



Should you consider Income Drawdown, Phased Retirement, or an Open Annuity?

You will only get the option of the first two if you have a pension fund of at least £100,000, and the last one if your fund is at least £250,000.

Income drawdown seems popular in that you do not have to take an annuity until age 75, but instead you withdraw some of the income while your fund is still invested, and gaining or losing from investment performance. There are complicated regulations but this is appropriate for some people.

Phased retirement is easier to understand and involves splitting the investment fund into say 1,000 policies. You might then vest 20 policies in the first year of your retirement, including taking the 25% tax free lump sum on those policies, and vest some more policies and take the associated 25% tax free lump sum on those policies each year. The policies which have not been vested continue to reflect the underlying investment performance tax free, and the 25% tax free lump sums are available for you to live on each year.

An open annuity is permitted by the Inland Revenue, but is not available from UK insurance funds and is often arranged through Gibraltar. This is generally of interest for large funds in order to pass part of the fund on to the next generation. Alternative Secured Investments might achieve similar results after April 2006.

Does Immediate Vesting appeal to you?

Some people do not like the uncertainty of the investment markets, but they would like the tax relief that is available for pension contributions. Some insurance funds will allow premiums to be vested immediately on payment for policyholders over 50, and that can give a good income especially for higher rate taxpayers. Example figures are set out below -

A £10,000 gross premium will cost a basic rate taxpayer £5,300 or a higher rate taxpayer £3,500 after tax relief and payment of the 25% tax free lump sum, but the annuity provider will have a fund of £7,500 less charges. That might generate a level annuity of £300 for a 50 year old or £500 for a 75 year old, giving gross returns of 5.6% and 9.4% for a basic rate taxpayer or 8.5% and 14.2% for a higher rate taxpayer.

Will your tax rates change?

One factor which can influence the decision when to vest is your rate of tax. Premiums paid when you are a higher rate taxpayer generate an even better return if you become a basic rate taxpayer in retirement.

What about your family's pensions?

A person with no earned income can contribute £2,808 net, £3,600 gross to a pension fund. Would you like to fund that for your non working spouse or partner, or as a gift to your grandchildren?



*Can we save you
money,
or help you generate
extra income?*

To discuss your
individual
circumstances
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RETIREMENT PLANNING



The questions and information in this leaflet may prompt you, or your family, friends or associates, to plan your affairs so as to save money or generate extra income.

Please discuss your individual circumstances with us, otherwise we disclaim any liability for anyone acting, or failing to act as a consequence of any information contained in this leaflet.

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Have you thought what your retirement will be like? From a lifestyle which has probably been dominated by the working day, you will have more time to do less, but most retired people wonder how they ever found time to work.

Conventional wisdom is that you only require two-thirds of your previous income in retirement, but you will have extra time for spending, holidays, travel etc. so consider your personal circumstances. Will you take up activities that you have not previously had time for? Some, such as reading classic literature, may be free by joining the public library.

What hobbies and pastimes will you want to develop? How will you and your partner allocate 'me' time? These are not financial questions, but they are important to your planning.



Will you be dependent on state provision? Do you intend to live on the State Pension and means-tested Benefits in retirement? If you will be above the means-tested Benefit levels in retirement, then your planning is mainly a choice of investments, but below that level you also have to make assumptions about government policy.

The relatively generous means-tested Pension Credit has considerably reduced the incentive to save for a large number of people. Generally anyone earning over £30,000 per annum should consider making their own pension provision, but it is a much more difficult decision for anyone earning significantly less.

When will you retire?
Lord Adair Turner's Pension Commission Report, published in 2005, suggested increasing retirement age to 69 by 2050

Is tax free saving in an ISA an option?
Unlike a pension premium, contributions to an ISA do not attract tax relief, but the capital fund is always available for withdrawal, or to leave as an inheritance. Perhaps a mixture of ISAs and Personal Pensions is appropriate.

Is Equity Release appropriate for you?
Although it has had a bad press, Equity Release is suitable for some people and should not be overlooked.

Even if you have children to whom you want to leave an inheritance, they would probably not want you to deprive yourself of any necessities and some luxuries in your retirement. Your parents probably left you very little.

If you have a valuable property, but little cash, then Equity Release, either as a mortgage or shared ownership could give you the lifestyle that you would like in the later years of your retirement.



Will you shop around for the best annuity rates?
The company that you chose to build up your pension fund may not offer the best annuity rates, but it will offer you an annuity illustration at your planned retirement date. More than 50% of people take that option without considering the open market transfer value.

We strongly recommend that you review the open market with an Independent Financial Adviser (IFA). Some annuity providers can offer up to 30% extra income for life, but once you have accepted an annuity it will be too late because you cannot change provider.

What options are available with annuities?
An annuity converts a capital value into income for life which cannot be realised as a capital sum.

Annuities can be on joint lives, and as 'two can almost live as cheaply as one' we normally suggest the survivor should continue to receive the same amount of pension. This is known as 100% survivors pension, other typical options are 50% and 66%.

Annuities can be guaranteed for 5 or 10 years, or not guaranteed. The guarantee is quite cheap reducing £1,000 per annum of pension income by approximately £9 a year for a 5 year guarantee or £37 per year for a 10 year guarantee for a 65 year old man, but the purpose of an annuity is to provide income for life, not after death, so is a guarantee worthwhile, especially if you have a 100% survivors pension?

If your life expectancy is impaired, you can have that fact taken into account and benefit from up to twice the income in retirement by taking an impaired life annuity.

Annuities can either be 'level' at a fixed rate or 'escalating' at a set percentage or with the Retail Price Index, or 'with-profits' which may or may not increase with investment performance.

The older that you are and the shorter your life expectancy, the less effect inflation will have on the spending power of your income, but if you are younger and have a long life expectancy you should consider the effect of inflation.

The future buying power of £1,000 is set out below :-

Inflation	5 years	10 years	15 years	20 years	25 years
1.5%	£928	£861	£800	£742	£689
3.0%	£863	£744	£642	£554	£478
5.0%	£784	£614	£481	£377	£295
8.0%	£681	£463	£315	£215	£146

We do not advise on individual investments or annuities. Please contact an Independent Financial Adviser (IFA).