

Heart patient reaches crossroads

Ill health has made a 55-year-old rethink his retirement plans and consider a move to Spain. **Maisha Frost** helps him assess his options and ensure his savings will provide for his wife

The problem

HEALTH problems have concentrated Peter N's mind on what matters most to him.

The 55-year-old wants to retire early but is keen to ensure his pension savings will take care of his wife Janet, 61, should he die first.

The couple would like to sell up in the UK and move to Spain.

Two heart attacks prompted Peter to freeze payments into his personal pensions six years ago but a current valuation puts his pot at £155,400.

He knows he has a choice to go for

an annuity or drawdown. "But beyond that I haven't any idea of what is best," he told Your Money. "I need to make decisions that will affect the rest of my life. Please help."

The solution

FIRST Peter has to get on top of two issues: what exactly his priorities are and the precise implications of the options open to him.

Independent pensions expert Nicola Downs explains: "Once he understands the differences taking an annuity or opting for drawdown will make to his and his wife's lives, those big decisions will fall into place."

Peter is certain about having a good quality of life in retirement and taking care of his wife but less sure about going to Spain. His next step is to find out more about his pension and the rules governing it.

"Knowing what proportions are protected and unprotected is very important, especially in his case because they will influence what flexibility he has about providing for Janet," continues Downs.

Further inquiry reveals that the kind of pension Peter has enables him to take a 25 per cent cash lump sum tax-free from both the protected and unprotected rights sections. This will give him about £38,800 to invest elsewhere to grow and provide income, provided he has settled all outstanding debts such as loans or credit cards.

With the £116,600 remaining he has the choice of taking an annuity or deferring a decision and drawing down an income from the money.

"Both strategies have their pros and cons and depend entirely on each individual's situation," says Downs.

If Peter takes an annuity straightaway, he must search the open market for the best rate.

"Given his medical history, he would probably qualify for an enhanced single-life annuity based on his reduced life expectancy and this will improve the amount he receives," she says.

Peter could build in a guarantee period for five or 10 years for a reduced rate to help protect Janet. Better still, says Downs, would be for him to buy a wife's pension to cover all her life. But annuities

are a one-horse bet, warns Downs. "In Peter's position, if he takes an annuity straightaway, he needs to keep his money more flexible than it allows. He clearly has to be cautious with his cash but that has to be finely balanced by the big uncertainties about his health, the fact his wife is older than him but reliant on his pension and that he does not have that much cash anyway."

Downs suggests Peter opts for a drawdown arrangement which will leave the door open to take an annuity later on if the conditions are right — but he must understand the consequence of his choice, she stresses.

"When you draw down, you have to choose what percentage of the money you are going to take each year. That has to be matched by an investment that makes enough to compensate for that, so the capital is not eroded," she says.

"Some people get a little greedy and



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DECISION TIME: But the option you choose could affect the rest of your life

want, say, 8 per cent. If you do not want to risk your cash unduly, you can't bank on getting that return in today's markets. Taking 3 or 5 per cent is more realistic but that may not give Peter and Janet enough to live on.

"Legally, the fund has to be reviewed every five years but I think the investments need to be managed continuously because so much rides on them doing well. I recommend a diverse portfolio to spread the risk, with equities, some cash and bonds.

"I know of people who have elected for drawdown, not understood the hazards and ended up with their income halved. Once capital reduces, there is virtually no way to turn that around without taking more risk, and this is the one thing Peter cannot afford to do. It may be they will have to forgo the move to Spain.

"If they do go, it would be wise to estimate the cost of future medical bills and remember the income will be paid in sterling. The money will have to be converted to euros, incurring exchange loss," she explains.

If Peter dies before Janet, she will inherit this fund. Under drawdown rules, with the protected rights element, she will either have to continue taking income or an annuity, a mandatory spouse's pension guaranteed for the rest of her life. However, with the unprotected rights part, she could take the whole amount as cash — minus a 35 per cent tax charge.

"Carefully managed drawdown is the answer in Peter's case, with an annuity review in a few year's time," Downs concludes. "But I question the financial wisdom of a wholesale move to Spain."

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