Kudos pension newsletter

July 2009

Welcome to the first edition of the Kudos Pension Newsletter. Your Company's Group Personal Pension is an integral part of your overall employee benefits package.

Whatever your personal ambitions are in relation to retirement you will need money to enjoy life to the full. That is where your company pension can help. UK State retirement ages are going up and depending on your age now you may have to wait until 68 before getting your State Pension.

But by joining your company pension you may be in a position to retire earlier, take partial retirement or have a better lifestyle when you eventually stop work. What benefits you receive at your selected retirement age will depend on a numbers of factors including, but not exclusively, the investment performance of the funds over the term of the plan, how you decide to take your benefits and how much you pay in.

Please remember that Kudos are here to provide you with advice in relation to your company plan.

The articles in this edition of our newsletter cover the following areas:

- Investing in volatile markets
- Kudos Investment Commentary: July 2009
- Pension options at retirement
- State pensions: the basics

Investing In Volatile Markets

Volatile markets make people nervous – you may be tempted to take your money out and re-invest when stronger performance returns. But this can be an equally risky strategy.

Market Timing

In an ideal world, you'd be able to gauge how markets would perform, buying when shares fall to their lowest price and selling at the highest. In reality, this 'market timing' approach is very difficult to get right – as the recent huge fluctuations in the stock market have shown.

Taking a long-term approach

Market timing is a risky approach and getting it wrong by even a day can mean suffering a loss or missing out on a gain. If you invest regularly, you don't need to worry about getting the timing right.

Pound Cost Averaging

By investing regularly, let's assume every month, you can 'smooth out' the highs and lows of the stock market.

This is because when prices are low, your investment buys more units than it would when prices are high. When markets rise, you won't be able to buy as many units – but your existing units would show a profit.

This approach is known as 'pound cost averaging' and means that the average cost you pay for your units may be less over time. Pound cost averaging is particularly helpful when markets are falling, as you can see from the graph below.

Taking a long-term view of investing through pound cost averaging means that you don't need to panic when share prices fall, because you'll merely be buying more of your chosen investment. And because you're committing funds on a regular basis, you don't need to worry about choosing the best time to invest.

Pensions – a real long-term investment

If you're concerned about the economic situation, you might be tempted to stop making regular investments to provide for your future. But while it might be difficult to have confidence in the markets, taking a long-term approach and making regular contributions will mean that you can reap future benefits.

Investing in a pension by making regular monthly payments follows the pound cost averaging principles and will help you to build up a lump sum over the longer term.

And if you want to invest a lump sum into your pension, you can still benefit from pound cost averaging by drip-feeding it over time in smaller amounts, rather than investing it all at once. This is known as a phasing approach.

Benefits are not guaranteed and the value of investments may go down as well as up. An investment's past performance is no guide to its future performance. Pound cost averaging may not suit some circumstances, for example a constantly rising market.

Kudos Financial Services

ABERDEEN | GLASGOW | LONDON

Investment Commentary July 2009

During the early weeks of 2009, investors were seemingly living in the hope and expectation that the inauguration of President Barack Obama and the global monetary authorities could wave some kind of magic wand to bring about a quick solution to the world's financial and economic problems.

However, investor attention has focused once more on the slough of poor economic and corporate data which suggests a worsening of the global economic environment.

House prices, car sales and manufacturing output data have all continued to deteriorate, while unemployment in the United Kingdom continues to increase above two million.

Global markets continued to build on the rally which began in March, with many producing their best monthly returns since 2000. Better than expected earnings combined with signs that the fiscal stimulus packages are beginning to have effect improved sentiment. As appetite for risk increased, it was the sectors previously shunned such as house builders, financials and miners that benefited most as sector rotation saw money come out of more defensive areas. This has seen both the FTSE 100 and FTSE 250 indices rise sharply since their lows in early March.

In the UK, there has been mounting evidence of improving sentiment on the economy and an increasing expectation that growth will return later this year and perhaps in the third quarter. Indeed, positive surprises on the service sector Purchasing Managers Index as well as a moderation in contraction in manufacturing have been the latest data points viewed as indicating that improvement is coming. Furthermore, evidence from the Halifax in early July, reporting the sharpest monthly house price rises in seven years is supported by a broad improvement in other housing related indicators such as mortgage approvals, albeit from very depressed levels.

Outside the UK it was Emerging Markets which again led the way as the belief that the superior fiscal position of these would insulate them from the worst of the global downturn. The improvement in sentiment also allowed commodities to post gains, with metal and oil prices pushing upwards with the oil price currently trading around $70 per barrel.

The debate continues as to whether this is a bear market rally or a new bull market, however what is apparent is that sentiment has improved markedly allowing markets to recover from a severely over sold position. Whilst equities may run into some headwinds in the shorter term, following a very strong run, with institutions sitting on high cash positions and interest rates likely to remain low for some considerable time, equities should receive support.

Kudos still remains favourable towards the corporate bond market and we continue to see value in this area of the fixed interest market. This year has seen a big bounce in corporate bonds as spreads have narrowed relative to gilts. A combination of a more positive economic outlook and a tailing off of hedge fund blow-ups has resulted in the pressures on the corporate bond market easing. While credit spreads definitely deserve to be wide right now, reflecting both the severe recession that we are currently experiencing, and the risk that the recession may last longer or be deeper than the market currently anticipates. Industrial spreads (pretty much anything non financial) are still wider than the peaks seen in 2002, and we do still believe that investment grade corporate bonds are overcompensating investors for the risk of default.

Another market theme that Kudos is positive on certainly for cautious investors is the move out of conventional gilts and into index linked gilts in anticipation of the return of inflation. The £125bn injection of assets into our banking system by the government, combined with interest rates at a record low of 0.5%, is inevitably going to find its way back into the wider economy, and accordingly, it is likely that this will result in inflation and will benefit investors in index linked bonds through an uplift in both yield and capital.

While there are a number of positive green shoots emerging, Kudos retain a cautious view on the outlook for both the market and the economy, and are wary of the sustainability of the sharp rally seen in both equity and bond markets since the lows of early March.

Your pension options at retirement

Gone are the days of retiring on the Friday and your pre-prescribed pension commencing on the Monday with no great input from yourself.

The chances are that when you retire or decide to take your accrued pension benefits you will have two or more pensions either through employment or personal policies.

The likelihood is that at least one of these pensions, but probably more will be a money purchase pension, the collective name of Group Personal Pensions, Personal Pensions, Occupational Defined Contribution Pension Schemes, not to mention the likes of Self Invested Personal Pensions, Small Self Administered Pension Scheme and Executive Pension Plans.

Q What do all these types of pensions have in common?

A Simple, they provide the policy holder with a pot of money to be used to provide an income in retirement and also the option to use part of the pot to provide a pre commencement lump sum – or, in old terms, a tax free cash lump sum.

Now that is the easy part, the hard part is making sure that the correct type of income is paid to you in your retirement.

Traditionally an annuity would be purchased from one of the many providers and a pension would be paid to you for your life and, if selected, then to your partner for their life should you pre-decease them. This may or may not be inflation proofed and / or have a guaranteed period included. Many of these are your choices.

If you are retiring now there are many more considerations to take into account when deciding on how income will be provided as the ways of providing an income in retirement are wide ranging and very much depend on the specific circumstances of the individual. Factors which should be considered but are not exhaustive include;

- **Your state of health**
- **Family medical history**
- **Tax status in retirement**
- **Required income levels**
- **Dependants circumstances**
- **Attitude to risk**

Once the various factors above have been taken into account it will allow you, and / or your financial advisor to make an informed decision as to the most suitable income generating vehicle for providing your "pension".

The options available to individuals at retirement are becoming more sophisticated and in turn more complicated, therefore we believe that obtaining high quality independent financial advice essential in ensuring the correct income providing vehicle is utilised and that you get the best value for money.

In addition to the traditional annuity purchase other options available include the following:

Unsecured Income (pension drawdown)

This involves you taking up to 25 per cent of your fund as tax free cash, and leaving the remainder of your pension fund invested. In the meantime, you can take income as and when you need it from the fund, subject to certain Inland Revenue limits, but you are not obliged to take income each year. If you want, you can choose to take no income at all for as long as you like until age 75 when you are obliged to either buy an annuity or transfer the fund to an Alternatively Secured Pension (ASP).

This allows the individual to manage the tax payable on the income and retain an element of the capital value for the benefit of beneficiaries upon the individual's death.

Phased Retirement

This is a very tax efficient way to take your pension income. Your pension plan is set up with a number of different segments and each year you convert a number of these segments into tax free cash and an income bought via a mini annuity. The tax-free cash is added to the annuity and the two together provide income for that year. As a large part of the total annual income comprises tax-free cash, it is clearly very tax efficient as income tax is only applied to the annuity.

ASP

ASP is a new option that allows you to avoid purchasing an annuity at the age of 75 by continuing with a limited form of unsecured pension.

Short Term Annuity

The short-term annuity contract option gives people the opportunity to reassess their pension needs periodically and to choose alternative types of annuities, so long as they secure an income for life by age 75.

Summary

The options referred to above are not exhaustive, however it clearly demonstrates that there are a multitude of options available to an individual and one size quite clearly doesn't fit all.

Deciding between an annuity and pension drawdown can be a very difficult decision because there are many different factors to take into consideration. As you approach retirement, it is important to set out your retirement objectives. As you do this, you will realise that you probably have more than one objective and there is no one type of annuity or drawdown that will meet all of these objectives.

We at Kudos therefore believe that receiving quality financial advice is vital if an individual is to gain the maximum benefit from their hard earned pension funds.

State Pension Benefits

When planning for retirement it is important to take into consideration all of your sources of income including any potential State benefits. Below we look at the current State Pension benefits.

Q How much is the basic state pension?

A £95.25 a week for a single person
£152.30 a week for a couple (married or in a civil partnership)

These amounts depend on the number of 'qualifying years' you've worked. A qualifying year is a tax year where you've earned enough to have paid, or been credited with, National Insurance contributions.

As a general rule, to get the full basic state pension you need to have worked for 44 qualifying years if you're a man, and between 39 and 44 years if you're a woman. This is reducing to

30 years for both men and woman from 2010. If you don't qualify for the full basic State Pension, but have 25 per cent or more of the qualifying years, you'll get a weekly basic State Pension between the minimum (£23.81 in 2009-2010) and the maximum (£95.25 in 2009-2010).

Q What about Pension Credit?

A Pension Credit is a means-tested benefit that guarantees a minimum level of income from the state. It's made up of the Guarantee Credit and the Savings Credit

Guarantee Credit

The **Guarantee Credit** element provides a guarantee of a minimum level of weekly income for single people (£130.00) and couples (£198.45). It is payable from age 60 and has essentially replaced the Minimum Income Guarantee (MIG). The individual applying must be at least 60, although their spouse can be younger.

Savings Credit

The **Savings Credit** element is somewhat more complicated but essentially it is a reward for those who have attempted to make additional provision for their retirement over and above the Basic State Pension (BSP) and who have a modest amount of income or savings. Savings Credit is payable from age 65. Either one or both individuals (in a couple) must be aged at least 65 in order to claim.

People are likely to be entitled to get some money from the Savings Credit element if the money they have coming in is up to £181 a week (single) or up to £266 a week (for couples). Savings Credit is currently worth up to £20.40 a week for a single person (£27.30 for couples).

Some may still be entitled to Pension Credit if their weekly income is more than the above thresholds, if they or their spouse are severely disabled, look after someone who is severely disabled, or have certain housing costs (e.g. mortgage interest payments).

As Pension Credit is means-tested, all forms of income, earnings and savings (capital) are taken into account. The first £6,000 of capital/savings (£10,000 if permanently in a care home) will be ignored. For capital/savings over £6,000, the Pension Service will deem people to have an income of £1 a week for each £500 or part of £500 over that amount.

From 2010, the age from which people can get Pension Credit will gradually increase. This will be in line with the State Pension age becoming 65 for women as well as men by 2020.

Q Am I entitled to the Additional Pension?

A Depending on your circumstances, you may be able to receive extra state pension

The Additional Pension currently known as The State Second Pension (S2P) was formerly known as the State Earnings-Related Pension Scheme (SERPS). It's paid on top of your Basic State Pension. However, it's different from the Basic State Pension because:

- It's related to how much you've earned over your working life
- You can leave S2P by 'contracting out' or rejoin it later by 'contracting back in'

Contracting out doesn't affect your entitlement to a Basic State Pension but you will need to contract out via a private pension. The company that provides you with the private pension will then claim your contracted-out National Insurance contributions from the government and invest them for you.

You can't build up any entitlement to S2P for any period of time where:

- You're not working (unless you're a carer or long-term disabled person)
- You're self-employed
- You earn less than the annual lower earnings limit of £95 a week
- You've already contracted out through a personal pension and you earn over £13,900 a year (the lower earnings threshold for 2009/10)
- You're already contracted out through an occupational pension scheme and you earn over £31,800 a year (the upper earnings threshold for 2009/10)

In the Pensions Act 2007 the government announced changes to contracting out, to apply from 2012. These will involve the ending of contracting out through defined contribution (money purchase) schemes.

Q What if I don't take my State Pension right away?

A When you reach your State Pension Age (SPA), you do not have to claim your State Pension straight away

You can defer claiming the benefit. In return, when you do decide to draw your State Pension, as long as you have put off claiming for at least 5 weeks, you will receive an extra State Pension at a rate higher than would have applied at your SPA. Alternatively, if you have given up your State Pension continuously for at least 12 months, you can choose to receive a lump sum.

The Reality

1. You may not want to think about your pension just now, particularly if you're still a long way from retirement. But small savings could now make a big difference to your quality of life in the future.
2. This information is based on our understanding of current taxation law and HM Revenue & Customs practice, which may change.
3. Don't leave your retirement to chance. Call the State Pensions Forecasting Team on 0845 3000 168 and ask for a state pension forecast.
4. Start planning now, the sooner you know your situation, the more time you'll have to plan for a happy retirement.

8 Queen's Terrace Aberdeen AB10 1XL
Tel 01224 652100 Fax 01224 652101
www.kifs.co.uk

due diligence
employee benefits
wealth management

For further information regarding the contents of this newsletter please contact your normal Kudos consultant on **T: 01224 652100**

e: Kudoseb@kudos-ifs.co.uk

You are receiving this email because you opted in at our website - we hope you find this newsletter useful. However, alternatively **forward to a friend**

Kudos Financial Services
ABERDEEN | GLASGOW | LONDON

Copyright © 2009 Kudos Independent Financial Services Limited. All rights reserved.