

Savings and Investments

This is potentially quite a big topic which I will aim to cover at a high level. By the time you reach retirement there is a good chance that as well as your pension (state and hopefully private) you will also have some other investments. You might also have taken a tax free lump sum from your pension or released cash from your property by downsizing and as a result have money that you want to invest.

The types of investment you might have or you might want to invest in will include:

Deposits (Bank or Building Society savings accounts)

Cash ISAs

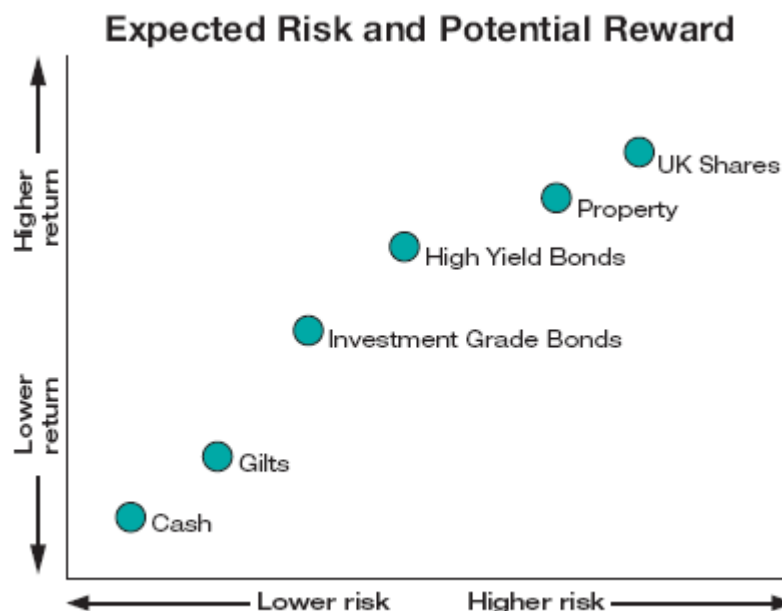
Stocks and Shares ISAs

Unit Trusts (by which I mean funds which are run by a manager such as Fidelity which can cover a wide spectrum of investments)

Insurance Bonds

Within some of these there can be a wide range of underlying assets. It's important that these investments are aligned to your needs and your attitude to risk.

This is the first time I have touched on attitude to risk. Below is a fairly basic chart which gives an idea of where these different assets sit.



Source: IMA

Gilts are loans issued by the UK government and Bonds are loans issued by companies where Investment Grade Bonds are considered to have a lower risk of default than High Yield Bonds. You can generally invest in these through an Insurance Bond or Unit Trusts.

If you never want to risk losing any capital and are happy with lower returns over the longer term then cash is the answer but you must be aware that inflation can reduce the real value of your money. At the other end of the scale, if you are prepared to risk some of your capital then UK and International Shares have a place in your investments. Not having all your eggs in one basket makes sense and the actual balance between different types of assets depends on your attitude to risk.

Aligning your investments with your needs and attitude to risk is not just a one-off event as both your needs and your attitude to risk can change. Although the recent credit crunch has had a negative effect on most asset classes, it would have paid off to have had a spread of assets – unless you had the foresight to move into cash at the right time. When going through a major life change like retirement, it makes sense to review your investments.

The spread of assets for someone entering into retirement is likely to include Cash, Gilts, Bonds, Property, and Equities (another name for shares). These should then be invested in such a way to meet the needs of the individual. Often this will be income.

Another consideration is the tax treatment of the investment. Briefly the main tax wrappers are as follows:

ISA

The investment is free of both income tax and capital gains tax in the hands of the investor. The amount which can be invested in any tax year is subject to a limit of £7,200 into a stocks and share ISA and £3,600 into a cash ISA. If an investment has been made into cash ISA the stocks and shares limits is reduced.

Insurance Bond

The underlying investments are taxed within the funds of the insurance company and there will be no further tax to pay for a basic rate tax payer. For a higher rate tax payer there will be further income tax to pay on any gain in value if the amount being withdrawn exceeds 5% or all the capital has already been returned. There is no capital gains tax to pay by the individual. These are potentially attractive to someone who is a higher rate tax payer when making the investment but will be a basic rate tax payer when taking withdrawals.

Unit Trusts

In this case any income is subject to income tax at the marginal rate of the investor. In addition any gains above the annual exemption of £9,600 are subject to capital gains tax.

The actual choice of tax wrapper will depend on each person's individual circumstances.

Where the amount of the money invested or available for investment is sizeable it will pay to get professional advice.

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