tax relief on an allowance up to £200,00 per year. The returns – which are paid through dividends – are also tax free. This means VCTs could be a way to reduce taxes and be especially attractive for high earners who have used their allowances in areas like pensions and ISAs. The tax-free nature of VCTs is valuable and will be even more so once the new rate of dividend tax comes in effect next April.

Experts believe the dividend tax increase could also 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. Buy-to-let investments have become less attractive of late, because of the squeeze on incomes, so those looking for an alternative are attracted to tax efficient investments like VCTs. It's important to bear in mind that VCTs are high-risk investments focused on early stage, small and illiquid companies, so they won't suit everyone.

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