PRESS RELEASE

7IM

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Pension vs property: Which investment is best for your retirement?

The latest figures from the Office of National Statistics (ONS) state that UK average house prices increased by 8.6% over the year to February 2021, up from 8.0% in January 2021. Average house prices increased over the year in England to £268,000 (8.7%), in Wales to £180,000 (8.4%), in Scotland to £162,000 (8.0%) and in Northern Ireland to £148,000 (5.3%)[1].

Michael Martin, Private Client Manager at 7IM, looks at what these latest figures mean for people thinking about investing in property:

"The halcyon days of when house prices were rocketing, and yields were growing, are over. With house prices stagnating and onerous tax changes, investing in property is no longer the golden nest egg it once was.

"Whilst property investments can have some benefits from a retirement perspective, relying on a property or a portfolio of property doesn't really make much sense anymore. Yes, it may offer a yield but when it comes to selling a property, unlike your investments in your pension, you can't sell it in stages and it could mean a hefty capital gains tax bill upon sale. In addition, the headache associated with finding new tenants, repair and maintenance costs as well as void periods cannot be underestimated.

"Furthermore, property counts towards your estate and is subject to inheritance tax (IHT), so if you're unable to sell the property before you pass away, those who inherit it could end up with an eye watering 40% IHT bill. Not ideal.

"The problem with a property is that it's an all-or-nothing, lumpy asset to dispose of if you want some cash. You can also be forced to sell it all at precisely the wrong time. During the financial crisis, people who'd lost their jobs and needed to support themselves were forced to sell their houses for a fraction of what they'd have been worth just months earlier."

Multiple assets, rather than multiple houses

With a cocktail of concerns facing residential property investors, property is definitely not 'as safe as houses' so investing in a diversified portfolio is likely to be a far more prudent approach when it comes to funding your retirement. Michael Martin, Private Client Manager at 7IM, explains:

"Investing elsewhere doesn't have to be a roller-coaster ride of risk. It's possible to invest the proceeds in a ready-made investment portfolio made up of a variety of assets, including global equities, bonds, alternatives and even property too. So spreading the risk, and not putting all your eggs in one basket. Another egg analogy.

[1] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/february2021

“One of the advantages of investing in these multi-asset funds is that you benefit from in-built diversification, which can help smooth returns over the long term. If one asset class is down another might be shooting the lights out – they can balance themselves out. They also have the added benefit of having an investment professional look after the day-to-day management of the portfolio, including what assets to allocate where and when. And you can sell it down in smaller chunks if you want to access the cash or give assets away for inheritance tax purposes.”

Get smart with your pension

Since investing in bricks and mortar is not the lucrative investment it once was, Michael Martin, Private Client Manager at 7IM, states why that investing in a pension is a more robust route to a comfortable retirement:

“One of the main attractions of a pension is the tax relief that you get on your pension contributions. The government will give your pension contributions a ‘top up’ or ‘bonus’ in the form of tax relief of between 20% and 45% (or between 19% and 46% for those in Scotland)[2] depending on your level of income tax. This means for every £1 that is invested in your pension the actual cost to you could be as little as 55p (or 54p).

“Another major attraction is that under auto-enrolment, so long as you qualify, your employer will contribute a minimum of 3% to your workplace pension - though many companies offer much more generous contributions than this. On top of the government tax relief, these contributions can give your pension savings a significant boost, so it’s well worth investing in your workplace pension.

“In addition, and something that is often overlooked when it comes to pensions, is the breadth of investment choice that is available. A Self Invested Personal Pension (SIPP) for example lets you invest in a variety of assets including shares, bonds, investment trusts, funds, currency, commodities and even property, to name but a few. This allows you to create a truly diversified investment portfolio in your pension that can be tailored to generate growth or income depending on your retirement goals.

“For the vast majority, investing in a pension is a far better option for retirement than investing in property. As well as the generous tax breaks and potential for significant investment growth, pensions offer far more flexibility than property, which makes retirement planning that little bit more straightforward. As ever though, if you’re unsure about what’s best for you, then it pays to take financial advice.”

Tax rules are subject to change and taxation will vary depending on individual circumstances. This article does not constitute advice or a recommendation; please consult a financial adviser. You should be aware that the value of investments may go up and down and you may receive back less than you invested originally.

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[2] https://www.which.co.uk/money/tax/income-tax/tax-rates-and-allowances/income-taxes-in-scotland-agsh48x50b3u

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About 7IM

It all began in 2002, with seven of us in a basement establishing 7IM because we couldn't find anywhere we wanted to invest our families' money. Our assets under management now stand at around £17bn, and we have moved from 'basement' to 'Bishopsgate' in the City of London.

We manage money aiming to meet people's medium to long-term return expectations. Fundamentally, we believe in active asset allocation in both active and passive investments (where we were one of the first to offer actively managed passive portfolios). We build global portfolios based on that allocation, and include alternative assets where appropriate to manage the risk reward trade off. Active currency management is also at the core of what we do.

7IM provides investment services to professional wealth managers, planners, advisers and private investors. These include: discretionary investment management, a range of multi-asset portfolios, an investment and open architecture trading platform and a fantastic app, 7IMagine, which brings client portfolios to life.

Multigenerational investing
We do our best to pass on economies of scale, reducing fees so more investors within a family save with us. Grandparents, through to parents and their children can invest as individuals with one charging structure – whether they live under the same roof or not.

A story of continuous innovation.
In 2013, we launched 7IMagine, an app allowing investors and advisers to keep up to date with their portfolio. The brainchild of some clients – professional 'gamers' uninspired by their paper statements – 7IMagine was enriched in February 2016, with My Future. Again using gaming technology, My Future allows advisers and investors to capture details about family or individual finances, including any number of streams of income, properties, other assets and expenses, to help identify how sustainable their finances are and if / when their retirement income will run out.

Our funds

- Our **AAP fund range (Asset Allocated Passive)** is populated largely with passive structures to keep costs to a minimum. Asset allocation is actively managed to help exploit opportunities and reduce risk across the spectrum: **7IM AAP Adventurous, 7IM AAP Moderately Adventurous, 7IM AAP Balanced, 7IM AAP Moderately Cautious, 7IM Cautious and 7IM AAP Income**.
- Our **Multi-Manager fund range** invests in a range of active and passive vehicles. Costs still matter, but if we think an actively managed fund can outperform a passive alternative we have the freedom to choose it. Asset allocation is actively managed. There are different funds for different profiles: **7IM Adventurous**, **7IM Moderately Adventurous**, **7IM Balanced** and **7IM Moderately Cautious**.
- We also have a selection of funds designed to meet specific needs, such as the **7IM Personal Injury Fund**, the **7IM Real Return Fund** or the SRI focussed **7IM Sustainable Balance Fund**.

Our Model Portfolios
The 7IM Model Portfolios are a range of risk rated portfolios and are available within our discretionary investment services and standalone on the 7IM platform and other platforms. The Models use the same investment process and asset allocation as our funds.

Our range of Model Portfolios are available across the risk profiles: **7IM Adventurous Model Portfolio, 7IM Moderately Adventurous Model Portfolio, 7IM Balanced Model Portfolio, 7IM Moderately Cautious Model Portfolio, 7IM Cautious Model Portfolio and 7IM Income Model Portfolio**.

In 2019, we launched **7IM Pathway**, a diversified range of passive multi asset model portfolios underpinned by our robust Strategic Asset Allocation (SAA) process. The Pathway Model Portfolios differ from our traditional offering and are built purely using a streamlined version of 7IM's robust (SAA).

The 7IM funds and Model Portfolios are available through the 7IM Discretionary and Platform as well as on other platforms.

Important information: The information contained in this document does not constitute investment advice and if you are in any doubt about the suitability of the investment or service, you should consult a professional financial adviser. The value of investments, and the income from them, can fall as well as rise and you may not get back the full amount invested. Seven Investment Management LLP is authorised and regulated by the Financial Conduct Authority, the Jersey Financial Services Commission and the Guernsey Financial Services Commission. Member of the London Stock Exchange. Registered office: 55 Bishopsgate, London EC2N 3AS. Registered in England and Wales No. OC378740.

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