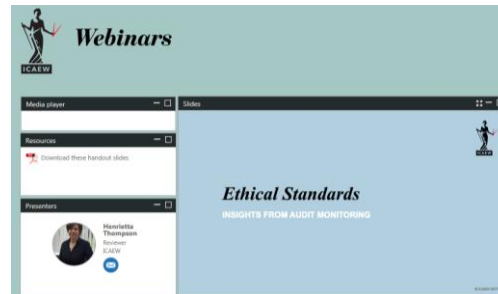


- Thank you for joining this webinar - we will begin shortly.
- You can customise the webinar console, move and resize the widgets:



- You can also minimise and maximise the widgets by clicking on the icons. The icons are located in the dock at the bottom of the console:



- You can submit questions using the Q+A widget at any time during the webinar



Webinar: Providing for your retirement: Buy-to-let Property or Pensions?

FACILITATED BY JOHN GASKELL HEAD OF PERSONAL FINANCIAL PLANNING ICAEW

Today's speakers



**CHARLOTTE RANSOM, CO-FOUNDER
AND CEO, NETWEALTH**



**MATT CONRADI, HEAD OF CLIENT
ADVISORY, NETWEALTH**



network

Discretionary wealth management as it should be

Providing for your retirement: Property or Pensions?

March 2018



Property vs. Pensions and Recent Rule Changes



Buy-to-let Property Vs. Pensions

| Features | BTL Property | Pensions |
|--------------------------------------|--------------|---|
| Tax relief on Contributions | ✗ | ✓ |
| Ability to use leverage | ✓ | ✗ |
| Make unlimited contributions | ✓ | ✗ Subject to both an annual and lifetime allowance |
| Tax free growth and income | ✗ | ✓ |
| Restrictions on accessing investment | None | Can only access after age 55 |
| Outside of estate for IHT | ✗ | ✓ |



Risks to Consider for All Investments

In order to generate a level of return investors will have to accept some risk. Generally the more risk you take the greater the potential return over time. Risk can be split into a wide range of different categories. Below we look at some of the main ones to consider.

| Risk | Description |
|---------------|--|
| Liquidity | How readily realisable is the investment. Generally the longer you lock up your investment for the greater the return you will expect to receive. |
| Credit | The risk that a debtor will not make payments owed on time or at all. |
| Re-investment | When an investment matures or a lease ends there is a risk that the prevailing rate of return/rent will be lower than your current investment. With property there is also a risk of void periods before new tenants can be found. |
| Volatility | The level of fluctuations in investments and the potential size of peak to trough drawdowns. |



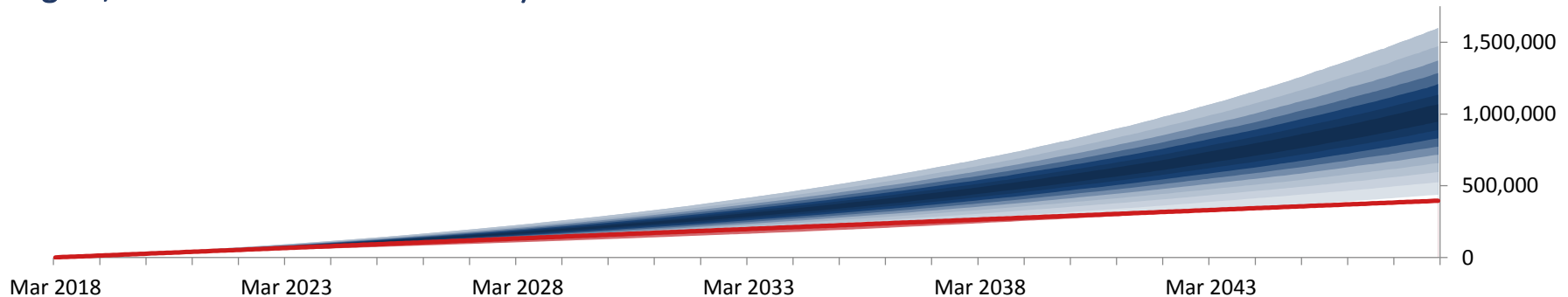
Changes to Pension Rules

Over recent years there have been wide ranging changes to tax rules surrounding both buy-to-let property investments and pensions.

Pensions

- Reduction of the annual allowance to £40,000 with tapering to as low as £10,000 for higher earners.
- Reduction of the Lifetime allowance to £1,000,000 for those who haven't protected at a higher level.
- Pension freedoms to allow for flexible access of pensions in retirement.
- Reduction in the money purchase annual allowance to £4,000.
- Pensions are now outside of your estate for IHT and could be accessed by your beneficiaries completely tax free if you pass away prior to 75 or at their marginal income tax rate after 75.

It will be important to save regularly in order to build up a significant pension pot. Below we look at saving £1,100 a month Gross over 40 years





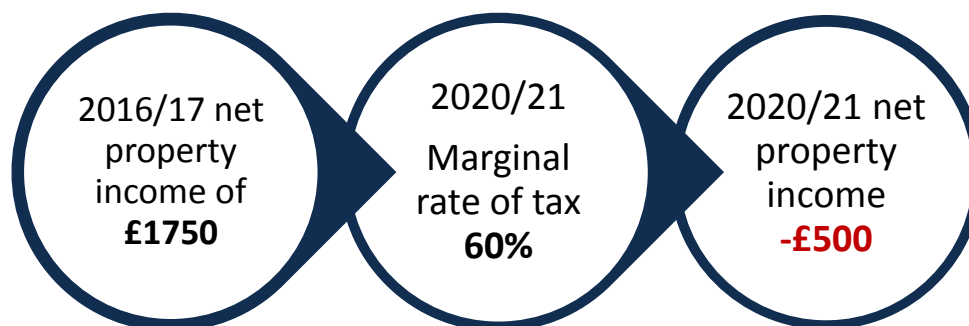
Changes to Buy-to-Let Taxation

Over recent years there have been wide ranging changes to tax rules surrounding both buy-to-let property investments and pensions.

Property

- 8% of additional Capital Gains Tax (CGT) on top of your marginal rate taking the top rate of CGT to 28%.
- 3% of additional Stamp Duty Land Tax (SDLT) on purchases of properties beyond a primary residence.
- Transition from mortgage interest deduction to mortgage interest relief. Relief tapering down to only 20% in 2020/21.

For an investor with £100,000 of non property income and a buy-to-let worth £250k yielding 4% and a 75% LTV mortgage at 3% interest



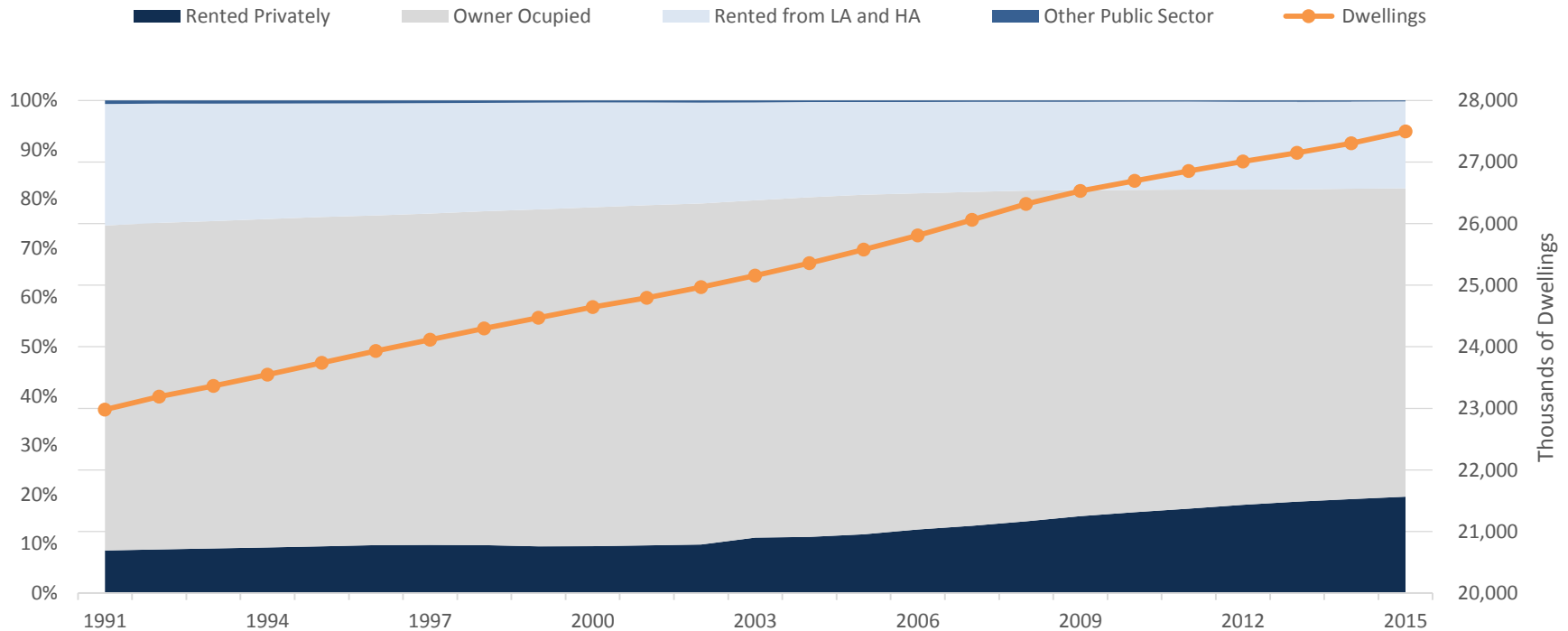


The UK Property Market



The Housing Stock is Growing Slowly Whilst the Mix is Changing

The housing stock is rising but not fast enough. The mix is moving towards more renting and less home ownership.

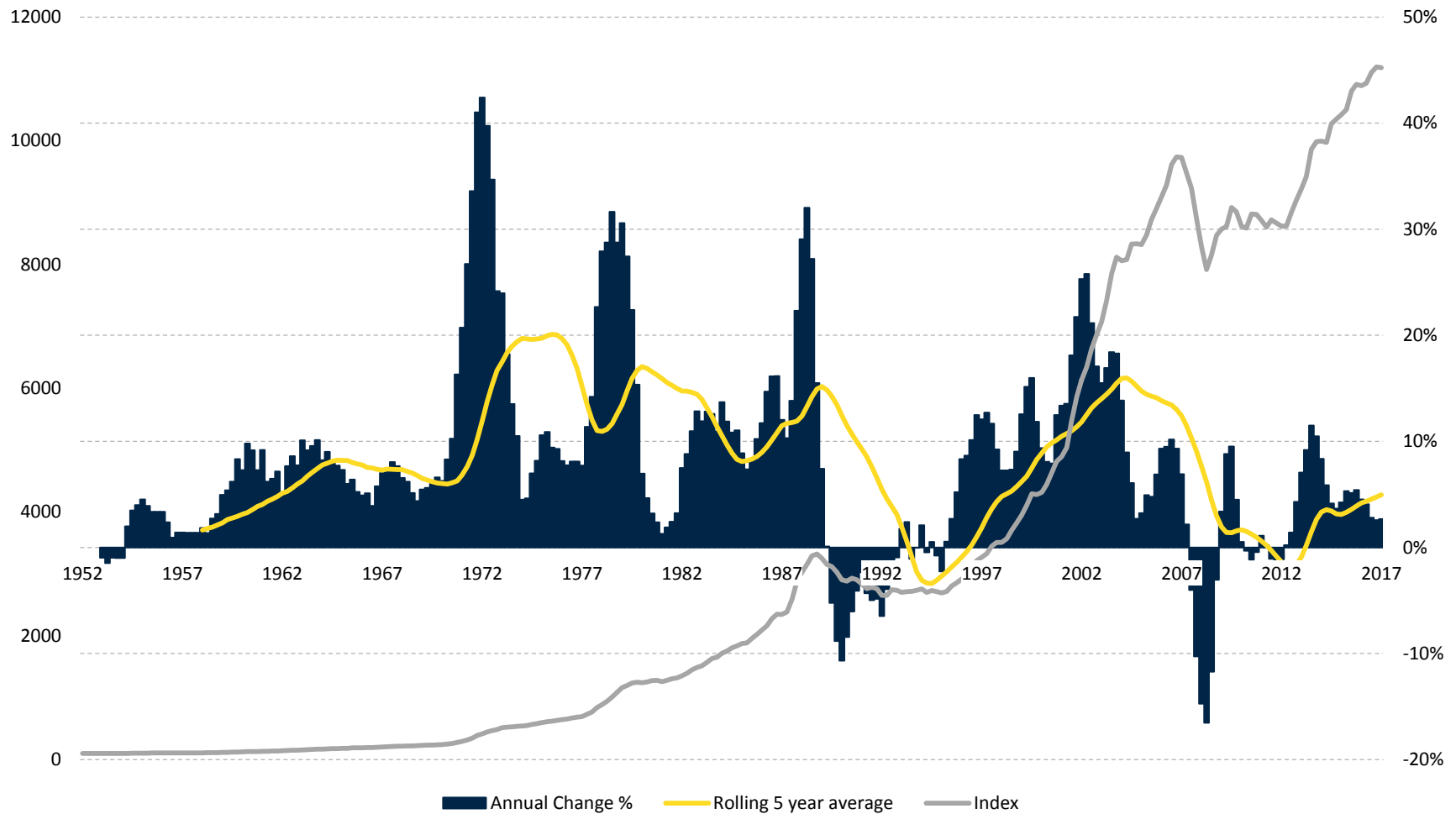


In 1991 privately rented properties made up 8.7% of the housing stock by 2015 this had risen to 19.6%.

Source: ONS



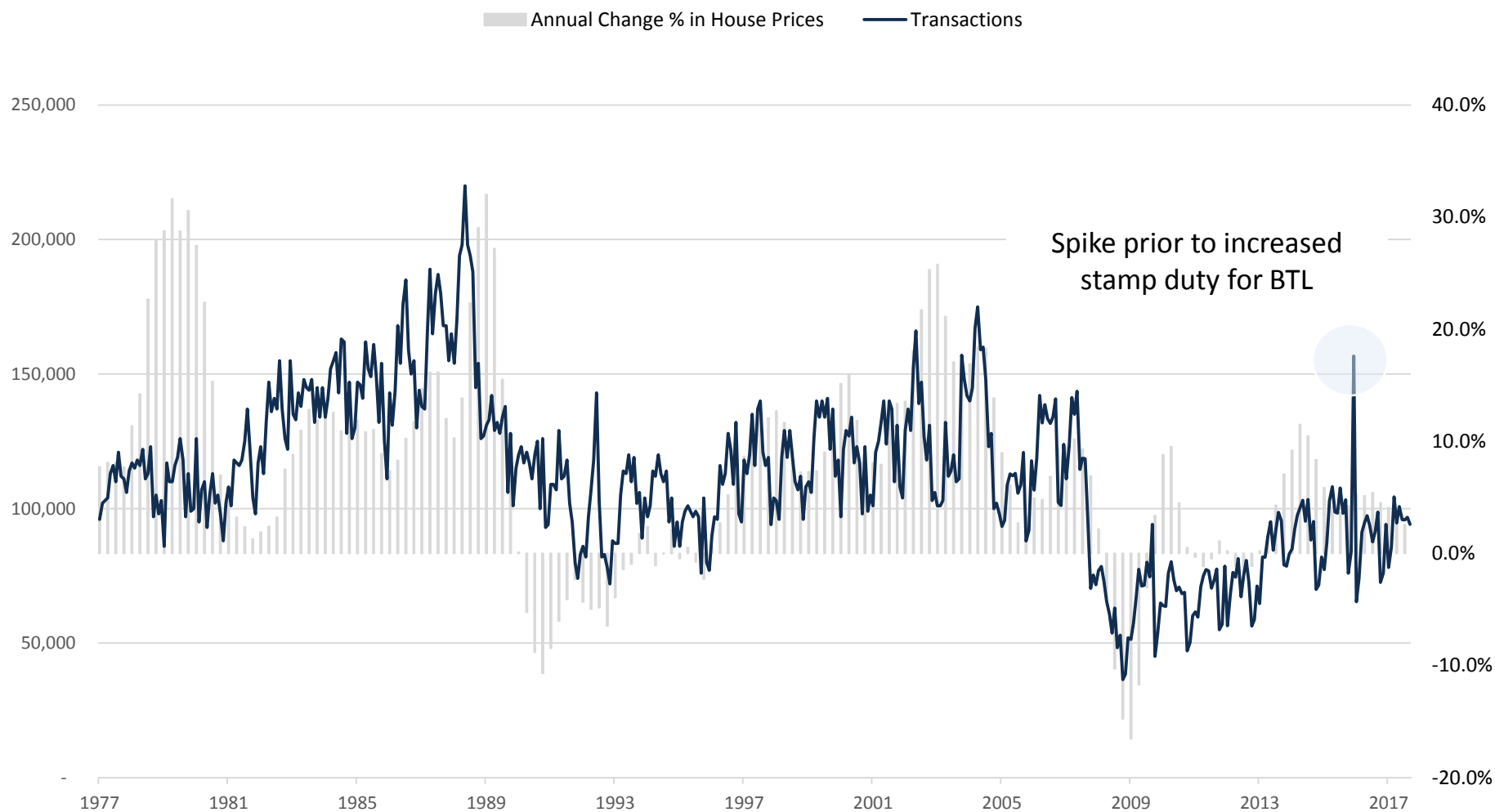
UK House Prices and Annual Growth Rates



Source: Nationwide Building Society House Price Index



Residential Property Transactions



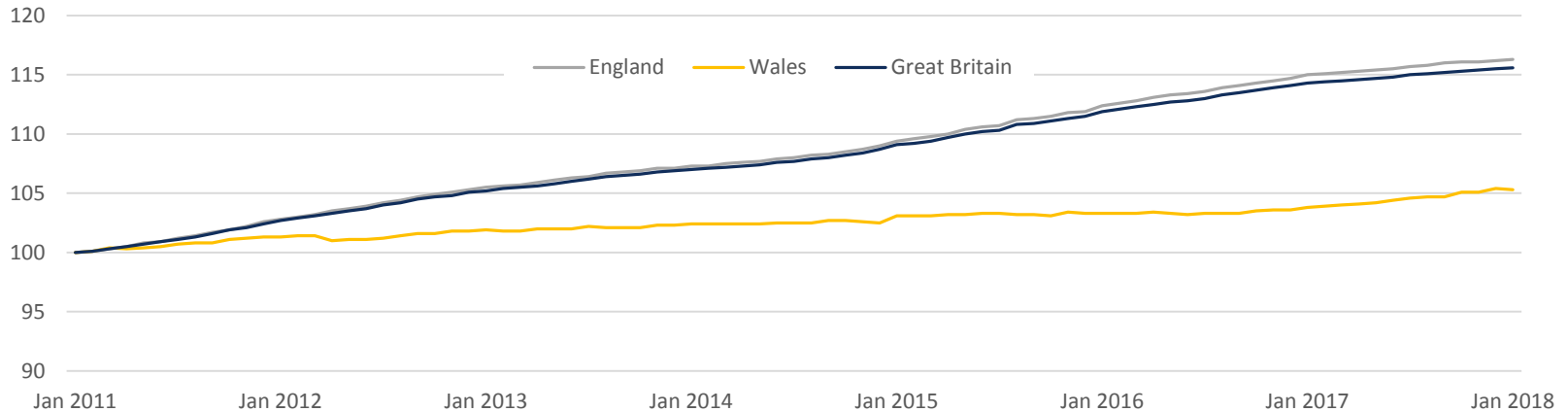
Source: Building Societies Association, HM Revenue and Customs, Nationwide Building Society House Price Index



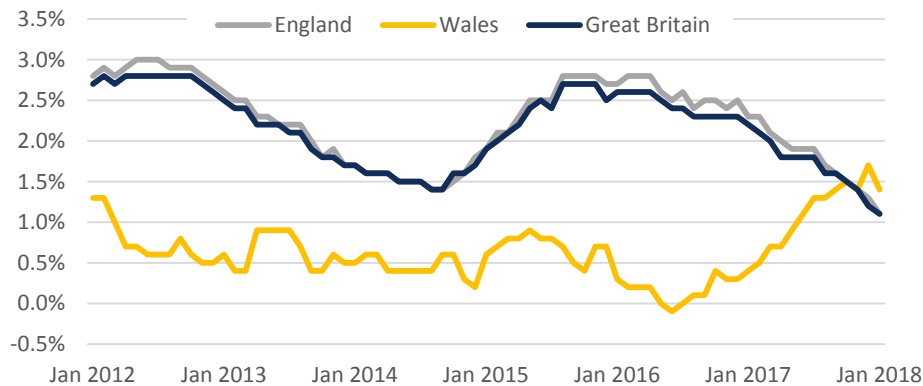
Can Rents Continue to Rise?

Rents are still growing but the pace of growth is slowing in England and there is variability across regions.

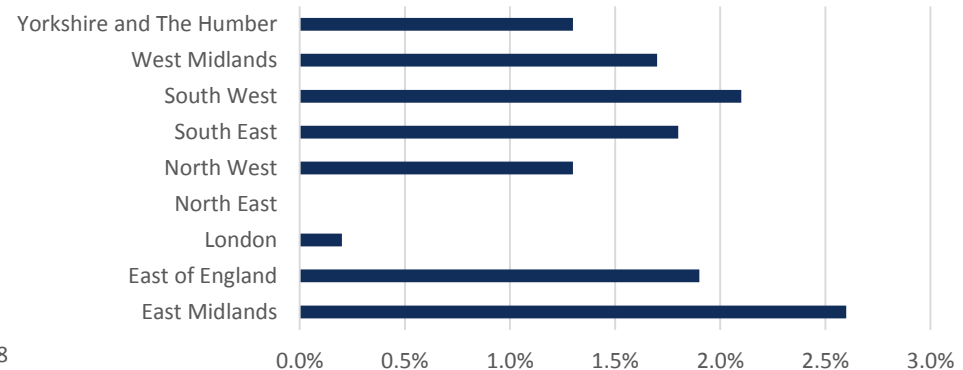
Index of Private Sector Rents



12 Month Percentage Change in Private Sector Rents



Percentage Change 12 Months to January 2018



Source: ONS, Valuations Office Agency



Inflation Can Be Helpful and Harmful

If wages don't keep up with inflation affordability of rents will fall.



Source: ONS, Valuations Office Agency



Average Buy-to-let Gross Yield

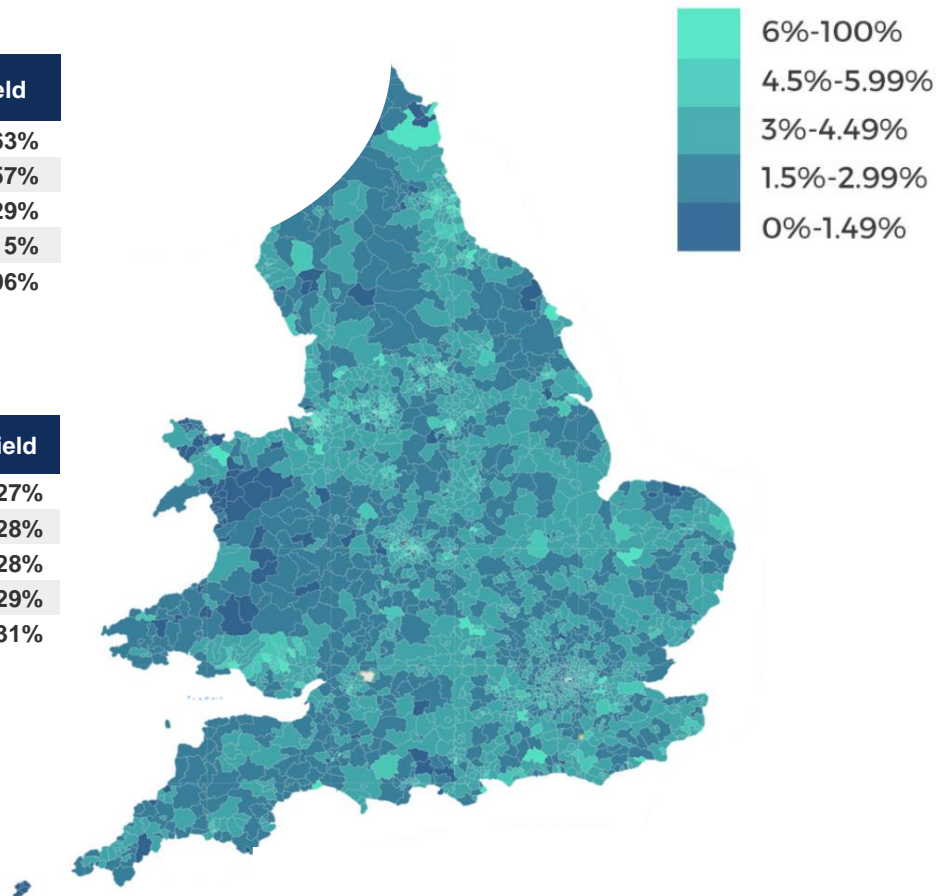
As house prices have risen rental yields have been declining. However there is a great deal of variance across regions and property types.

Top 5

| Rank | Postcode | Town | Median Rental Value | Median Asking Price | Yield |
|------|----------|-----------|---------------------|---------------------|--------|
| 1 | L7 | Liverpool | £1,224 | £116,259 | 12.63% |
| 2 | L6 | Liverpool | £959 | £108,898 | 10.57% |
| 3 | L15 | Liverpool | £1,214 | £141,566 | 10.29% |
| 4 | PL4 | Plymouth | 1,315 | £155,437 | 10.15% |
| 5 | TS1 | Cleveland | £541 | £64,507 | 10.06% |

Bottom 5

| Rank | Postcode | Town | Median Rental Value | Median Asking Price | Yield |
|------|----------|----------|---------------------|---------------------|-------|
| 1040 | N10 | London | £1,747 | £923,278 | 2.27% |
| 1038 | N20 | London | £2,442 | £1,284,812 | 2.28% |
| 1039 | BN3 | Brighton | £1,665 | £876,105 | 2.28% |
| 1037 | SW8 | London | 2,685 | £1,403,592 | 2.29% |
| 1036 | NW7 | London | £1,948 | £1,010,503 | 2.31% |

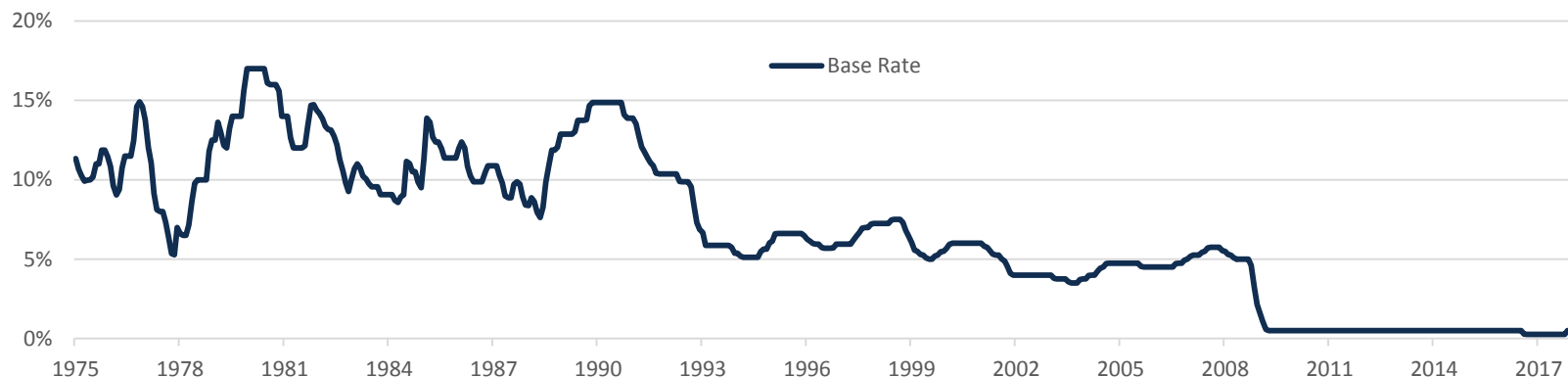


Source: March 2017 - TotallyMoney using Zoopla data

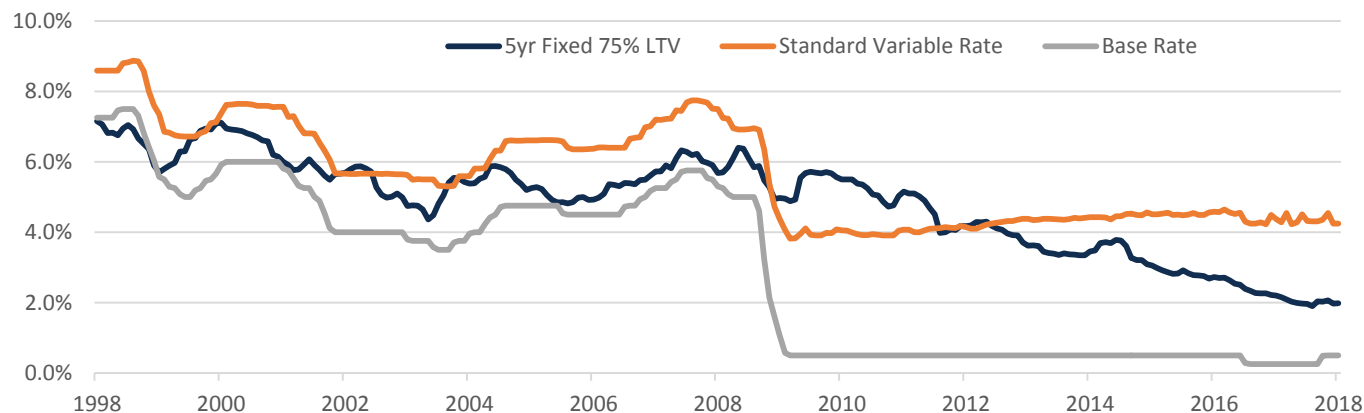


Base Rates Remain Low but Will Start to Normalise

The Bank of England base rate remains at historically low levels but the path to normalisation has started. We expect the bank of England to raise the base rate twice this year.



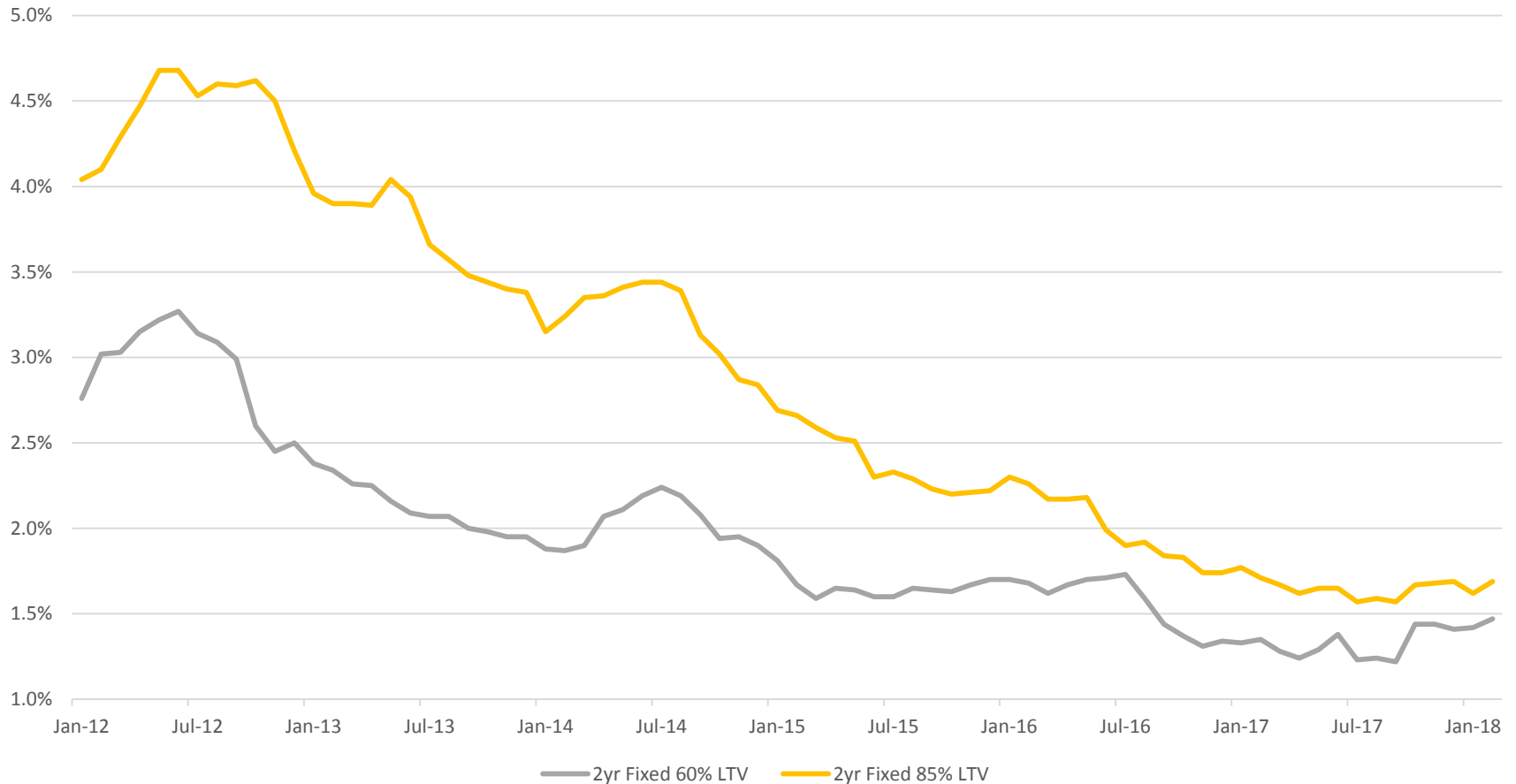
Falling mortgage rates have helped to cushion the market from increasing affordability criteria



Source: Bank of England



Higher and Lower LTV Mortgage Rates have Converged

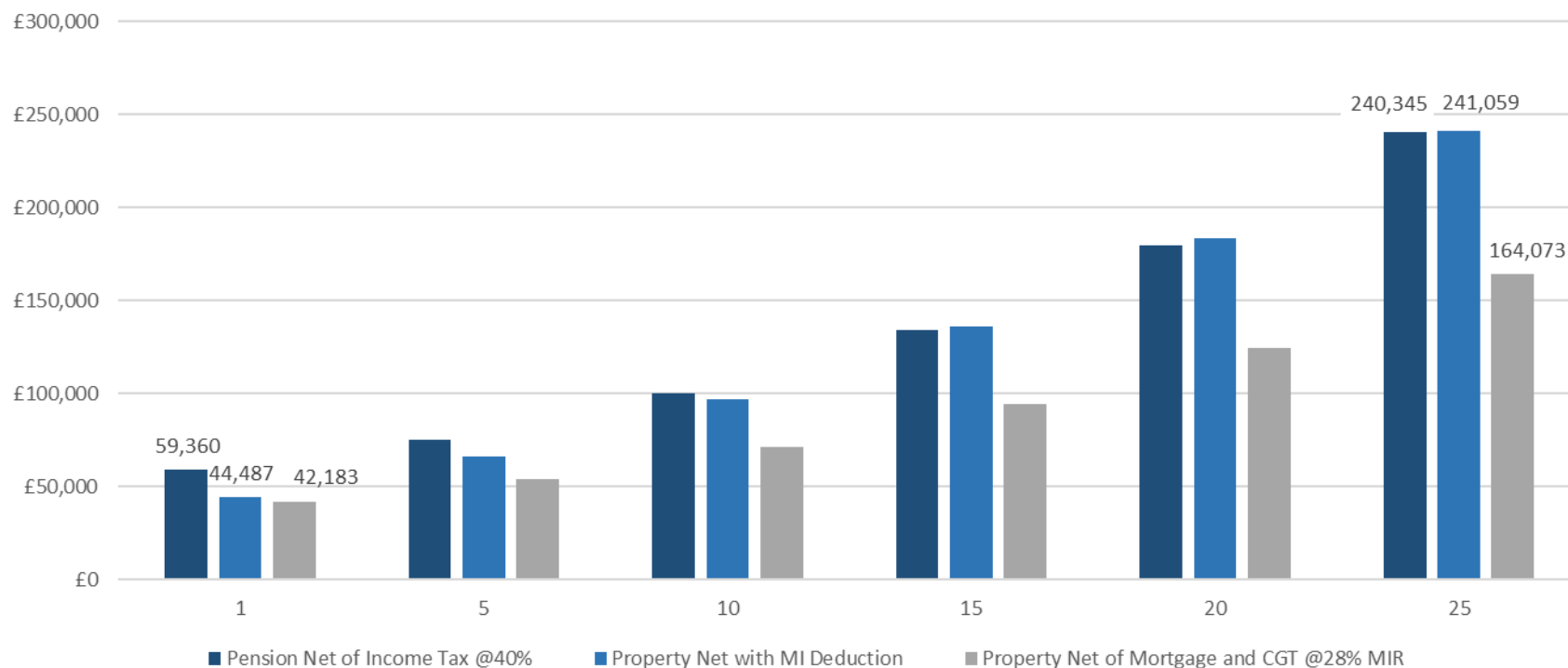


Source: Bank of England



Saving for Retirement Property vs. Pensions

- Higher rate tax payer with total income before investments of **£100,000**
- Pension contribution of **£80,000 gross**. Assumed pension **growth rate of 6%** per annum
- Net equivalent used as **deposit of £44,000** with **75% LTV** for a property worth **£176,000**
- 4% yield net of expenses. Assumed property capital growth rate of 3% per annum
- Mortgage interest rate of 4%

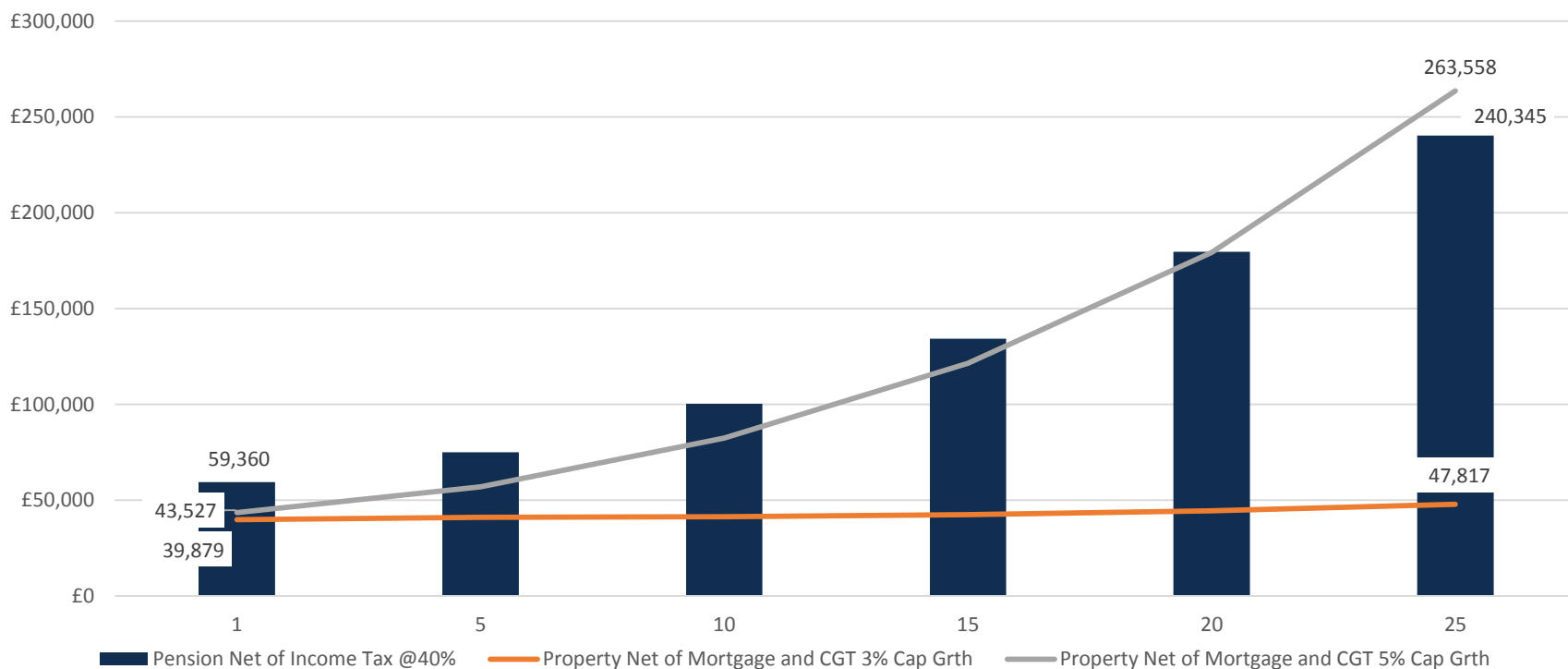


Source: Bank of England



What If Mortgage Rates Rise

If the mortgage interest rate is **increased to 6%** you would need a **capital growth rate of nearly 5%** to keep up with the pension.



Source: Bank of England

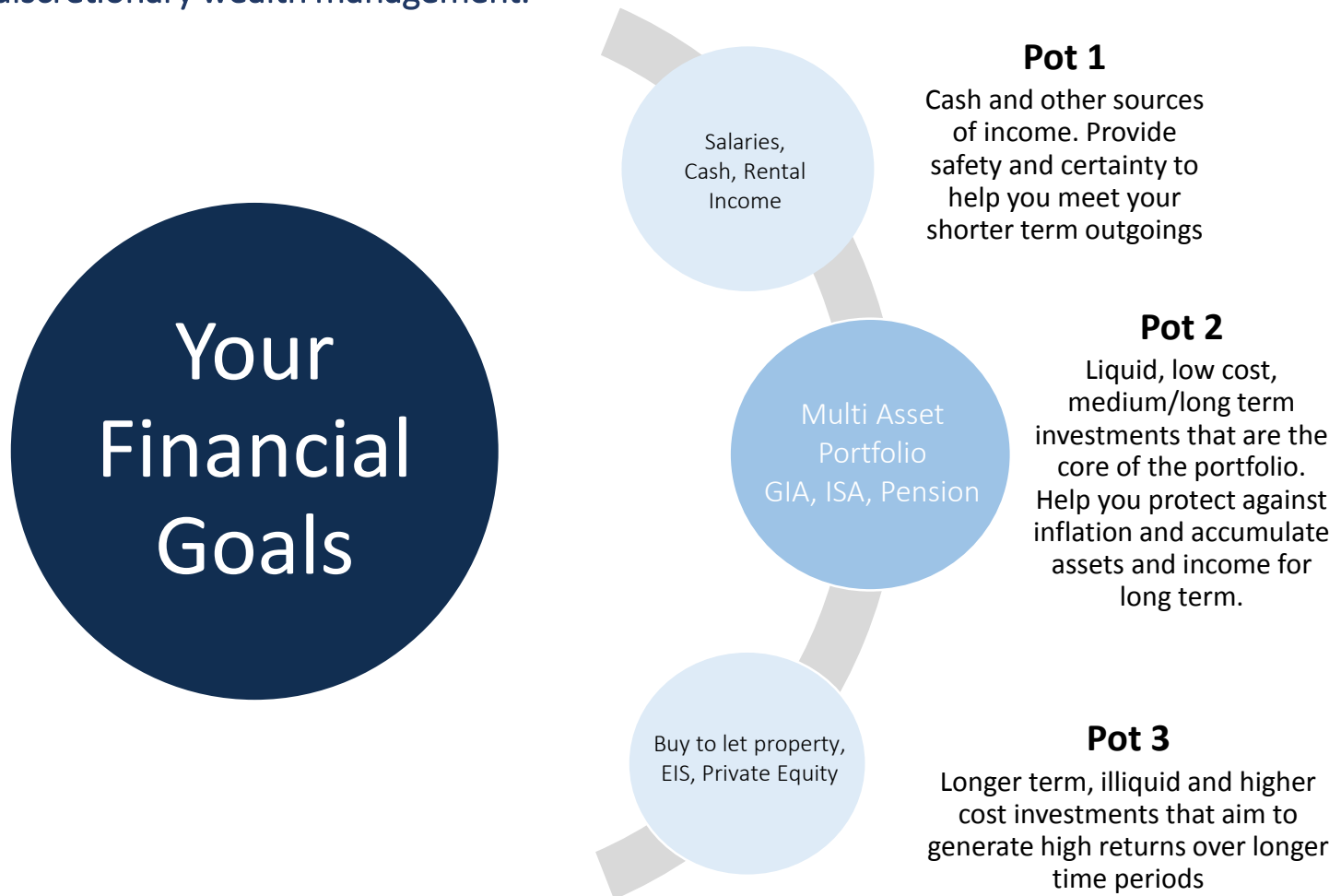


The Role of Different Investment Types



Three Pot Theory

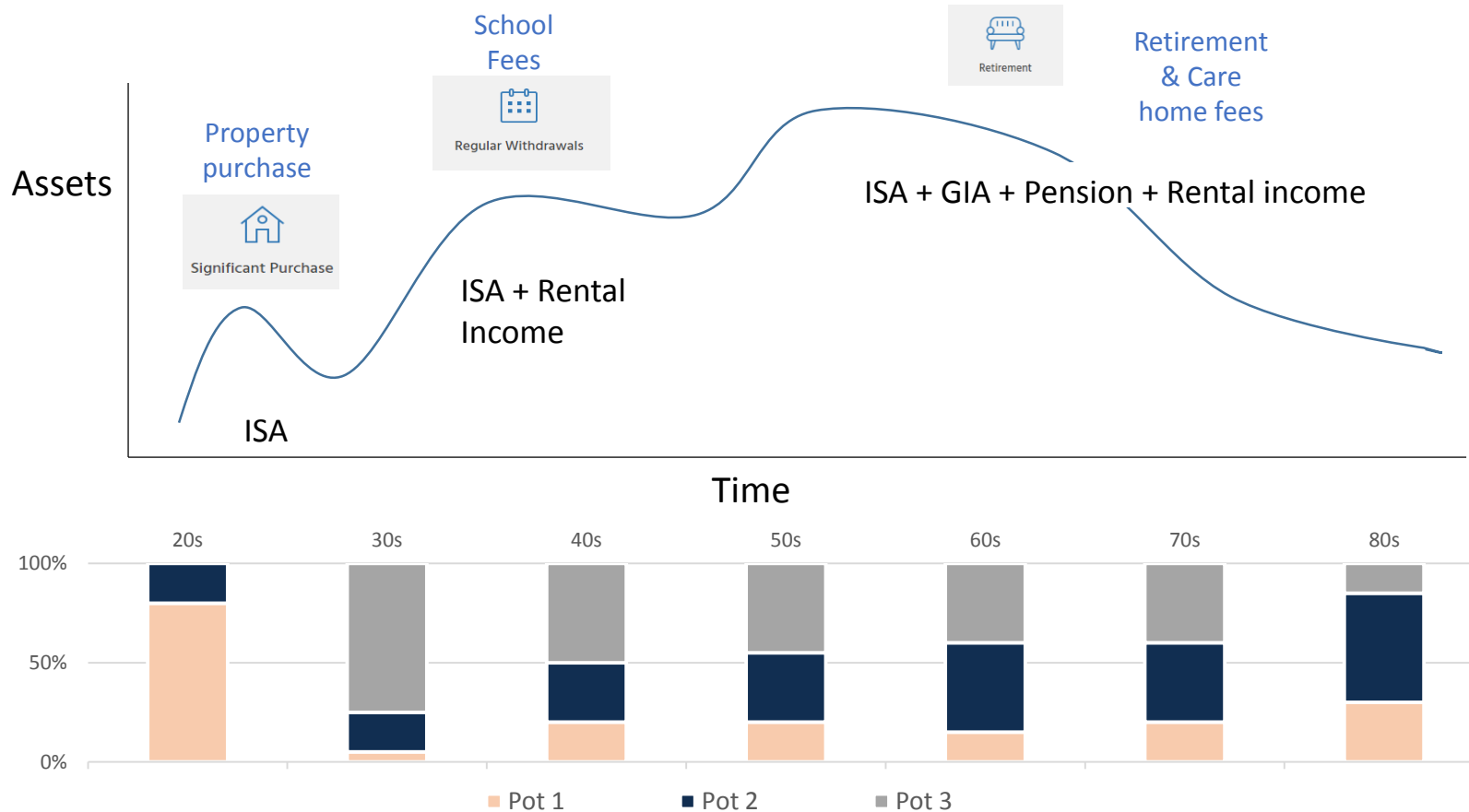
Saving for your long term goals will involve a combination of different types of asset. We break these down into three simple pots. We believe Pot 2 should act as the core of your investments and is best served by discretionary wealth management.





Make Use of a Range of Different Investments and Wrappers to Meet Your Lifetime Goals

It's likely that as your savings and goals evolve you will need to change your mix of investments and make use of a combination of account types to meet your goals.



Achieving your goals will be driven first and foremost by how much you save and secondly by how effectively and efficiently those savings are managed.



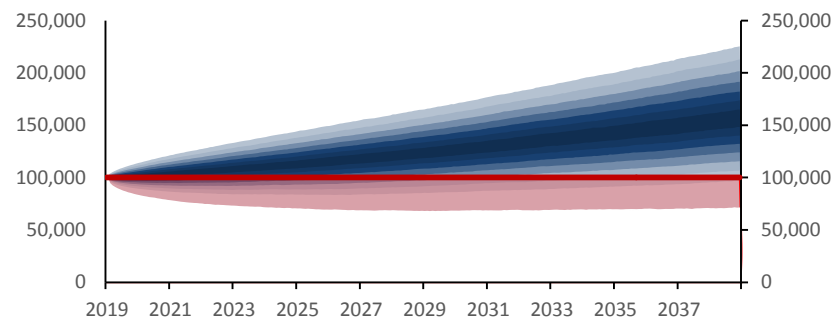
Control the Controllables



The Uncontrollables

Market Performance

- In order to meet your longer term objectives you will need to achieve a certain level of returns.
- If markets are weaker then you may be forced to lower your expectations.



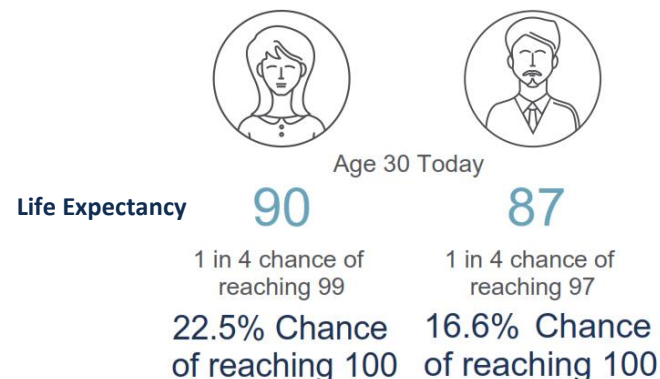
Inflation

- We all experience our own unique inflation rate dependent on our sources of expenditure. Whatever the rate it is likely to be positive. There has only been one year since its start in 1958 when the Retail Price Index has been negative.



Longevity

- Life expectancy continues to rise and with a DC pension you take on the risk of living longer.



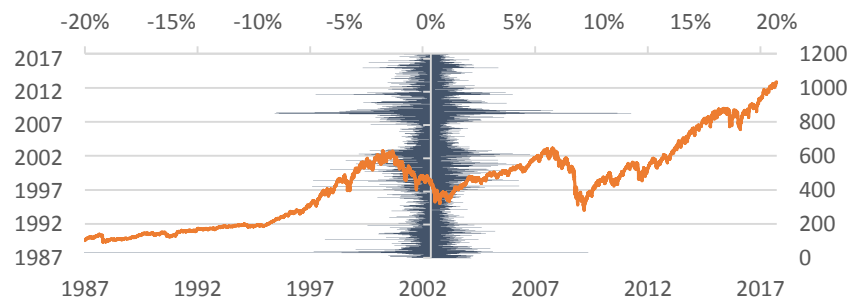
Life expectancy and RPI inflation source data ONS: <http://visual.ons.gov.uk/what-are-your-chances-of-living-to-100/>;
<https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation>



Control the Controllables

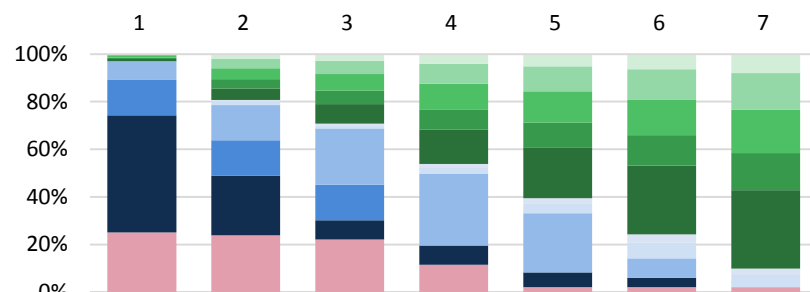
Time in the market, not timing the market

- Market can be volatile but generally climb the wall of worry.
- In a compliance constrained environment not only do you need to time when to sell then buy back you also need to get approval.



Diversification

- Diversification can help to smooth the path of returns and provide better risk adjusted outcomes

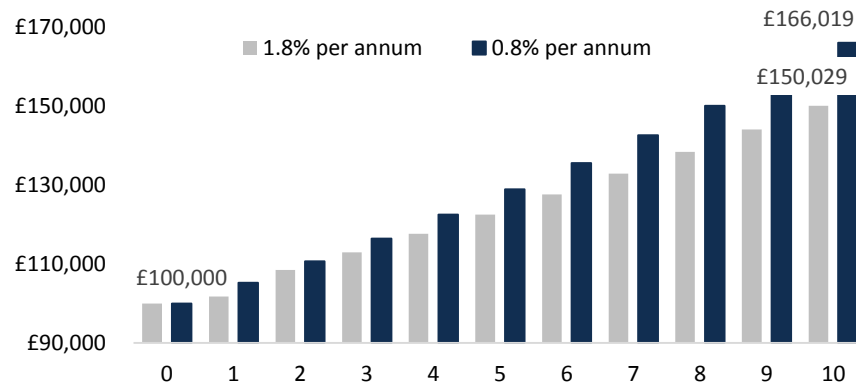


Use Tax Wrappers

- Making use of available tax allowances and tax wrappers such as ISAs and pensions can help you to achieve your goals

Minimise Costs and Charges

- For every £100k invested a fee saving of 1% per annum could make you over £15k* better off after 10 years.



*Assumes a gross annual return of 6% and fees of 1.8% and 0.8% per annum.



Case Study



Providing Income in Retirement

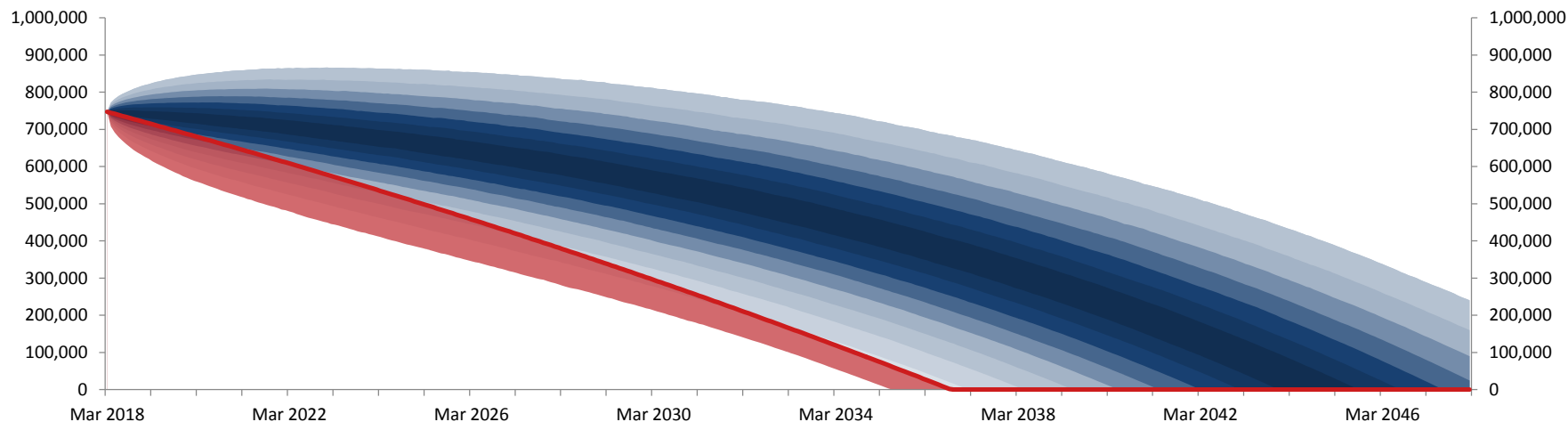
Circumstances and requirements

| | |
|------------------------------|--|
| Total Assets | £1.5m split £750,000 in pensions and £750,000 in a buy-to-let property portfolio |
| Overall Investment Objective | Net income of £50,000 per annum inflated by 2% per annum |
| Current Age | 65 |
| Current Income | £30,000 net from a combination of State Pension, DB pensions and Rental Income |
| Income Shortfall | £20,000 net to be drawn from pension assets |
| Risk Profile | Unwilling to tolerate permanent losses of capital but comfortable accepting short term volatility with moderate fluctuations in value. |
| Liquidity Requirements | Some liquidity is required for unforeseen expenses. |

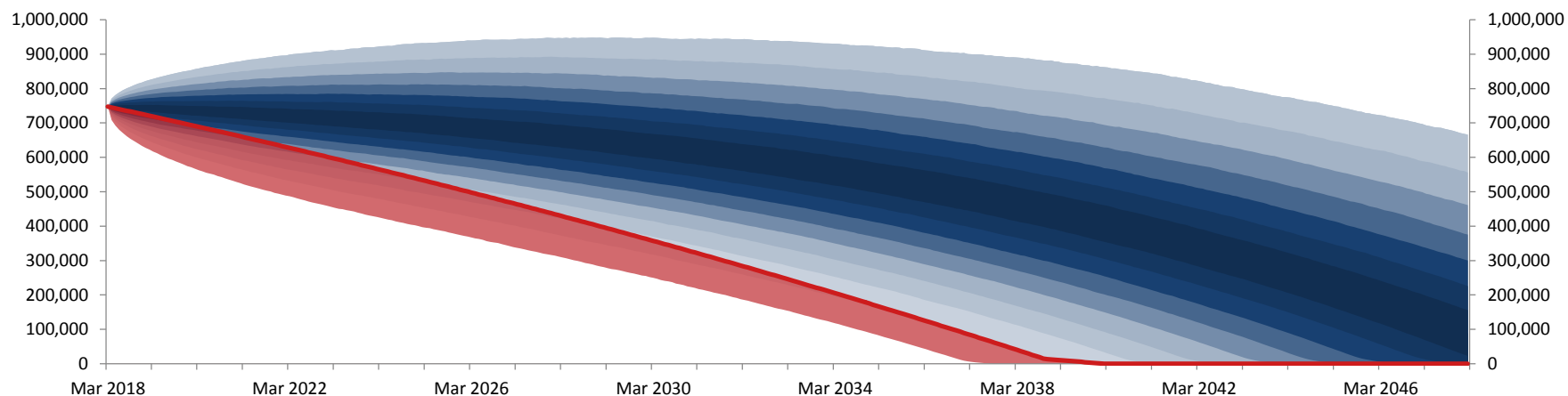


Funding Your Retirement Through Income Drawdown

£20,000 net per annum drawn from a £750k pension



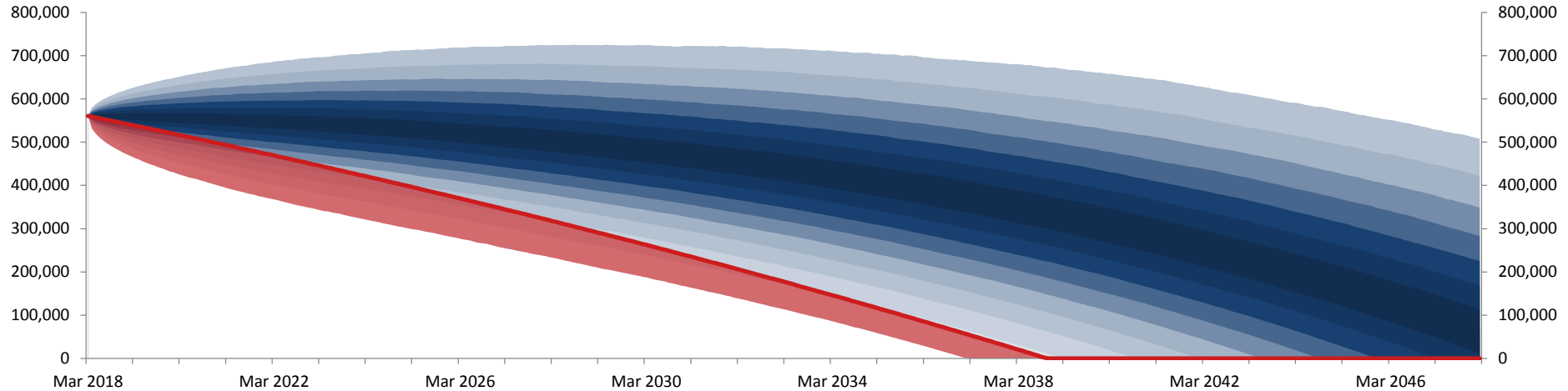
Using a combination of GIA, ISA and Pension can extend the life of your assets



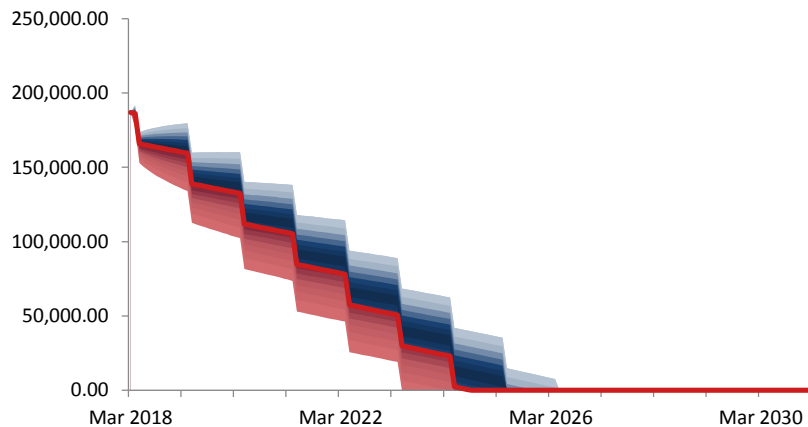


Using a Combination of Pension, GIA and ISA

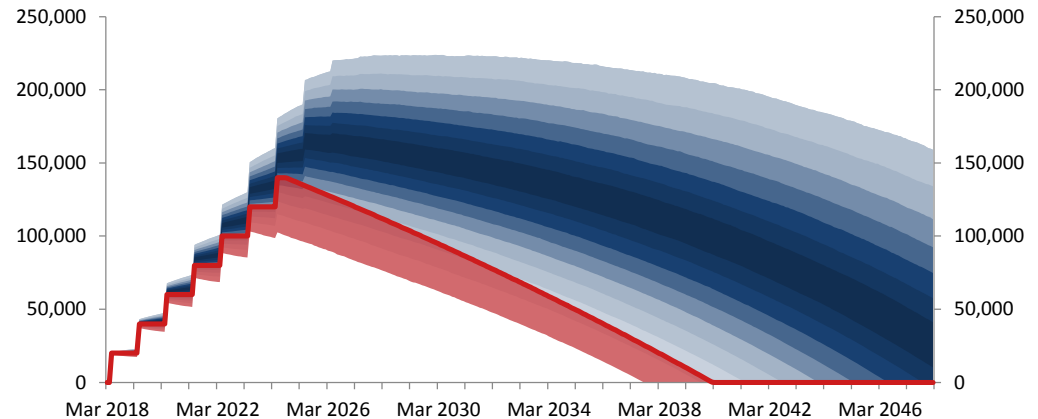
Pension – By drawing less from the pension you pay less tax and leave more assets outside of your estate



GIA – Each year this funds the ISA



ISA – Once the GIA is exhausted income is drawn from the ISA





Netwealth



Netwealth – What's different

Netwealth offers a hybrid approach that combines the best of discretionary wealth management and financial technology

Network

Up to 7 invitees can join a client's Netwealth Network. The Network's combined AUM define the fee level and often serves to allow younger members to benefit fully from the service.

Cost Efficient

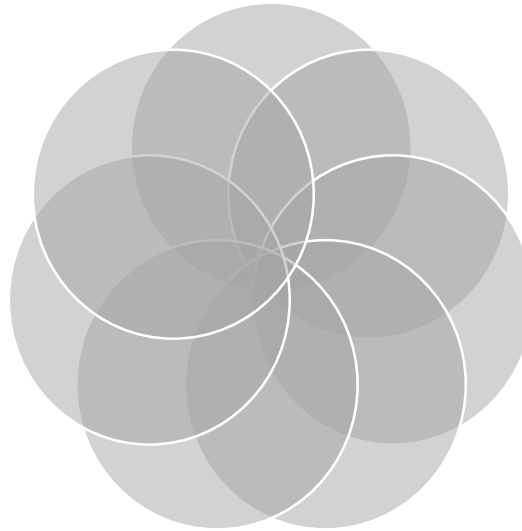
Technology enables us to deliver comprehensive wealth management at a fraction of the cost of conventional DFMs, without compromising on quality or security.

Powerful Investment Tools

Clients can plan for a variety of financial goals, customising their portfolio choices and gaining detailed portfolio insight.

Team

Netwealth brings together a seasoned team who have all excelled in their respective fields.



Investment Process

A robust and thorough investment process, drawing upon the long term and institutional expertise of the team.

Security

All client assets are separately custodied and ring fenced, and clients access their data via a dual factor authentication process.

Professional Advice

We have dedicated financial advisers to discuss our clients' specific circumstances.

Comprehensive Offering

We offer GBP, USD and EUR portfolios. In addition, we cater for Charity, Corporate and Trust accounts as well as general investment accounts, Pension, ISA and JISA wrappers.



Conclusions

1. Both property and liquid investments can play an important role in providing for your retirement.
2. Recent changes to rules around both buy-to-let property investments and pensions mean you may need to review your arrangements.
3. Planning for your goals is essential
4. Make sure to control the controllables however you choose to invest.

You can access our modelling tools online by registering at [Netwealth.com/start](https://www.netwealth.com/start)



Important Information

Netwealth Investments limited is authorised and regulated by the Financial Conduct Authority with firm reference number 706988.

When investing your capital is at risk. The value of investments may go down as well as up, so you could get back less than you invested.

Netwealth offers advice restricted to the services provided, and does not provide independent advice across the market.

Netwealth is covered by the Financial Services Compensation scheme (FSCS). In the event that we have stopped trading or are declared to be in default and cannot meet our obligations, a client may be able to claim compensation. This depends upon the type of business and the circumstances of the claim. The FSCS offers different levels of cover for different types of business. Most types of investment business are currently covered for 100% of the first £50,000. Further information is available from the FSCS website (www.fscs.org.uk).



Any questions?

