If you really hate the idea of buying an annuity, there are ways of delaying purchase in the hope rates will improve or, in the event of you suffering ill health, that you will get enhanced rates later on.

Unsecured pensions

Unsecured pensions (also known as income drawdown or pension fund withdrawal) are a popular alternative to buying annuities. They allow you to draw an income directly from your pension fund while the fund remains invested.

The maximum level of income you can draw is about 120 per cent of the level lifetime annuity payable to a single person of your age and sex; the minimum is zero. You can use your remaining fund to buy a lifetime annuity at any time.

Anyone in a stakeholder or personal pension scheme can use an unsecured pension, apart from those with very small funds.

Staggered vesting

Similar to an unsecured pension, staggered vesting (also known as phased retirement) is a way of drawing an income from your pension fund while delaying the purchase of an annuity.

With this, most personal pensions are set up as 1,000 segments. Staggered vesting allows you to take benefits from segments in stages over a number of years. Each time you draw on a segment, a tax-free lump sum of 25 per cent can be taken and the balance used to buy an annuity. The remaining funds stay invested, and hopefully will grow to beat inflation.

This can be a useful financial planning tool if, for example, you want to ease back gradually on work and start to replace your earnings with pension income. The danger is that taking withdrawals may erode the

## Postgraduate Dental Education

The Postgraduate Dental Education Unit (PGDEU) is one of the UK’s leading dental education centres offering an established portfolio of courses for qualified dentists who wish to develop their knowledge of the latest methods, equipment and techniques in implant dentistry and orthodontics. The wide range of programmes on offer are delivered by leading professionals, academics and researchers using a wide variety of educational tools.

### MSc in Orthodontic Dentistry

The only MSc Orthodontic programme specifically for general dental practitioners enabling them to pursue a flexible training pathway that can be taken over a period suited to individual circumstances.

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This course is designed for specialist orthodontists who wish to gain experience with a wide range of lingual orthodontic systems and gain a qualification in lingual orthodontics. Internationally recognised experts in this field are involved with this pioneering course.

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This course is aimed at Dental Care Professionals who wish to train as an Orthodontic Therapist providing orthodontic treatment, working to a prescription from a Specialist Orthodontist.

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capital value of your fund and result in a lower income in the future.

With both these routes you need to pick a careful investment strategy for the underlying pension fund. Those who are overcautious might not achieve enough growth to maintain their income. Equities probably need to play some part in your portfolio.

Fidelity’s research indicates that by keeping nearly a third of the portfolio invested in shares, property securities and commodities, with the balance in fixed income and cash, a fund can produce a reasonable, stable income while still allowing the underlying assets to keep pace with inflation in the long run.

Taking the middle way
A new concept in retirement income has recently arrived in the UK from the U.S. Guaranteed drawdown plans from the Hartford are now available to U.K. pensioners. While annuities offer protected income with little growth potential, and full drawdown offers opportunity for investment growth with no protection, the Hartford’s ‘third way’ product combines growth potential with the security of guaranteed income.

The Hartford’s Guaranteed Retirement Plan allows you to secure and ‘lock in’ an ongoing level of retirement income. This guaranteed income has the potential to increase if the underlying pension fund investments perform well. The level of each step-up is determined by how much the fund increases over its previous highest anniversary level, up to a maximum of 10 per cent a year. If the underlying funds fall, the level of your guaranteed income is not reduced.

When I’m 74...
Under current Government rules, you are compelled to buy an annuity or transfer to an alternatively secured pension at age 75.

It might not be the right time for you, but you have to make a decision even if annuity rates are not good or you still don’t need the income. At 74, then, you should be consulting a financial adviser in preparation.

An alternatively secured pension is similar to an unsecured pension, but the maximum income allowed is lower, being 90 per cent of the annuity you could buy at age 75. The minimum income is 65 per cent of the same annuity.

But if you think this will be a handy way to pass on your pension wealth to your heirs, you are wrong.

The Government has backtracked on its original plans for alternatively secured pensions and slapped a huge penalty tax of 70 per cent of the fund on anyone trying to do this.

As a result, alternatively secured pensions have lost their attractions.

Key points
• Shop around the open market
• Take advantage of enhanced rates if you qualify
• Use tax-free cash to generate extra income
• Ignore inflation at your peril
• If comfortable with risk, try investment-linked options or drawdown/phased retirement

One investment company, Fidelity, recently launched a retirement income fund that defies the conventional wisdom that a retired person should hold fixed income and cash, maintaining a solid exposure to shares, property securities and commodities, typically at 50 per cent. Fidelity believes this continued investment in equities is necessary to combat the corrosive effect of inflation over the far longer retirement periods enjoyed by people today.

Ignore inflation at your peril
Combating the corrosive effect of inflation over the far longer retirement periods becomes even more imperative if you plan to pass the income to your beneficiaries. If, for example, inflation is 2 per cent a year, an extra 4 per cent of income will be needed to maintain the same level of spending power at age 85 as you are enjoying today.

Cautious might not achieve
Those who are overcautious might not achieve the growth in income necessary to combat inflation over the long run. A fund that is too conservative might not provide sufficient funds to pay for all of your needs.

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You need a careful investment strategy.

Capital value of your fund and result in a lower income in the future.

With both these routes you need to pick a careful investment strategy for the underlying pension fund. Those who are overcautious might not achieve enough growth to maintain their income. Equities probably need to play some part in your portfolio.
Try and defer taking your NHS pension to age 65, otherwise there will be an early retirement to pay (consider using other assets/funds to generate an income between retirement and age 65).

Seriously consider if you need to take the pension income now, as deferring the decision to purchase an annuity, for example, could mean you will get a higher income in the future (and the whole fund will remain in your estate to pass on to your beneficiaries).

Free audio CD
To learn more about your retirement planning options, you can request a free copy of one of Rutherford Wilkinson’s Audio CDs: How To Avoid The 3 Most Common Retirement Planning Mistakes. Just call Catherine Lowes on 0191 217 5540 and a copy will be posted to you (please quote ref: DT).

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Take action
As you have read in parts 1 and 2, the ‘at retirement’ pensions landscape can be quite complex. While we have discussed the options that you have, bear in mind that there are a number of pension providers within each option. So not only do you have to choose the right pension route, but you also need to make sure you research who the best provider is at that time.

While many feel comfortable buying certain financial products on their own, you’ll no doubt agree that this is one area that should not be left to chance.

If you are within five years of thinking about taking the benefits from a personal pension fund, now could be a good time to consider what options are available to you and to start educating yourself so that when the time does arrive you’ll be in a position to act with greater confidence.

Please note:
• There is no guarantee that your income will be as high as that offered under an annuity.
• Your fund may not achieve the required level of growth to maintain income levels at the same level as those which could be achieved under an annuity. This is because income payments are technically withdrawals of pension fund capital and will erode the value of your fund if investment returns are not sufficient to make up both the income withdrawals and the charges under the plan. This could result in a lower income at future 5-yearly reviews or when an annuity is eventually taken. This is particularly true if a high level of income is taken.
• Annuity rates may be at a worse level when annuity purchase takes place.
• Annuity providers make a profit from the fact that some individuals die sooner than is expected. They utilise some of this mortality profit to enhance current annuity rates. By delaying the purchase of your annuity, the benefit of this potential profit, which can be significant, may be lost. This is especially true the longer you defer the purchase of an annuity.
• Your fund will be subject to a further charge against the lifetime allowance when you eventually move to either secured or alternatively secured pension. This will effectively add the growth in your fund to the amount you have already crystallised, with a possible tax charge as a result.

About the author
Ray Prince is a fee-based certified financial planner with Rutherford Wilkinson Ltd and helps dentists plan towards their ideal retirement, as well as getting them the best deals on mortgages, protection and investments. You can contact him by calling 0191 217 5540 or emailing ray.prince@ rwpfg.co.uk. Also, to register for the free twice-monthly email newsletter full of financial tips, visit www.medicaldentalfs.com.

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