Regular cash payments

With an IDP, you withdraw a regular income within limits set by HM Revenue & Customs, which you can vary according to your needs, while the remainder of your fund remains invested until you reach the age of 75. After this age, your pension will depend on the residual value of your fund and may be lower than a conventional annuity taken immediately on retirement.

The maximum permitted withdrawals are based on the calculations of the Government’s Actuary Department and recalculated every five years to reflect the remaining funds and current annuity rates. At age 75, you must buy an annuity or transfer to an Alternatively Secured Pension. These phased withdrawals allow annual income to include both the tax-free cash and the taxable annual income to include both the tax-free cash and the taxable

Who does it suit?

An IDP can be taken out by anyone aged between 50 and 75 (55 from 2010), and may be suitable for you if:

- You are in good health – those in poor health may be better off with an annuity.
- You have other sources of income. You want to maximise the benefits for your family after your death.
- You have enough to invest and need a regular income but not a tax-free lump sum.
- You are in good health – those in poor health may be better suited by an enhanced annuity.
- You need a regular income but not a tax-free lump sum.
- You have sources of income other than your personal pension.
- You have other sources of income.
- You want to maximise the benefits for your family after your death.
- You want to maximise your present income, while retaining future security and some control over your pension assets.

The principal disadvantage of ID compared with a conventional annuity is reduced income security. For example, your fund may not perform as well as you anticipate and when you do purchase an annuity, your income will be reduced. You also need to take into account that:

- Annuity rates vary. If you defer a purchase until the last moment, you will have to accept the rates available at that time.
- The charges for an IDP are higher than for a conventional annuity.
- Annuity rates depend on mortality rates, and those who die earlier cross subsidise those who live longer. If you delay buying an annuity you will lose this subsidy, and there is no guarantee your fund will grow sufficiently to compensate.

Take your pick

If you do decide an IDP is right for you, select your investments with care, relating the returns to the degree of risk you are prepared to accept. If you intend to withdraw income immediately, a proportion of the fund should be in cash deposits, since withdrawals from equity investments can have a disproportionately negative impact on the initial fund value. Once the cash fund has been exhausted, actual and predicted investment performance should determine the source of later withdrawals.

A number of providers offer IDPs, and your choice should take into account their relative financial strength, service levels and charging structures, and whether they offer large fund discounts and a failsafe programme to automatically transfer funds into equities, particularly important in today’s turbulent economic climate. Other factors to consider are the internal SIPP bank interest rate, the number of external investment funds, and whether the trustees are in house.

Once your plan is set up, your financial advisor should conduct an annual review to ensure your fund’s growth is keeping pace with the withdrawals and advise from which investments the withdrawals should be taken. He should also ensure the pattern of investment continues to reflect an acceptable balance of risk.

During retirement your circumstances may change, and ill health or other factors may influence your income requirements and call for a corresponding change in the way your income is funded. There are many opportunities when the flexibility of an IDP can make all the difference.

Are you set up for a comfortable retirement?

‘At the age of 75, you must buy an annuity or transfer to an Alternatively Secured Pension.’

• You need a regular income but not a tax-free lump sum.
• You are in good health – those in poor health may be better suited by an enhanced annuity.
• A large proportion of your expenditure is discretionary, on hobbies or holidays, for example.

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About the author

Thomas Dickson, director of Essential Money Limited, has a wealth of experience providing financial advice to the dental industry. He is one of only 435 certified financial planners currently in the UK, and his expertise has gained him the prestigious Advanced Financial Planning Certificate from the Chartered Insurance Institute. For a free guide to your retirement options, call 0121 885 5060.

Money Matters 15
The right agent

If you're selling your practice, using the Internet to find an agent you can trust is a tough business. Ian Stead shows you what to look out for.

Dental practice owners seeking to sell up, usually ask an agent how to do it quickly, while maximising the value of their asset. With the Internet now a major part of all our lives, Google is often the first port of call for practice vendors.

However, as many of us have learned from experience, when you use the Internet, it's good to exercise a little caution. Instituting a Google search for a specific company or product generates a list of names or 'sponsored links' on the right side of the screen, each with some relevance to the search. These advertisers have to pay Google every time a user clicks on them, and they also 'bid' for places on the list, so those willing to pay the most are placed at the top.

To prevent companies hiding on thousands of key words and intruding their names into irrelevant searches on the off-chance they'll find a customer, Google drops advertisements which fail to attract sufficient clicks, effectively making such advertising on thousands of key words so unattractive that potential customers will never see it. How? According to a Google spokesperson, the search engine merely ignores the results of bids which are below a certain level, so the companies and individuals which fail to attract sufficient clicks on them, effectively making such advertisements for rival companies whose only purpose is to include the name in their keywords is to take advantage of our reputation.

At present, this is perfectly legal and Google is under no obligation to prevent it. A spokesperson for Google's Trademark Complaint Procedures, says: 'From May 2008 we will no longer review a term corresponding to the trademarked term as a keyword trigger. When we receive a complaint from a trademark owner, we will only investigate the use of the trademark in ad text.' In other words, as long as the text which appears on the screen does not include the injured company's name, Google will take no action.

Choosing wisely

For most dentists, buying or selling a practice is a pivotal moment in their lives, and peace of mind depends on complete confidence in their agent's integrity and competence. Even with the benefit of a recommendation, before making a commitment, vendors should satisfy themselves of the product their choice meets the criteria to provide a professional and efficient service.

Experience within the retail dental sector is vital. Even compared with other healthcare businesses, dental practices have unique characteristics and requirements for success. Among the many factors, which influence a final valuation, your agent must understand such matters as catchment areas, local demographics, goodwill and the transfer of patient confidence to a new incumbent.

Although your agent is working for you, their valuation must be independent and without bias. Expect it to be based on visits to the practice to review not merely its physical assets – premises and equipment – but also its current financial status, potential for expansion and how it compares with other local practices, which have recently come to the market. There may also be specific factors in particular cases that only an experienced agent will identify. Some principals invite a number of valuations, but while an inflated figure may be flattering it will not achieve a satisfactory result.

Withoutewaters please!

It's likely that pending a sale you will continue to work, and an experienced agent will weed out the timewasters and offer your practice only to serious potential buyers. You also need to be confident that your business's commercially sensitive data is in safe hands, and that your patients will be comfortable with the attitude and policy of the new owners.

Of course, if you're on the other side of the fence and seeking to purchase a practice, approaching a specialist agent is also the first step. The best agents will take time to discuss in detail your professional ambitions and location preferences, and have exclusive access to properties currently available. Taking care to understand the mentor's individual aspirations is the key to providing the highest-quality service.

To contact Frank Taylor & Associates, call 08456 123454, email team@ft-associates.com or visit www.ft-associates.com

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About the author

Ian Stead

After graduating from Imperial College, London in 1980, with a degree in Zoology, Ian Stead joined Brentick PC Pest Control Division under a graduate recruitment scheme and soon progressed to sales manager of its London West branch.

In 1995 Ian established an independent pest control company in London, which was sold in 2004. As the son of a dentist, Ian possessed some empathy with dentists and dentistry. It was with this understanding and his excellent knowledge of running a successful business that Ian joined Frank Taylor & Associates in April 2008 as managing director.