

YOUR MONEY

Almary Green Investments

LOVEWELL BLAKE

Protecting your income in retirement

JOHN MEE, director of Lovewell Blake, on how to meet the challenge



WHETHER you are in or approaching retirement you need to review your investment needs. There may be changes in your personal circumstances, investment performance or legislations.

Any investment portfolio should be regularly reviewed in light of your current objectives and prevailing market conditions. This has become essential over the past year with interest rates collapsing due to turmoil in the financial markets, and having a considerable impact on the income of pensioners, at a very vulnerable time. Pensioners have no time to create more capital, and might need to top up their state and occupational pensions with income from their personal investments.

Many pensioners hold all their capital in deposit based investments, whose returns will depend upon prevailing interest rates. With rates at an historical low, many have seen their income drop substantially and have resorted to using capital just to survive and pay the bills.

ISAs have proved popular tax-efficient investments and if they are cash deposit ISAs then at least they can pay their interest gross. However, do remember an ISA is merely a 'tax wrapper', holding assets such as shares, cash, unit trusts or investment trusts. What pensioners need is a stable income that insulates them from fluctuating interest rates and enables them not to have to chase deposit takers to get the best 'headline' rate which then disappears after a few months. There are deposit takers who guarantee to pay the average of the top five deposit accounts, with interest paid monthly — a major advantage to pensioners.

A stable income can be obtained from a well balanced portfolio of equity unit trusts and investment trusts together with corporate bond unit trusts, and this income should also rise to keep pace with inflation.

Remember also the importance of impartial, independent advice. 'Tied' agents, such as most banks or building societies, or appointed representatives, will only be able to recommend products of the company they represent whether or not competitive.

Fee-charging, independent advisers provide impartiality, with no influence of commission. Clients might feel they are getting commission-based advice free, but the commission is deducted from their investment.

Paying a fee is the less expensive option because in almost all instances the cost of the advice is less than any commission.

ISA versus pension - better or just a different option?

Independent financial adviser JIM BARR, of Almary Green Investments, joins the debate

Is an ISA better than a pension? That's a question Independent Financial Advisers are often asked by clients.

Since 1999, when ISAs were first introduced, they have become incredibly popular and increasingly there is a belief that an ISA is preferable to a pension.

■ What's the situation when it comes to tax?

A common misconception is that the tax treatment of pensions and ISAs is roughly the same but that is not the case. By far the biggest attraction of saving into a pension is that the money you pay in benefits from tax relief. This means that you effectively get back the tax that you have already paid on the amount you pay in from your earnings. So, for every £100 you pay in, the taxman will add on another £25 whatever tax rate you pay (including if you pay no tax at all).

If you are a higher rate taxpayer, then the incentive is even better although legislation is in place to restrict this benefit on those lucky enough to earn over £150,000 per year.

As always, there is no such thing as a free lunch so when you start to take an income from your pension fund, the taxman wants his money back. True, you can have a quarter of your fund tax-free, but the remainder of your fund will give you an income that is taxed at normal Income Tax rates over and above the higher personal allowance that those over 65 enjoy.

With an ISA, there is no tax relief on the money you pay in but when it comes to taking the money out, there is no further tax to pay. Many people, therefore, see that the rules are not too dissimilar — but that can be a false impression.

■ What's the big difference between ISAs and pensions?

In a word, compounding. Taking the earlier example of £100, if that was your monthly savings amount, then £100 is what would be paid into an ISA. But with a pension, the £100 will be increased to £125. So over a year, an extra £300 will go into a pension. If you save over a longer



ON TARGET: Which will get you closest to your retirement target — a pension or an ISA? Photo: CONTRIBUTED

time period, say 30 years, the difference becomes much larger, especially when you start adding on investment growth.

If you are a higher rate taxpayer in work and a basic rate taxpayer in retirement, the story is even better. Of course there are many factors to take into account but, generally speaking, if you invest into the same fund with a pension and an ISA, the pension will give you more money.

■ So a pension is the one people should always pick?

No. It is easy to fall into the trap that one is better than the other. Both have their advantages and disadvantages but they can work very well alongside one another.

They are both tax-efficient savings products you should not consider in isolation. Please make sure that you take independent advice before making any investment decision.

■ Independent Financial Adviser Jim Barr is based at the Ipswich office of Almary Green Investments. He looks after the financial requirements of a mix of individual and corporate clients on a wide range of protection, pension and investment needs. To contact Jim Barr, call Almary Green on 01473 257973 or 01603 706740 or visit www.almargreen.com



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