eNews
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The Investment COACH

PENSIONS

Interest rate rises lift annuities

It is not only bank interest rates which are on the up.

So far 2022 has been a year of rising interest rates in most of the developed world. While the focus has been on increased central bank base rates and their knock-on effects, other interest rates have also been getting higher. The yields on medium- and long-term government bonds (gilts) and corporate bonds, for example, have also increased.

One neglected sector has benefited markedly from the rise in bond yields: annuities. For any given age, the annuity rates that companies offer are largely determined by what they can earn by investing in long-term bonds; as bond yields go up, so do annuity rates, and the change has been greater than expected.

For example, at the end of last year the yield on the 15-year gilt was 1.15% whereas by late July it was almost 2.50%. Take a level annuity rate for a 65-year-old, for instance. By late July, the top rate was around 6.25% compared with 5% at the beginning of the year: an increase in guaranteed income of a quarter. Similar rises apply at other ages, although the greatest impact is at younger ages.

The most popular route to drawing an income from a pension fund - flexi-access drawdown - is not the only option and comes with built-in investment risk.

The jump in annuity rates has coincided with a bad first half for many of the world's investment markets. It is a reminder that the most popular route to drawing an income from a pension fund – flexi-access drawdown – is not the only option and comes with built-in investment risk. An annuity provides certainty, regardless of investment conditions or how long you live.

To find out your potential income from an annuity please ask us for a personalised illustration.

✢ The value of your investment and the income from it can go down as well as up and you may not get back the full amount you invested.

Past performance is not a reliable indicator of future performance.

Investing in shares should be regarded as a long-term investment and should fit with your overall attitude to risk and financial circumstances.

FRAUD

Steer clear of the scammers

Scammers and fraudsters conned people in the UK out of £1.3 billion last year, according to official figures.

The banking industry group UK Finance pointed out that many frauds were online scams, with victims often left out of pocket as they had seemingly 'authorised' fake payments. The group warned people to always double check before sending money or revealing financial details on the back of unsolicited emails, even if they appear to be from a familiar company or organisation.

There was a significant rise in several different scams including:

- Bank transfer fraud, where victims are tricked into sending money to an account controlled by criminals.
- Impersonation scams, where criminals send spoof emails, or set up fake websites, purporting to be from legitimate companies including banks, HMRC, government departments, the NHS or energy suppliers.
- Romance scams, where criminals approach victims on dating sites. These numbers have surged and can be financially devastating, with victims losing an average of £9,500.

There is particular concern that fraudsters are exploiting fear and confusion around energy bills to trick people out of money. Research by *Which?* found that in the first quarter of this year, fraud cases that mentioned one of the big six energy firms were up by 10% when compared to the same period last year.

If you are suspicious of any online activity, be on your guard and check with relevant financial institutions who will never ask you for your financial details.

PENSIONS

What price pension freedom?

Inflation is driving many to raid their 'rainy day funds' to cover rising energy and fuel bills. But there are particular concerns around the long-term consequences for some older savers who are also cashing in pension funds early to help make ends meet.

Under Pension Freedom rules anyone aged 55 or over can currently access their pension funds. While a quarter of these funds can be withdrawn tax-free, the rest is potentially subject to income tax.

Since the introduction of pension freedoms, largely buoyant stock market gains combined with low inflation meant pension holders could draw money from these pots without seriously depleting the remaining, still growing funds.

However, a new report from actuaries AKG highlights how the return of high inflation and increased living costs could jeopardise many people's future retirement plans. Early pension fund withdrawals can lead to an unnecessary

Credit: Roman Samborskyi /Shutterstock.com

tax burden and the risk of running out of money later in life, exacerbated by increased inflation. With the Bank of England forecasting a potential tip into recession, further stock market volatility and dampened growth prospects would impact investment returns.

Those approaching retirement face complex decisions about how to use their pension funds and calculate a 'safe' amount to withdraw to maintain funds through to later life.

Financial advisers can help investors with these complex decisions, explaining how pension funds might fare under different economic conditions. Yet, data from the financial regulator suggests few people are taking this option. Please do get in touch if you are thinking about the most suitable way to access your pension funds or for guidance on how your long-term pension planning might be affected.

✣ *The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.*

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Occupational pension schemes are regulated by The Pensions Regulator.

INVESTMENT

Buy-to-let facing headwinds

Some buy-to-let (BTL) investors are facing a costly future.

Credit: Onchira Wongsiri /Shutterstock.com

Seven years ago, the then Chancellor announced a revised treatment of interest paid on BTL residential mortgages. Instead of the interest being fully offset against rent for income tax purposes, there would be a 20% tax credit for interest paid. This reduced the tax relief received by higher and additional rate taxpayers to basic rate. To limit the immediate effect of the change, the new system was phased in over four years, starting in April 2017.

In 2022, as interest rates have risen, the impact of these changes has been dramatic, compounded by sharply rising net interest costs, whose speed is not matched by increasing rents.

Energy ratings shift

Higher interest costs are not the only extra expenses that threaten BTL owners. A year ago, the Department for Business, Energy and Industrial Strategy (BEIS) launched a consultation on improving the energy performance of privately rented homes in England and Wales, with regulations originally expected this autumn. BEIS's preferred option is:

- From 1 April 2025, a minimum energy performance certificate (EPC) rating of C would apply to properties with a new domestic tenancy or where an existing tenancy is renewed.
- From 1 April 2028, all tenancies would be subject to the EPC C rating.

The consultation estimated that the average landlord would spend £4,700 per property to achieve the C rating. It also proposed an upper spending limit of £10,000, beyond which an exemption would apply from the rules.

The combined effect of higher interest rates and higher EPC thresholds – and a six month rent freeze in Scotland – is something BTL investors should carefully assess now and factor them into future planning.

✣ *The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.*

PENSIONS

Still time to increase your state pension

A deadline is approaching to boost pension benefits by closing any national insurance contribution (NIC) gaps.

Were you in full time employment or self-employment between 2006/07 and 2015/16? If the answer is either 'no' or 'not sure', time is running out for you to pay any missing NICs for that period.

You have until 5 April 2023 to plug the gaps, but before doing so you need to know which gaps to fill – some will cost less than others – and whether it makes financial sense to do so.

At best, if you are self-employed you could find a one-off payment of £163.80 buys you £275 a year extra state pension. At worst you could spend thousands, only to find what you have gained in state pension, you have lost in other state benefits.

Your starting point is to check your NICs record at https://www.gov.uk/check-national-insurance-record, which will require you to have a Government Gateway user ID.

✣ *Tax and benefit laws can change. The Financial Conduct Authority does not regulate tax and benefit advice.*

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