UNISONMONEYTALK

The personal finance newsletter for UNISON members published by Lighthouse Financial Advice

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UNISON Living

How we helped Mrs F. get £5,500 a year more

Mrs F. retired early and wasn't sure when or how she should take her final salary pension. She asked us to take a close look and explain her options. Here is how we managed to get her £5,500 a year more, with no additional risk.

Mrs F., aged 61, retired from her role in IT in January this year. However she did not claim her final salary pension because the scheme's normal retirement age is 65. Since January she had been living on a small personal pension plan (around £6,000 per year) and drawing down from her savings in the bank (£135,000).

Mrs F. is divorced and has two grown-up daughters in their late 20s, neither of whom is financially dependent. She has absolutely no plans to marry again. She decided to contact us to see whether we could help her decide what to do about her final salary pension. After a quick chat on the phone with Mrs F., one of our advisers went to see her and completed a risk profile, which identified her as a very low risk-taker.

Spouse's pension on death not required

He discussed the possibility of claiming her pension now rather than waiting until she reached the age of 65. However, on reviewing the scheme he found that, like many schemes, it included a 50% spouse's pension on death. He asked the pension scheme in question if it was possible to forgo the spouse's pension so that she could receive a higher pension – unfortunately this was not possible.

They offered her an annual pension of £12,400 with a 50% spouse pension, or £8,700 per annum with a pension commencement lump sum of £58,419. The adviser explained that she could look at transferring her scheme to obtain a single life pension and suggested that she should also ask what the cash equivalent transfer value was, which turned out to be £361,560.

Mrs F. is a smoker and drinks an average amount of alcohol but does not have any medical conditions or take any medication. She said that she did not want any guarantee built into her pension because "my children will get the house and all my savings when I die", and her original scheme would have most likely also ended upon her death.

Getting the best rate from a suitable provider

The initial quotes the adviser obtained looked favourable. However, knowing that providers don't always give their best quote immediately, he narrowed the research down to two suitable providers and, playing off one off against the other, was able to get the rate up by a further £300 a year.

Potentially well over £100,000 better off

The final quotation was for an income of £17,900 a year, which equates to £5,500 a year more than Mrs. F.'s original scheme was offering, and if Mrs F. lives to age 86 she will have received well over £100,000 more income as a result of taking professional financial advice.

Mrs F. was absolutely delighted with this outcome and could not speak highly enough of our service. She was relieved because she very nearly took the decision to claim her pension back in January and almost put the forms in the post and is so pleased she took a moment to think about it.

Until recently, transferring out of a defined benefits pension scheme was generally not appropriate because of the loss of guarantees. However, now that more options are available, it might be beneficial to transfer your benefits but you should not do this without fully understanding all the implications. It is therefore essential to take professional advice from a suitably qualified expert. We have changed Mrs F.'s name and circumstances to preserve her anonymity.

Also in this issue

Find out more

It you are about to retire and would like to find out the most suitable way of taking your pension why not book a no obligation appointment with one of our professional financial advisers?

Call 08000 85 85 90 or email appointments@lighthousefa.co.uk.

or contact your usual Lighthouse Financial Adviser.

How we got Mr Jones's additional pension back on track

It is easy just to leave your savings where they are. However, it pays to review them with the help of a professional financial adviser, as Mr. Jones, who works in the public sector, discovered when he contacted us earlier this year.

Mr .Jones, aged 50, is divorced with non-dependent children and is planning to retire at age 65. He had a personal pension to which he was contributing £64 a month net (£80 per month gross). This pension was started many years ago and was invested in a with-profits fund. It had a current value of £75,600. He also has a small public sector pension which he can take when he turns 65 and will qualify for the maximum basic state pension when he reaches the age of 67.

Needed to boost his pension pot

He was particularly concerned about boosting his personal pension provision, while bearing in mind that he may downsize when he retires so is likely to have additional capital available then from selling his property. He wanted to pay a little more towards his pension, although he didn't have a set target for the amount of income he would need when he retired. He was likely to receive an inheritance from his elderly parents in due course.

Personal pension not aligned to risk profile

Our adviser completed a risk analysis for Mr. Jones, which highlighted that the fund in which his personal pension was invested was unlikely to be delivering an appropriate performance for Mr. Jones's needs and expectations.

In addition, the costs of this old plan were not particularly competitive compared to those of more modern plans, which might also offer Mr. Jones more flexibility and choice in terms of accessing his funds when he retires.

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Move to a modern, more competitive plan

The adviser suggested that Mr. Jones move his personal pension to a more competitive plan, which would also allow him to take advantage of the flexible access options when he starts drawing his pension.

The adviser also recommended investing the pension fund in a blend of investment styles, with a competitive overall average charge. Any income generated at this stage will be rolled up for growth potential. This ensures competitive overall annual charges and gives a risk-targeted investment approach to Mr. Jones's retirement fund.

Pension now aligned with his profile and goals

Mr. Jones agreed to go ahead with the adviser's recommendations and increased his monthly pension contributions to £200 per month net (£250 gross), as he now has the budget available to do this. He now has a modern, cost-effective personal pension that is aligned with his objectives and personal profile and designed to grow in line with his expectations. The adviser will review Mr. Jones's pension and other savings annually, to ensure that they remain "risk appropriate" and that Mr. Jones is contributing as much as he can afford within the various limits. Mr Jones's name and circumstances have been changed to preserve anonymity.

Find out more

To review your additional pension, book a no obligation consultation with one of our professional financial advisers.

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or contact your usual Lighthouse Financial Adviser.

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.

How are you? Really?

How thinking a little differently could make a real difference to the income you get from pension savings you have outside a public sector scheme.

"How are you?" "Good" or "Fine" you're likely to reply. That's because we all know that "How are you?" is an alternative greeting to "Hi". We know that it's usually said with nothing more than a passing interest in your well-being or health. And that's OK. Imagine if you were to launch into a long tale about being tired, wheezy with asthma, trying to lose weight, taking cholesterol medication and a history of heart disease. It's just not in our psyche or our reserved British nature.

However, sometimes there's a real benefit to talking about your health. You just might not realise the importance. It could make a big difference if you're approaching retirement and considering converting your defined contribution pension pot (pension savings outside public sector schemes where benefits you receive are not linked to your salary) into an annuity for a guaranteed income for life, or drawing down income.

So what are we suggesting?
First, think about 'personalising' or 'tailoring' your income. Forget about whether you 'qualify' for increased annuity rates due to your health.

Guaranteed income for life
What does this really mean? Generally, when you look at buying a guaranteed income for life (an annuity) you would be asked about your health to see if you are ill enough for an 'enhanced' or 'impaired' annuity. If you qualified, it would mean your income would be higher.

But, like everything these days, underwriting moves on as life expectancy predictions change and medical science continues to improve. The scope of personalisation "underwriting" is now so broad that it's becoming almost impossible to second guess if someone might 'qualify' or not.

It isn't just about whether you have a serious condition such as heart problems or cancer. It can also cover more everyday things such as raised blood pressure, where you live, smoking, alcohol intake and diabetes to name but a few. The idea of qualification is becoming redundant. Everyone can now get their own 'personalised' rate.

If we think about it at its simplest, everyone has a height and weight. Everyone is likely to have a postcode. Therefore, everyone can obtain their own personalised underwritten annuity rate. You don't need to be seriously ill to get a higher guaranteed income for life.

This means that if you're thinking of buying an annuity you shouldn't be settling for anything 'standard', off-the-shelf or ordinary. Instead, think about having your plan tailored to your exact specifications. It should be bespoke. It could make quite a difference to the amount of income you receive.

Underwriting for drawdown reviews
People have more choice in how they use their money in defined contribution pension schemes, with drawdown becoming the popular choice. Understandably, flexibility is often high on their wish list. The tricky part though is knowing whether you're taking too much out of your pot when you need income.

Obtaining a personalised annuity quote will provide an example of the level of guaranteed income for life you could receive. This can then be used as a benchmark for the income you'd like to take out of your drawdown plan. It will help you determine if your investments are providing the returns you need, and if the income you are taking is sustainable.

Asking your financial adviser to arrange for you to be underwritten at each drawdown review or annuity purchase will ensure that you're getting the most out of your retirement, and have a truly tailored retirement income solution.

This means that if you're thinking of buying an annuity you shouldn't be settling for anything 'standard', off-the-shelf or ordinary. Instead, think about having your plan tailored to your exact specifications. It should be bespoke. It could make quite a difference to the amount of income you receive.

Find out more

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The curse of long-term cash

We reveal why you should be seriously concerned when you use cash deposit accounts as a safe home for your long-term savings.

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 if you keep your long-term savings in a cash deposit account you should think again, as these accounts are not as "safe" as you may think.

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, interest rates on cash deposit accounts have been 1% or less a year, consistently below the prevailing level of inflation. This situation is expected to continue, with the Brexit negotiations keeping UK interest rates low as the weak pound pushes inflation higher. This means that inflation is likely to continue to erode the real value of savings in cash accounts.

Doesn't everyone know this already?

Many people still hold a significant part of their long-term savings – 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 losing money in real terms on their long-term savings.

So what can you do?

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 people seek. In contrast, money invested in a well-managed multi-asset fund can spread the risk whilst giving you the potential to deliver higher returns.

Multi-asset funds better than cash since 2008

Since the financial crash of 2008, savings held in multi-asset funds consistently outperformed cash in each and every year. The difference between the two 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 tax-efficient savings accounts. They are often used as part of a long-term savings strategy alongside pensions, but using cash ISAs 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.

Source: The Curse of Long Term Cash - Royal London

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Find out more

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

Helping UNISON members secure their financial future

Each year we run hundreds of seminars on topics ranging from redundancy to retirement that give UNISON members practical help with securing their financial future.

To find out about arranging a seminar or surgery for UNISON members at your place of work please contact one of our regional representatives:

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