UCUMONEYTALK

The personal finance newsletter for members of UCU published by Lighthouse Financial Advice AUTUMN 2017

When can you take your additional pension?

If you have pension savings in defined contributions schemes, such as AVCs, a private pension or pensions from previous employers, you have considerable flexibility over how and when you can access them.

You can access your defined contributions pension pot when you reach 55. You are then able to leave it so it has the potential to continue to grow, or take some or all of it to use as you need. When you do take your pension, some will be tax-free but the rest will be taxed.

You don't have to make a decision on what to do with your pension pot now, but it's worth thinking ahead so you're ready when you do. It's good to have choices when it comes to pensions and your retirement, but it's also important to understand all your options and any impact your decision may have on your future financial security.

What are my options when I take my benefits?
You now have greater flexibility over how you take the benefits from your additional pension. You'll still get part of your pot tax-free, but what you do with the rest is up to you. So you could buy an annuity, take some and leave some invested, take it all in one go, leave it where it is or even a combination of these.

Explore your pension options
What is worth remembering is that once you've had your tax-free lump sum, money you take from the rest of your pot may be taxed.

How long will my pension pot last?
How long your pension pot lasts will depend on the choices you make. From age 55 you'll be able to access the money within your pension pot in a number of different ways. Here are some of the options to help you think through your pension strategy. Remember, you could combine several.

Annuities
Buy an annuity and this will provide an income for the rest of your life. With this option, the provider takes responsibility for your money, guaranteeing to pay you an agreed regular sum until you die.

With an annuity, you may get more or less money than you put in depending on how long you live after your annuity has started.

Flexible drawdown
Opt for flexible drawdown and your pension pot will last until you've taken all your money out. The level of income you take and any investment growth will be key factors as to how long your pension pot will last.

Take some or all of it in cash
Take all or some of your pension pot in cash and it's up to you how long it lasts. Once you get your money after tax, you're completely responsible for it and can use it as you want.

Leave it all for now – defer your pension
If you don't do anything with your pension it will stay invested and could continue to grow. The longer you leave it, the more you may have in your pension pot so the longer it should last. Just make sure you won't lose any guarantees which only apply at your retirement date if you decide to leave your pension pot.

If you are unsure what to do, or your pension(s) appear complex and confusing, you should take professional financial advice. Financial advisers have the specialist training and knowledge required to advise you on a range of financial needs, such as pensions and retirement planning. Although a financial adviser will charge you for their services, taking professional advice could help you make better decisions and avoid expensive mistakes.

Also in this issue

The curse of long-term cash 2
Little things add up 3
Having the right cooks makes the best broth 4

The value of your investments, and the income you receive from them, can go down as well as up, so you could get back less than you put in. A pension is a long-term investment and inflation will reduce how much your income is worth over the years. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

While Lighthouse Financial Advice endeavours to provide correct information, it cannot guarantee the accuracy of any information contained in this newsletter and no action should be taken or not taken solely based on the information contained in it. Professional financial advice should be sought before taking any action. Threshold, percentages, rates and tax legislation may change in the future. Lighthouse Financial Advice is a trading style of Lighthouse Financial Advice Limited. Registered in England No. 04795080. Registered Office: 26 Throgmorton Street, London, EC2N 2AN. Lighthouse Financial Advice Limited is an appointed representative of Lighthouse Advisory Services Limited, which is authorised and regulated by the Financial Conduct Authority. Lighthouse Financial Advice Limited and Lighthouse Advisory Services Limited are both wholly-owned subsidiaries of Lighthouse Group plc. 2017-08-19 17.2517

The curse of long-term cash

Trevor Greetham, Head of Multi Asset at Royal London Asset Management, reveals why you should be seriously concerned when money in short-term cash deposit accounts turns into long-term investments.

There is nothing wrong with keeping some cash in an easy access deposit account on a short-term basis. Being able to pay unexpected bills is important and access to ready cash is part of prudent financial planning. But when short-term holdings of cash turn into a long-term investment we should be seriously concerned.

How cash savings can lose money

The buying power of large holdings of cash can be eroded by bouts of unexpected inflation, like the 1970s, or long periods with interest rates well below the rate of inflation – like today.

Since the financial crisis, cash has returned 1% or less a year, consistently below the prevailing level of inflation. We expect this situation to continue, with the Brexit negotiations keeping UK interest rates low as the weak pound pushes inflation higher, eroding the real value of cash savings.

Doesn't everyone know this already?

Many people still hold a significant part of their long-term wealth – excluding their home and pension – in cash. In 2015/16, nearly three-quarters of the £80 billion invested in adult ISAs went into cash ISAs, with millions of people getting negative real returns on their long-term savings.

A more appropriate long term strategy

By contrast, money invested across a wide range of asset classes (types of investments) – known as multi-asset investment – has beaten inflation and outperformed cash by a wide margin. However, not all investment funds perform well and no single asset class is likely to provide the combination of stability and returns which most individuals seek. In contrast, investments in a well-managed multi-asset fund can spread the risk whilst giving investors exposure to assets that have the potential to deliver higher returns.

Multi-asset funds better than cash since 2008

Since the financial crash of 2008, such a strategy would have consistently outperformed cash in each and every year. The difference between the two approaches is considerable. If you had put £1,000 into a cash ISA 10 years ago it would be worth less than £900 in today's money. If instead you had put your £1,000 in a multi-asset fund you could have an estimated pot of over £1,500 now.

Long-term savings require a long-term approach

ISAs are increasingly being used as part of a long-term savings strategy alongside pensions, but holding cash is not a sensible option when interest rates are close to zero and inflation is on the rise. In the short run, cash is safe but in the long run it is risky.

Stocks and shares ISAs, particularly those that invest in multi-asset funds, can offer a good home for your long-term savings, including for retirement. A professional financial adviser can recommend funds that match your objectives and expectations.

The value of your investments can go down as well as up, so you could get back less than you invested.

Source: The Curse of Long Term Cash - Royal London

The difference between the two approaches is considerable. If you had put £1,000 into a cash ISA 10 years ago it would be worth less than £900 in today's money. If instead you had put your £1,000 in a multi-asset fund you could have an estimated pot of over £1,500 now.

Little things add up

Although a century-long rise in life expectancy, where women were gaining an extra year of life every five years and men an additional 12 months every three-and-a-half years, stalled in 2010, people in the UK are living longer than ever before. You need to remember this when investing for your retirement.

With this increasing life expectancy comes an increasing need for a big enough pension pot to provide enough ongoing money during a potentially very long retirement. The need for people, and especially younger people, to take personal responsibility for building their pension pot is also becoming ever greater, as fewer companies offer defined benefit pension schemes.

The International Longevity Centre, a think-tank that focuses on policy on longevity, ageing and population change, has recommended that young Britons should be saving 18% of their salary in order to live the same type of retirement as today's pensioners. However, huge student loan debt levels and the struggle to get on the property ladder make the 18% target unachievable for many, especially given that only 2% of an individual's salary is being put away for retirement in most auto-enrolment pensions.

Workplace pension contributions fall short of the ideal target

Even with the higher auto-enrolment contribution of 8%, which is due to come into effect in spring 2019, young people will be some way short of saving the amount they need for a comfortable retirement.

With this gap between the required and the actual saving levels, you should consider being proactive in ensuring that smart investment decisions in your younger years help pay for your later years.

One way to make up this shortfall could be by embracing the mantra of "the little things add up" and harnessing the power of compounding. Compounding is the process by which your future returns are based not just on your initial investment, but also on any growth on your investment. Compounding plays on a simple truth: if you can find yourself a small but regular advantage, apply that over a long time and it will compound into a big difference.

Compounding can make a significant difference

Compounding can be used by pension savers in their twenties, thirties, forties or even fifties, to make a potentially significant difference to their retirement fund. Obviously the earlier you begin investing the more powerful the potential long-term impact of compounding could be on your overall investment pot.

A range of investment options

Premier Asset Management is responsible for managing £5.8 billion of assets (as at 30.06.2017) on behalf of clients. Their money is invested in a range of different investment solutions designed to achieve different long-term investment objectives, such as long-term growth, a regular income or a balance of both, and with different risk profiles to cater for the varying risk appetites of investors. The box on the right gives an overview of their four Risk-Targeted Portfolios.

With retirement lasting longer than ever and with other more immediate financial burdens to meet, it is important to consult a financial adviser at an early stage. He or she can advise on the suitability of investment options that can fit around other financial considerations and help you try and avoid facing a shortfall in your pension when you retire. By utilising suitable investment portfolios and harnessing the power of compounding, we believe that everyone can have the best chance of enjoying a comfortable retirement.

The value of your investments, and the income you receive from them, can go down as well as up, so you could get back less than you put in. A pension is a long-term investment and inflation will reduce how much your income is worth over the years. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

The four Premier Risk-Targeted Portfolios aim to provide long-term investment growth by investing in a diverse blend of Premier funds.

The portfolios are actively managed by the Premier Portfolio Management Service investment committee, and Premier's specialist investment teams, who choose the underlying funds in which the portfolios are invested.

Their investment teams believe it is very important to constantly monitor and manage client portfolios with the aim of keeping each portfolio on track to achieve their long-term aims.

They believe diversification (spreading the risk) is important to help manage investment risk (not putting too many eggs in too few baskets) and to expand the investment opportunities available.

Premier Asset Management

Having the right cooks makes the best broth

Michael Stanley, Senior Portfolio Manager at Sanlam Private Wealth, discusses how a discretionary fund manager working with your financial planner really can deliver additional value.

The saying goes that too many cooks can spoil the broth. But, when each cook is highly skilled and uses their expertise and these are combined together, surely you'll make the best broth.

The roles of financial planner and discretionary fund manager (DFM) are very different. The financial planner is there to provide you with a comprehensive financial plan, assessing your personal and financial circumstances and your immediate, mid-term and long-term objectives, plus your attitude to risk and capacity for loss. A DFM is an investment expert who builds a personalised portfolio to an agreed risk profile and then efficiently monitors the performance of that portfolio, making changes to help you reach the objectives you agreed with your financial planner. Working with your financial planner, a DFM can provide additional value by:

- assisting with ongoing capital gains tax (CGT) management when managing your portfolio
- automatically using your ISA allowances each year to an agreed amount.
- giving you access to the person who manages your money.

John and Jane's story below shows how this can work in practice.

Investing an inheritance for long-term growth

John (49) and Jane (42) are married and earn £65,000 and £49,000 respectively. Both are members of their employer's pension scheme and each contributes 10% of their salaries. They both have ISAs but have not yet used their 2017/18 allowance.

They recently met their financial adviser after John's father passed away leaving them the following inheritance:

- 10,000 GlaxoSmithKline ordinary shares - valued £146,800
- 5,000 Unilever ordinary shares – valued £153,500
- 6,500 AstraZeneca ordinary shares - valued £255,450.

Both had a risk profile described as medium-to-adventurous and wanted maximum growth from their inheritance, with a view to using it to help fund their retirement in 15-17 years' time. Their adviser asked Sanlam Private Wealth to manage the investments in line with this risk profile and overall objectives.

Sanlam started by assessing the investments. All three companies are long-established, listed on the London Stock Exchange and members of the FTSE100 index. However, holding only three shares is very risky. They therefore sold them, utilising John and Jane's annual CGT exemptions, which for the 2017/18 tax year is £11,300 each. They reinvested the proceeds in a diversified range of assets on a global basis, with 60%-70% in shares and the remainder in fixed income investments and commercial property and commodity funds, in line with John and Jane's risk profiles and key objective of capital growth, using their annual ISA allowances.

As Sanlam is constantly monitoring their portfolios, they can act quickly to take advantage of investment opportunities as they arise or to reduce risk during periods of uncertainty. They give John and Jane regular progress reports and also liaise with their financial planner to ensure that the portfolio remains suitable for their agreed level of risk and investment objectives and takes into account any change in their circumstances.

About Sanlam

Sanlam is a discretionary fund manager that works with financial advisers to provide clients with bespoke investment portfolios tailored to their needs, investment requirements and to help achieve their objectives like maintaining wealth, minimising tax, saving for the future, growing the value of assets in real terms, or maintaining an income for your retirement.

The value of investments can go down as well as up and you could get back less than you invested. Tax advice which contains no investment element is not regulated by the Financial Conduct Authority.