NEWS & VIEWS

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ALLOCATING YOUR WEALTH

For many people, the prospect of retirement seems almost unreal: something that might happen in the distant future. Nevertheless, it is important to plan ahead, and time is your most valuable weapon. Building sufficient assets to fund your retirement will take a long time, and it's worth getting into the savings habit as early as possible. Even putting a small amount away on a regular basis can make a difference over the long term. Investors receive income tax relief on their contributions to occupational and personal pension schemes, subject to certain limits. You can contribute up to £3,600 or 100% of your net relevant earnings (whichever is the greater), subject to an overall maximum of £40,000 in the tax year 2014/15 . Your contributions to company pension schemes are deducted before income tax is calculated. For contributions to personal pension schemes, your pension provider will reclaim any tax that you paid before you made your contributions. If you have worked for more than one employer, always check your previous company schemes and work out your entitlements. It is also worth considering individual savings accounts (ISAs) which are tax-efficient 'wrappers': all income and capital gains generated by the investments held within are paid out free of further tax. The amount of money you can invest in an ISA is subject to an annual limit (£15,000 during the tax year 2014/15), and this can be invested in stocks and shares or cash.

BUILDING A CORE INVESTMENT

It is important to think long term when considering your investment strategy. A core investment is a range of relatively lower-risk holdings around which the rest of your portfolio can be constructed. This approach is based on the assumption you will keep these investments for the longer term, while tailoring other parts of your portfolio to pursue medium-term or higher-risk strategies, such as smaller companies or exposure to overseas markets. Above all, always remember investment is for the long term and you should consider taking professional advice to ensure you achieve the right mix for your individual circumstances.

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FUNDING A DECENT INCOME

Whenever you start thinking about retirement planning, it is worth starting off by working out how much income you think you are likely to need. Generally, few people need as much income in retirement as they did when they were working; the mortgage might be paid off, children are likely to have left home, and your general day-to-day expenses may have fallen. Nevertheless, the anticipation of increased leisure time might spur you to make ambitious plans for travel or family, and all these expectations have to be considered if you are to set realistic targets. Once you have calculated how much money you will need in retirement, you can then work out where it will come from. For example, the basic state pension is £113.10 per week (for 2014/15), plus you may have money coming in from Individual Savings Accounts (ISAs), rent from a second property, or even some paid employment. Having made your plans, you should have a clearer idea of the income you will need to generate from pension savings. You might already have started to save through a workplace or personal pension scheme; however, although existing pension savings should be taken into account, it is likely you will need to continue to build them over your remaining working years. Just to give you an idea, a pension fund valued at £100,000 will buy a 65-year-old individual an annual income of about £6,116, with no built-in guarantees. If you wish to retire earlier than that, the cost will be even higher. The amount you need to save could, therefore, be considerable. You can invest up to 100% of your annual earnings in your pension savings, subject to a maximum of £40,000 (for 2014/15) , and tax relief is available on the contributions. There is also a maximum limit on the overall size of the pension portfolio you can generate - although at £1.25m for the current tax year, there are relatively few people who are affected. Nevertheless, your savings don't all have to be locked away in a pension plan. If you need or would prefer - some flexibility over access to your savings, Individual Savings Accounts (ISAs) can be a useful addition to your plans - subject to your personal tax position - and you can save up to £15,000 into an ISA during the current tax year (2014/15).

LONG-TERM CARE OPTIONS

A crisis has developed in the funding of long-term care for the elderly. As the proportion of elderly Britons continues to rise, demand for care is exceeding supply, and payment for long-term care has become an increasingly pressing problem. You have various options to consider when planning your future long-term care, but it's important to speak to a financial adviser who can help you to find the strategy that is best for you. Looking ahead, one in three people will require care, according to the Association of British Insurers (ABI), so there's a good chance that it might include you.