June 2012

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Bury FINANCIAL ADVISERS LTD

THE Adviser

But Pensions Are Rubbish

".....But pensions are rubbish; the newspapers say they are not worth the effort and the bloke down the pub said not to bother!"

There are a number of objections that regularly come up when I discuss starting or adding to pension plans with existing or potential clients.

Firstly, pensions are potentially the most tax efficient savings vehicle available and are designed to provide an income in retirement. There is nothing legal that gives at least a 20% return at day 1. Combined with tax free growth and access to 25% of your pension pot tax free at retirement, pensions need a second look and unhelpful myths need to be killed off.

Why do we all need a pension?

The first myth to discount is that the Government is going to provide for you in retirement.

The facts are from Skandia Tax Table for 2012/13:

- The maximum Basic State Pension is £107.45 per week. This is payable to those with 30 years national insurance contributions; and
- The minimum income guarantee for those eligible for Pension Credit is £142.70 per week.

This means that the maximum basic state pension will be £5,587.40. I have yet to meet one client who can live off this.

In addition, State Pension ages are increasing to age 68 for the younger amongst us and there is a chance this may be extended further as we start to accept we are starting to live longer.

For anyone who has their eye on a free and easy retirement, or would like to retire at an earlier age, building up a personal pension pot could be an ideal solution.

"I prefer something that is as safe as houses."

Since the credit crunch of 2008, many people will understand that houses are not that safe, as they now find themselves with negative equity or unable to sell their homes. The average house price is down by over 40% since their 2008 peak* - this does not sound like a cautious investment to me!

Continued...

*Taken from The FT Money June 2012

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Using your own property to fund retirement could be dangerous, as firstly it relies on the ability to sell and secondly, if the sale leaves enough equity in order to downsize.

The alternative, which could be essential for those who haven't planned on how they will survive in retirement, is equity release. Whilst the concept is good for those who haven't planned for this, it does mean a smaller nest egg for those who you wish to benefit from your estate on death. For some this will be acceptable, for others a little prior preparation could prevent this.

Many people use a second or further investment property (a residential property usually let out to a tenant) to fund retirement. This is an alternative strategy, but given Capital Gains Tax which is potentially payable in an eventual sale and income tax payable on rental income, perhaps it isn't the most tax efficient way.

"I will start next year; I'm too young to think about it."

The earlier saving is considered, the less effort is required over a longer period. The longer saving is delayed, the more concentrated the effort required. This is known as the 'cost of delay'.

In addition to the cost of delay, the earlier a savings habit is formed, the easier it becomes to save in the long term.

"I have a pension and I am making provision for it."

Most people underestimate how much pension is required to provide an income for their lifetime. At the moment, it is the most expensive in history as a result of current economic conditions.

At the moment a 65 year old male in good health would need around £100,000 to provide him with £6,000 per year on a level, no spouses and a 5 year guarantee basis.*

Anecdotally, in the 1980's this pension would have provided around £15,000 on the same basis.

It is important to realise how much money will be required in retirement and then focus on obtaining a pension pot which will satisfy this need. These needs must be reviewed regularly and a fair amount of fine tuning may be required throughout the years.

When I see clients about pension provision I am often asked what is the minimum that I can contribute. This more often than not, is not enough and more effort and thought needs to be taken.

"They are just too risky for me."

Pensions are long term savings vehicles and as such they should be more equity focused because over the longer term equities provide better returns than most other asset classes. It is also true however, that when sensationalist news items appear on the television and in our newspapers after a significant fall in the stock market, it is usually accompanied by how much has been wiped off UK Pension Schemes!

At Bury Financial Advisers we advocate risk profiling. This is where a portfolio that is suited to your attitude to risk is specifically structured to fit within your own risk tolerance. This is regularly reviewed and re balanced in order to maintain an appropriate level of risk. If a client is looking for more stable returns, a less volatile portfolio will be selected. If a client only cares about the maximum amount at retirement and not what it is up to on a month to month basis, they will be invested more aggressively.

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"I just can't afford it at the moment."

Undoubtedly there will be some people who cannot afford to save at all. However, for some, saving is a need that they would prefer not to prioritise. I have seen many clients who have told me they can't afford to save for their retirement; whilst I agree that day to day bills and the cost of living need to be prioritised, often other needs such as a new car, holiday, nights out and up to date mobile phones and other gadgetry, are mistakenly given more priority. Clients should consider pensions as part of their natural expenditure. Alternatively they could consider it as deferred pay, i.e. income that is being used to provide income at a point in future (when they retire).

In summary

Pensions, when taken seriously, are just one way that someone can provide for their own retirement needs. They are probably the most tax efficient savings vehicle available to a UK resident, but they are not the only one. It really doesn't matter what savings vehicle you are using, it is just wise to use one and understand the advantages and pitfalls of them. It would be sensible for people to have a number of options available to them so as not to have all their eggs in one basket.

At Bury Financial Advisers, we are more than happy to discuss your retirement strategy or lack of it at any stage of your life and we would love for you, your family, your colleagues and your friends to feel comfortable enough to talk to us about it. We are here to help and assist and hopefully open your eyes to the opportunities available to you today!

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