What the Papers Say

This is the latest in a regular series of summaries where we look to review some of the main articles written in the financial sections of the Sunday papers.

These articles often cover issues that are important to our personal financial well-being and we hope that the summaries will provide you with information and ideas that will be of interest to you.

If you would like to discuss any of the issues raised within these summaries or any other financial planning issue, please do contact our wealth management division on 01204 414243.

Articles reviewed

"How much income before you bleed your pension dry?"

The Sunday Telegraph

"David Cameron's Promise Brings Uncertainty to Investors "

The Independent on Sunday

"How Much Income before you bleed your pension dry?"

The Telegraph

With the new pension freedoms now in place, the Telegraph examines the impact of shunning annuities and taking retirement income directly from your investments.

John Lawson of Aviva looked at the scenario of what would happen to the savings pot of a pensioner who used the "drawdown" approach to take his income out assuming that he retired in 1999. In this example the pensioner took the simplest approach to investing in the stock market, putting the money into an "index-tracking" fund that simply mimics the performance of the FTSE All Share Index.

Assuming the pensioner took an income equivalent to that he would have received from an annuity (which would have been 6.7% in 1999) the result of Lawson's scenario is that the pensioner would have run out of money this year, at the age of 81. If he lived in line with a typical life expectancy, he would survive for another 9 years. In this scenario, an annuity would have paid him the same amount of income each year for the rest of his life, whilst the "drawdown" option would leave him with no money.

Of course, this comes with the caveat that 1999 was a special case as the market (and therefore the pensioner's fund) would have fallen very sharply the following year. However, this does draw attention to the fact that no one ever knows what is round the corner. A wise pensioner who wants to exercise the new freedoms would want an investment strategy which can cope with a sudden fall in the markets.

One of the easiest ways of avoiding sharp falls in the value of a portfolio is to hold a diverse range of assets. This could be by purchasing a mixture of funds of investing into a multi asset fund which would ensure that the investment portfolio is as diverse as possible.

John Lawson's scenario shows the pitfalls of taking the wrong approach with one's pension investments, particularly in light of the new flexibilities on offer whilst in retirement. It is more important now than ever to review your retirement plans on a regular basis.

“David Cameron’s promise brings uncertainty to investors”

The Independent on Sunday

The Independent talks to Fidelity’s Tom Stevenson, Director at Fidelity Worldwide Investment, about the possible implications of the upcoming election. Tom thinks that May’s general election will bring uncertainty for investors rather than ending it as normally happens when an election is decided.

The possibility of a hung parliament brings questions that may equal volatility in the stock market in the months ahead, but this is exacerbated by the fact that we have no idea what form a hung parliament may take. With the Conservatives and Labour neck and neck at the moment and the Liberal Democrats in a position where they may not actually win so many seats, there are other parties which may rise to prominence when it comes to making alliances to push through any legislation.

In addition to this problem which faces the UK markets in the months ahead, there is also the possibility of there being another election soon, as Tom Stevenson states, “depending on May’s election result we might see the Conservatives or Labour ploughing on trying to run a minority government and, a bit like in 1974, we could end up in a second election within the year”.

A third reason why the UK markets may be spooked is that, if the Conservatives retain power, they have committed themselves to an in/out referendum on our EU membership by 2017. That could lead to two years of uncertainty about our relationship with our biggest trading partner, which is obviously not good news for business.

For all of these reasons, it is important to ensure that your investment portfolio has adequate diversification and is not too UK-focused. Whilst the UK market has many positives for investors, the political uncertainty to come may mean that it lags in terms of performance for a while.

As with all investments it is important to note that the value of investments and any income taken from them can fall as well as rise. You may not get back the full amount of your original investment.

Any questions?

If you have any questions on any of the articles covered in this publication or would like our help with any financial planning issue, please contact:

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