

YOUR MONEY

LOVEWELL BLAKE

SIPP a wise choice for pensions in volatile times

THE huge advantage a Self Invested Personal Pension (SIPP) holds over other personal pensions is that it lets you invest much where you like, within certain parameters.

Within a SIPP you can create, or have created for you, portfolios to suit your appetite for investment risk, as well as for your own 'time horizon' which will depend on the length of time to your retirement. For the average person, this may mean changing the underlying assets within your SIPP up to the time you retire or take some of the benefits from your pension.

While you can create a strategy for your pension funds now, you may feel that with the level of global financial volatility it would be unwise to continue exactly the same strategy up to your retirement.

It might therefore be prudent to reduce your exposure to more volatile funds over time. However, with world markets expected to continue strengthening in the future, you may wish to have some investment now in areas where growth is anticipated for a number of years. The answer therefore may be to reduce the percentage exposure in these funds gently over time, while retaining a foothold to continue to enhance growth opportunities.

I am a firm believer in having core holdings of funds that have consistently provided acceptable returns, with 'satellite' holdings in geographical areas and differing sectors, to enhance growth opportunities. What might be suitable will depend on your circumstances, and your attitude to risk which may change over time.

For many years the accepted route in saving for a pension was to invest your money with a pension provider, many of whom have household names. Unfortunately many of them have provided somewhat second division performance with their in-house funds, to say the least. The accepted wisdom now is to set up your own SIPP so you can choose the funds you wish to invest in. By doing so you should enjoy far superior performance, which is what you want. The larger your pension fund, the larger your pension.

Many of the pension providers now offer external funds too, but this is again not the best route to take as most double charge on these funds. While you should see improved performance, it is reduced by the additional layer of charges, dragging the fund values backwards.

So do not leave your funds with a provider who continues to offer somewhat lacklustre returns. Act now to improve your pension fund(s), and your future. The future lies in your hands.

Almary Green Investments

Bad health could boost your retirement income

Independent financial adviser JIM BARR looks at an unusual way of making your pension fund work harder

No one wants to suffer from ill health, particularly when they are trying to enjoy their retirement after many long years of hard work.

But did you know that by having a health issue, you could see your pension income boosted significantly? It's all down to "enhanced annuities".

What is an annuity and how does it work?

An annuity is simply a lump sum payment made to an insurance company that provides you with an income for the rest of your life.

The annuity rate is the conversion factor used to turn your pension fund into an income and the rate is determined mainly by index-linked gilts and life expectancy. So the older you are at the time an annuity is set up, the rate should be higher.

Equally, annuity rates for females are lower than those for males as female life expectancy is generally higher. The amount of income you receive also depends on what extras you use, such as the payment frequency, whether or not the income increases to counteract inflation or if you want your spouse to receive an income on your death.

It is important to note that once an annuity starts, it is not possible to change the terms – so make sure you are entirely happy with your choice.

How does my health come into it?

As I have already stated, life expectancy plays a part in determining an annuity rate. So it is logical to think that if your life expectancy is not as good as could reasonably be expected for someone of your age, then you could benefit from an 'enhanced annuity' rate.

Although people with serious health issues and a life expectancy of less than five years could benefit the most, you may still be able to qualify for an enhanced annuity rate. If you have smoked or have what might seem even a minor health problem, you could still find yourself eligible for an enhanced annuity.



HEALTHY INCOME: Being unfit is never advisable, but if your life expectancy has been shortened by illness you could use it to your advantage.

What evidence do I need to provide and will it become complicated?

Unfortunately, insurance companies won't just accept your word for it. For a start, you will be required to complete a questionnaire giving information on your medical history.

Surprisingly, eight providers of enhanced annuities have a common form that you only have to fill in once. Your financial adviser can then send that to all eight companies at the same time for them to analyse whether or not you meet their criteria for a higher income.

Some may ask your doctor for a medical report and you may even be required to attend a medical examination. It is not unusual for most of the companies to take vastly different views and you may well find that most say 'no' to an enhanced annuity and only a

couple say 'yes'. But the increase in retirement income that you may receive can make this worthwhile.

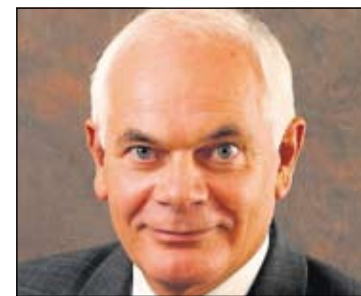
What sort of increases in income are possible?

If your only health issue is being a smoker, then the annuity rate may increase by up to 20% while those in the poorest of health can see increases of 100%. These are not insignificant increases and the income you receive is for life – even if the medical experts get it wrong and you live for a lot longer than anticipated.

So being unfit can actually be a positive thing?

This column is by no means an encouragement for you to take up smoking, eat lots of greasy food and never move from in front of your TV. But this could certainly

be a way for your pension fund to work a bit harder for you when you need it most. As always, please make sure that you take independent advice before making any investment decision.



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