Property and pensions

Last month, Housing Minister James Brokenshire suggested allowing first-time buyers to dip into their pension savings to help fund their house purchase. Jack Gray investigates whether this is a viable policy to implement

Summary
• In order to help first-time buyers get onto the property ladder, Housing Minister James Brokenshire has proposed using their pension funds to plug the gap.
• However, many in the industry have voiced their opposition to the proposal.
• It seems clear that young people need financial assistance to be able to purchase property, but there may be alternatives that do not result in depleted savings.

When Housing Minister James Brokenshire began his speech at the Policy Exchange and said that what he was about to say "may be controversial" and "upset the political applecart", he was talking about not running for Conservative party leader. However, little did he know that what he would say later in his speech would cause the controversy and threaten to upset the pensions applecart.

"We should be looking at allowing an individual to use part of their pension pot as a deposit on a first-time home purchase," he states. "We should be changing the necessary regulations to allow this to happen, protecting the integrity of pension investments but allowing lenders to innovate and design new products to bring this opportunity to consumers."

This is not the first time that using pension savings for house deposits has been proposed by an MP. In September 2012, then Deputy Prime Minister Nick Clegg announced his 'pensions for property' plan, which would allow parents and grandparents to use their pension fund to guarantee a deposit for their children and grandchildren. Despite support from people such as then-Conservative MP and life peer David Willetts, the plan never came to fruition in the way it was envisaged.

Poor reception

One of the reasons Clegg's 'pensions for property' initiative was never formally adopted was the overwhelmingly negative response it received. The same is true for Brokenshire's proposal. AJ Bell senior analyst, Tom Selby, describes the plan as "dangerous political short-termism". He explains that, although the housing market has its problems, allowing people to access their pensions to plug the gap "is not a sensible answer".

"Chronic undersaving for later life is one of the biggest challenges facing society today, so a proposal that encourages people to drain their pension pots risks making this problem even worse," he adds. "There is no guarantee that such a proposal would actually help people get on the housing ladder at all. Unless the government dramatically boosts the supply of homes in the UK then this plan risks stoking house price inflation."

Selby also argues that, once you start dipping into pensions for short-term costs, it is difficult to know when to stop. If you can access your pension for housing, people may want to be able to access it, for example, for debt repayment or car purchases. Not only may it not solve issues within the pensions market, but nor will it solve problems in the housing market too. Letting savers raid their pensions for house deposits is unlikely to see house prices fall. The People's Pension director of policy, Gregg McClymont, believes that introducing a policy of "robbing Peter to pay Paul" won't make housing more affordable.

He continues: "Instead it's likely to push up house prices and leave younger people worse off in the future. Pensions are about providing much-needed incomes for people in retirement, and all the international evidence points in one direction; pension pots accessed for housing or other reasons during a working life are never adequately replenished ensuring people will be left worse off."

Even Brokenshire's own Conservative Party did not agree with the proposal. Although there was no official comment, a source from the Department for Work and Pensions (DWP) says: "We cannot support this policy because the evidence shows it will be risky and does not help the people it intends to help. The housing market doesn't need people to dip into their pensions to buy more houses."

Industry support

Despite staunch opposition from much of the industry, condemnation of Brokenshire's proposal was not universal. The Association of Consulting Actuaries (ACA) states that, with "sufficient safeguards", allowing young people to access their pensions for a property deposit could allow greater flexibility without significantly impacting their retirement outcomes.

"Saving for retirement is very important and the sooner you start, the easier it is. However, for many, saving for a deposit on a house is also important," begins ACA younger members' group chair, Thomas Dalton. "The Lifetime ISA was intended to provide a flexible savings vehicle that could be used for both retirement and housing, but the restrictions on it render it largely ineffective. It cannot be used to meet auto-enrolment requirements and cannot receive employer contributions, so cannot replace a regular pension.

"Reasonable concerns have been expressed that this could lead to worse retirement outcomes, but this is by no means certain if careful rules are applied. Young people already save towards a deposit on a house but often in inefficient ways. If those savings were paid into a flexible savings vehicle along with existing retirement savings, they could be used to fund a house deposit without reducing the amount available for retirement."

Some have argued that changing pension rules to help first-time buyers get onto the property ladder could have a positive impact on both the housing market and saving for retirement.

If young people were allowed to withdraw up to half of their pension pots early in order to fund a deposit on their first home, this could free them up for saving once they are in a more financially stable state. However, it seems as if savings rates should also increase so pots are large enough to safeguard the savers if the policy was to succeed.

It also appears that some savers would like the option to be able to access their savings for property deposits, with 14 per cent of people surveyed by Willis Owen saying that they would prefer to use their pension to help them get onto the property ladder.

The alternatives

There clearly seems to be an issue when it comes to young people being able to afford getting onto the property ladder, and most do not agree with Brokenshire's suggestion. However, Aegon pensions director, Steven Cameron, believes that waiving stamp duty on retirees who want to downsize would free up family homes for younger generations, helping tackle supply issues.

"Allowing stamp duty cuts for downsizers would not only help stimulate the market but help retirees release equity to fund their retirement," he adds. "Stamp duty concessions for those approaching retirement would go a long way to help free-up larger family homes for younger generations, not only addressing housing affordability and supply issues but helping to supplement sellers' pension funds at the same time."

Selby argues that the Lifetime ISA offers young people the best option, saying: "Any efforts to boost first-time buyers should focus on improving this product, for example by lowering the 25 per cent exit penalty and extending the age parameters beyond 18-39, rather than ripping up the pensions rules yet again."

However, McClymont argues that minimal progress will be made until the property supply side of the issue was addressed. He concludes: "The answer to the housing shortage is building more affordable housing, not diminishing people's pensions."

Written by Jack Gray