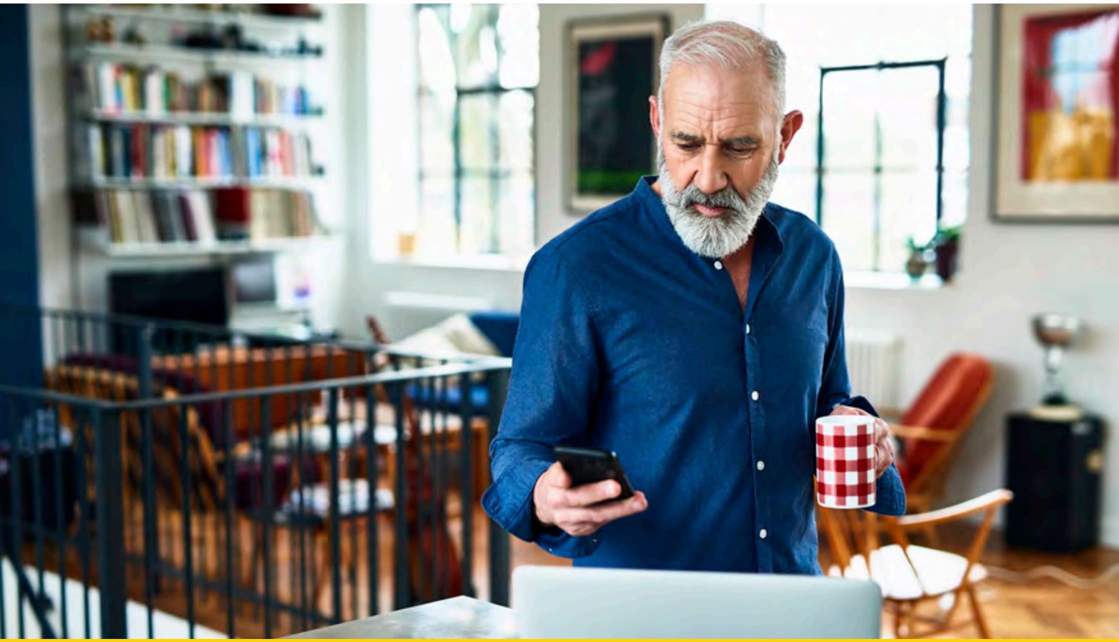
PENSIONS OR PROPERTY

How should you fund your retirement?



NFU Mutual
FINANCIAL PLANNING

“My home is my pension”, you may have heard people say. While a pension is the traditional way to fund retirement, many people choose to rely on property as their main source of income in later life.

But which is the better approach? We compare these two popular options for retirement funding.

PROPERTY: TWO APPROACHES

When people talk about using property to fund their retirement, they are likely to be referring to one of two options: buy-to-let or downsizing.

1. BUY-TO-LET

With the boom in property values in recent decades, many people have chosen to build buy-to-let property portfolios, sometimes with a view to funding their retirement.

Property investment is popular as it can offer potential for both rental yields and capital growth.

However, the buy-to-let market is changing. In a January 2021 survey of over 1,000 landlords, 68% said buy-to-let investments had become "far less attractive" over the past five years.[1] This is principally due to new regulations and tax reforms, which included changes to mortgage interest tax relief for landlords.

Some other things to consider when it comes to buy-to-let properties are:

- Property has, in the past provided some big profits. But there is no guarantee that property prices will continue to rise as strongly as they have in previous years
- Buying, maintaining and selling a property can be a big investment of your time, plus the legal fees, surveys and any tax implications can all add up
- Not all tenants pay on time or you may not get the income expected if the property is empty for long periods
- Property counts towards your estate and may be subject to Inheritance Tax[2]
- You usually need to pay Capital Gains Tax when selling a buy-to-let property: the gain is added to your income, any part in the basic rate band is charged at 18% and 28% for higher and additional-rate taxpayers.

[1] www.financialreporter.co.uk/mortgages/two-thirds-of-landlords-say-buy-to-let-has-lost-its-appeal
[2] www.moneyadviceservice.org.uk/en/articles/a-guide-to-inheritance-tax

2. DOWNSIZING

Another common way that people use property to fund their retirement is by downsizing: raising money by selling their existing home with the aim of buying something smaller and cheaper.[3]

By doing so, you can cut your monthly outgoings, choose a home that needs less maintenance, and move somewhere with better transport and other amenities or closer to family.

However, it's easy to overestimate how much money you can make by downsizing as smaller houses aren't necessarily much cheaper .

Other considerations when it comes to downsizing include:

- If you decide to sell your own home and downsize then bear in mind the costs involved with moving, which include stamp duty, legal fees and estate agency charges
- It can be hard to move into a smaller home than you're used to, especially if it means moving to a new area, further from friends and family.

So downsizing or investing in buy-to-let can help provide an extra income in retirement, but it's important to do your homework.

[3] www.hoa.org.uk/advice/guides-for-homeowners/i-am-selling/should-i-downsize

INVESTING IN A PENSION

Pensions are the most common way to save for retirement, as they offer many advantages.

One of the most significant benefits of saving in a pension is tax relief. So, for example, if you pay in £80, then HMRC would add a further £20, giving you £100 in your fund. If you pay 40% income tax, then you can reclaim up to an additional £20 via your tax return

Other benefits of investing in a pension include:

- Unlike buying a property, where you are likely to need a big deposit, you don't need a lump sum to invest in a pension. Instead, you can save little and often
- You can buy a guaranteed income for life with your pension fund at retirement
- In most cases, your employer will pay into your pension fund too; you could think of it like a pay rise. And the employer will not have to pay National Insurance contributions on these payments
- From the age of 55 (57 from 2028), you can choose how you take your money from your pension fund: as a lump sum or a guaranteed income for life, or leaving it invested and taking income or lump sums when you want to
- Pensions sit outside your estate and are not normally subject to Inheritance Tax when you die
- There are lots of free tools online to help you calculate how much you have in pension savings and how much more you need for a comfortable retirement.

What about the downsides?

Your pension will be invested in the stock markets, and the value of your pension will depend on the performance of the underlying investments, so you should always be prepared for an element of risk. The price of shares and other financial assets go down as well as up, which is why you should consider pension saving as a long-term investment.

SO, WHAT SHOULD I DO?

How you plan for your retirement depends on your own individual circumstances and goals.

But investing into a pension is a good start: as well as saving regularly for a comfortable future, you get free money from the government and your employer for doing so. So, it's wise to start early and pay in as much as you can afford.

Using property can provide valuable funds for retirement. But it is wise not to rely on it entirely for your retirement income. Instead, you could use it to supplement other sources of income, such as a pension.

How you provide for your retirement is an important decision. Speak to an NFU Mutual Financial Adviser if you're at all unsure.

The tax treatment of pensions depends on individual circumstances and may change in the future. The value of pensions can fall and you may get back less than invested.

When you get in touch, we'll explain the advice services offered and the charges. NFU Mutual Financial Advisers advise on NFU Mutual products and selected products from specialist providers.

Inheritance Tax advice is not regulated by the Prudential Regulation Authority or the Financial Conduct Authority.

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