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## Allowing the young to dip into their pensions to buy a house is a crazy idea

Housing minister James Brokenshire has proposed that young people should be able to dip into their pensions to help fund their first property purchase.

Everyday money June 5, 2019 by Kyle Caldwell

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When it comes to pensions, politicians love to meddle. For the most part, the two biggest reforms that have taken place over the past decade have been positive – auto-enrolment and the pension freedoms. The former has led to over 10 million individuals making provisions for retirement in workplace pensions, while the latter has given retirees far greater control over how they access and utilise their life savings.

But the latest big idea is downright dangerous and will hopefully not see the light of day. Housing minister James Brokenshire has proposed that young people should be able to dip into their pensions to help fund their first property purchase. He adds: "It seems rather obtuse

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that we would deny people the opportunity to do this given that... it is, after all, their money.”

A 15,000-word thesis could be written (and may indeed be published one day) on why this policy is completely nonsensical, but in short here are the main objections.

The millennial generation, of which I am one, is not saving enough money for retirement. And no, it is not because we spend frivolous amounts of money on flat whites and avocados.

The reality is that the boom in house price growth over the past 15 years has pushed property values to levels that for large numbers are simply unrealistic, both in terms of raising enough of a deposit and in regards to earning enough to be accepted for a mortgage.

Those who are single are in the worst position. Given that most lenders usually cap the amount that can be borrowed at 4 or 4.5 times an individual’s income, a single buyer would need to be earning just over £50,000 to afford the average UK property price of £230,776 with a 5% deposit. The average wage for UK employees is £28,677.

With property ownership out of reach, many in the 20s and 30s age bracket spend a large chunk of their earnings on rent. The average millennial, according to the Landbay Rental Index, spends around a third of their monthly salary on rental accommodation.

Therefore, the proportion of money millennials have left over to set aside for their long-term future is low; as a generation we are constantly told we are not saving enough. The remaining two-thirds of a monthly salary needs to go towards essential living expenses plus student debt, and for those who have started a family (including myself) childcare costs, which by the way for the UK are the highest in the world.

Various studies have suggested millennials need to save 18% of their salary to have a ‘comfortable retirement’, which for the vast majority is completely unrealistic. Instead most save the minimum, which is 8% in total, 5% from employees and 3% from employers.

So, given we are not saving enough for retirement, it does not make any sense to me why you would make this problem even worse by allowing the young to use their pensions to buy their first home.

As former pensions minister Ros Altmann points out, the idea is “completely misguided”. She adds: “The purpose of private pensions is

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to ensure people have later life income to supplement the UK's exceptionally low state pension. If people are encouraged to spend their pension money while still young, there is an increased risk of old-age poverty.”

The other main reason why the idea is completely crazy is because if it ever did see the light of day it would just push up house prices even further, in the same way the government's Help to Buy policy has. In turn, young people would be faced with even larger deposits to find, and higher mortgages that would take even longer to pay off.

Instead of meddling with pensions, the government should prioritise building more affordable homes to address the chronic undersupply of houses. Cracking down on land banking and getting rid of stamp duty for all would be two good places to start to help fix the housing crisis.