



# **'How To Avoid the 7 Most Common Retirement Planning Mistakes'**

**Ray Prince, CFP**

**&**

**Graeme Urwin**

**Specialist Financial Planning for UK Resident  
Doctors and Dentists**

Rutherford Wilkinson Ltd 21/23 Brenkley Way Blezard Business Park NE13 6DS 0191 217 3340

Rutherford Wilkinson Ltd is authorised and regulated by the Financial Services Authority

# **How To Avoid the 7 Most Common Retirement Planning Mistakes**

**4<sup>th</sup> Edition**

**Ray Prince & Graeme Urwin**

**Rutherford Wilkinson Ltd  
Northumbria House  
21 - 23 Brenkley Way  
Bleazard Business Park  
Seaton Burn  
Newcastle Upon Tyne  
NE13 6DS**

**0191 2173340**

**[docden@rwpg.co.uk](mailto:docden@rwpg.co.uk)**

**[www.rwpg.co.uk](http://www.rwpg.co.uk)**

**© Copyright Rutherford Wilkinson Ltd 2011. All rights reserved.  
No part of this guide may be reproduced without written  
permission from Rutherford Wilkinson Ltd.**

**For ideas on how you can improve your financial position visit our  
specialist site at [www.medicaldentalfs.com](http://www.medicaldentalfs.com)**

**Please feel free to email this guide in its entirety to any colleagues.**

**Rutherford Wilkinson Ltd is authorised and regulated by the Financial  
Services Authority**

## Introduction

Thank you for requesting this Free Guide:

### **‘How to Avoid the 7 Most Common Retirement Planning Mistakes’.**

You’ve probably done this for any of a number of reasons:

- To see if you can improve your financial position
- To be better informed when planning your own retirement
- You’re just curious and want to reassure yourself that you’re not making any of these mistakes
- You want peace of mind that what you’re doing now will have the potential to help you achieve your lifestyle and financial objectives

As Specialist Financial Planners to doctors and dentists, we’ve helped numerous clients make better informed financial decisions. This includes protecting their incomes and families against unforeseen life events (such as illness or premature death) and making the right investment decisions.

Financial planning can appear complex and confusing, and like many things in life, it probably is for the uninformed. We believe that everyone can make better financial decisions when they have a source of quality, unbiased information at their disposal.

The world of pensions and retirement planning is undergoing huge change (again), and as Practitioners we empathise with clients who are trying to make sense of the changes and how their own situations will be affected. The main change was the introduction of Pensions Simplification in April 2006 when the previous eight pension regimes became one. In April 2011 further changes were implemented and more will follow in April 2012.

During recent years we’ve noticed a trend of certain specific questions that clients want answering in relation to their retirement planning. What has become apparent is that many of these situations that clients face are not unique to them as individuals. Unfortunately, we’ve also spotted a number of common mistakes that have been made by clients. The reasons why are varied, but some include:

- Inappropriate advice
- The client made a decision without doing enough thorough research

- The client made a decision that was correct at the time, but has not reviewed their situation since (very common)
- New pensions legislation and NHS changes have altered the landscape considerably

We decided to compile this guide so that UK resident doctors and dentists could learn from the 7 Most Common Mistakes (we're sure there's more but these are the ones we see the most) that we see every day and use the information to their advantage. We've also included our suggestions to what action you could take to avoid each mistake. Our hope is that once you read this guide you will:

- Take action to make any changes necessary
- Analyse the strategies that you are using now (if they are the right ones for you, then no need to change!)
- Understand what you need to do to make any changes

The guide has been kept brief on purpose as we're aware that you are probably busy and may not be able to set aside a lot of time to read it. It should take you no longer than 15 minutes to read. We would encourage you to take the time though, and not put it off until later. After all, knowing what common mistakes to avoid and how to avoid them may save you thousands of pounds between now and your retirement.

We also suggest you print out a copy so that you can make any notes.

Please contact us on **0191 217 3340** if you have any questions or if you'd like more information about how we can help you plan towards your retirement (you can hear some client comments at [www.medicaldentalfs.com/client-comments](http://www.medicaldentalfs.com/client-comments) and see some published articles at [www.medicaldentalfs.com/free-resources/published-articles](http://www.medicaldentalfs.com/free-resources/published-articles) ).

We hope you enjoy reading this as much as we did putting it together!



**Ray Prince, CFP**  
**Financial Planner**



**Graeme Urwin**  
**Financial Planner**

# Contents

<b><i>Mistake 1</i></b>	<b>6</b>
Believing that a personal pension plan is an investment	6
<b><i>Mistake 2</i></b>	<b>9</b>
Not assessing your tolerance to risk before investing	9
<b><i>Mistake 3</i></b>	<b>12</b>
Not using asset allocation methods when investing money	12
<b><i>Mistake 4</i></b>	<b>15</b>
Handing a substantial part of your pension pot to The Chancellor on death	15
<b><i>Mistake 5</i></b>	<b>17</b>
Viewing retirement planning in isolation from other planning needs	17
<b><i>Mistake 6</i></b>	<b>22</b>
Investing in a private pension only for tax reasons	22
<b><i>Mistake 7</i></b>	<b>24</b>
Not doing enough research and not considering ALL the options available	24
<b><i>Overall Summary</i></b>	<b>26</b>
<b><i>About the Authors</i></b>	<b>27</b>
<b><i>Risk Warnings</i></b>	<b>30</b>

# Mistake 1

## Believing that a personal pension plan is an investment

### Background

Most of the people reading this guide will be a member of the NHS Pension Scheme. As you may be aware, the Scheme is one of the best Occupational Pension Schemes available in the UK. It should be viewed as your 'bricks and mortar' retirement planning vehicle as it is backed by the Government.

Many doctors and dentists are also aware that they need to achieve approximately 40 years service in the Scheme in order to accrue a full NHS Pension. As a result of this, you may want to make additional arrangements so that you can 'top-up' your pension.

There are various ways in which you can do this, including buying additional pension via the NHS. One of the most popular that we encounter is by investing into a personal pension plan. This type of plan is usually offered by an insurance/pension company and you are able to contribute a certain amount each month.

One of the advantages of this type of plan is that they attract tax relief, meaning that the UK Government help you build your retirement pot. For every £80 you contribute, the taxman will add £20 into your plan by way of this tax relief (this amount is higher if you are a 40/50% rate taxpayer). There are similar types of plans available known as Additional Voluntary Contribution Plans and Free Standing Additional Voluntary Contribution Plans.

### The Problem

A personal pension (or any of the other types mentioned above) is not actually an investment. It is a tax wrapper that allows you to receive the tax rebates at either basic rate or higher rate tax.

For example, let's say you invest £300 per month into a Personal Pension Plan and the company you invest with is AEGON (one of the leading providers of these types of plan). They have a number of funds to choose from with their Individual Pension Plan. So, the actual **investment** that you are making is when you decide where your money will be invested. Their funds cover all types of risk (lower, medium and high); therefore the key is to only invest the money in funds that are in line with your attitude to risk (see Mistake 2).

## Action Point

If you have a Personal Pension Plan(s) or Additional Voluntary Contribution Plan(s), analyse your latest statement or policy document to see where your money is being invested.

The next step is to review the level of risk that you are comfortable with (see Mistake 2) and to alter the funds if necessary. With the majority of pension companies you are able to switch money from one fund to another (there may be a charge) or redirect future contributions.

If the funds that your pension company is offering have poor past performance and poor prospects for future performance, you may be able to transfer to another pension company with better prospects for future performance (check for any transfer penalties). Do bear in mind though that past performance is no guide to future performance.

If you have not yet invested in a private pension and it makes sense to do so, make sure you do enough research on the pension company that you choose and check on the future prospects for performance.

*Note: Many pension companies offer access to external fund managers as well as their own. The performance of pensions funds vary and the amount you receive back will depend upon the performance of the funds you select, amongst various other factors such as charges etc.*

To apply some figures to this, a male doctor or dentist aged 30, investing £300 per month to age 60 in an AEGON Personal Pension would accrue a pension fund of £245,000 based on 5% per annum fund growth (before charges of approximately 0.75% pa).

(Source: Selecta Pension April 2011)

The same investment with a 7% growth rate would accrue a fund of £352,000. Therefore a 2% per annum increase in the growth of the fund would produce a 43.6% increase in the size of the fund! As mentioned already, past performance is no guide to future performance.

***An additional word of warning is necessary for all medical and dental professionals. In April 2006 a new raft of rules was introduced for the whole UK pensions system, known as Pensions Simplification. The irony is that the system became more complex for doctors and dentists and it's crucial that you know how the rules apply to you and whether you need to take additional action. To add to the complexity, new legislation was introduced in April 2011 and further changes will be implemented in April 2012. Some of these changes will have significant taxation effects and only by planning ahead will you be able to know whether you'll be affected.***

**We have published articles re the changes, so just click on the links to read more:**

**April 2011:**

**[www.medicaldentalfs.com/pension-changes-april-2011-onwards](http://www.medicaldentalfs.com/pension-changes-april-2011-onwards)**

**Lifetime Allowance / Annual Allowance:**

**[www.medicaldentalfs.com/pension-lifetime-allowance-limit-changes-beware-hot-topics-q-a](http://www.medicaldentalfs.com/pension-lifetime-allowance-limit-changes-beware-hot-topics-q-a)**

**[http://www.medicaldentalfs.com/RW\\_summer\\_11.pdf](http://www.medicaldentalfs.com/RW_summer_11.pdf) (see page 2)**

**Hutton Report:**

**[www.medicaldentalfs.com/the-nhs-pension-the-hutton-report-hot-topics-q-a](http://www.medicaldentalfs.com/the-nhs-pension-the-hutton-report-hot-topics-q-a)**

## Mistake 2

### Not assessing your tolerance to risk before investing

#### Background

Risk plays an integral part in financial planning. The dictionary defines risk as:

*“The possibility of suffering harm or loss; danger”*

When most people think of risk associated with money they think of the negative. This is probably because we are conditioned to think of risk in terms of loss. After all, if someone says something is risky they don't tend to see the positive side. However, there can often be a positive side to risk. Every day on the stock market money managers are using tools to reduce the amount of risk involved.

When it comes to investing your money, it's useful to know the different types of risk.

**Capital risk:** The risk that all or part of your capital, your original investment, will not be returned.

**Inflation risk:** The concern that your money will lose some of its purchasing power through inflation. Stock-market investments are generally considered to be one the best ways of addressing inflation risk over the long term.

**Interest rate risk:** A particular concern for fixed income investors, since bond prices fall as interest rates rise. Interest rate increases can also have a substantial negative effect on share based investments.

**Liquidity risk:** Since not all investments can be readily converted into cash at their perceived market values, this type of risk can affect the price of shares held in the fund's portfolio and, as a result, the fund's unit prices.

**Market risk:** This risk is an important consideration for share based funds, and is relevant to all funds. It is a measure of how sensitive a fund's holdings are to changes in general market conditions. If a fund has high market risk, it may lose value quickly when a market declines, but it may also show the greatest gains when the market rises.

**Timing risk:** The risk that you try to second guess the stock market and delay investing, thinking that there will be a better time to invest at a different time.

## The Problem

The problem with defining risk is that your personal definition will no doubt be based on your experiences, knowledge and perception of what risk is and what it means to you. Only when you sit back and think about what level of risk you are comfortable with will you be able to reach a happy medium.

There are some factors you can use to help you make the right decision:

- **No risk, no reward:** There is no such thing as a risk-free investment. In order to build assets, you must undertake some type of risk. Greater potential return is the reward for undertaking greater risk. However, taking a large risk does not necessarily ensure a large reward. You must know the risks and consider them against the possible rewards.
- **Choose appropriate risks:** Know and understand the risks involved in various savings and investment vehicles. Make sure you are comfortable with the risk level of the investments you choose.
- **Manage risk, don't try to avoid it:** Diversify. Holding a variety of investments and shares may lessen the negative impact of an investment that performs poorly. Invest over time to offset market fluctuations. Monitor your investments to be sure that the risk/reward guidelines you have set have not changed.
- **Maintain a long-term perspective:** Plan to own funds over a long time to help lessen the effects of price fluctuations and market volatility.

## Action Point

So how do you go about defining the right level of risk for your situation?

There are tools and questionnaires available in financial planning that are designed to help you along the way. For example, at Rutherford Wilkinson we ask clients to complete a risk profile questionnaire.

This is designed to define:

- What are your needs?
- How much risk are you willing to take?
- What level of return are you expecting?
- What are your personality traits when considering risk and associated issues?

Once you have this information you can apply the results to your own situation. So, for example, if you need to achieve 10% per annum return to achieve your financial objectives and your risk profile shows you are

comfortable with an investment predicting a 6% return, you'll need to either lower your expectations or increase the amount of risk you are willing to take or invest more money.

The less risk you take the more likely you are to achieve your objectives, but you'll need to invest more money to get there. Conversely, if you take a higher level of risk you are statistically less likely to achieve your objectives, but you may also need to invest a lower amount to reach your goals.

In summary, reaching your goals and objectives is driven by getting the balance between the level of risk you are willing to take and the amount of money you have available to invest.

## Mistake 3

### Not using asset allocation methods when investing money

#### Background

There are four common areas in which you can invest your money:

- Cash
- Bonds
- Property
- Equities (shares)

Where you choose to invest will depend upon a number of factors, such as the length of the investment, your attitude to risk, your current level of investment knowledge and your confidence in your decisions.

Asset allocation is an investment portfolio technique that aims to balance risk and create diversification by dividing assets among the major categories (as above). Each asset class has different levels of return and risk, so each is likely to behave quite differently over time.

For instance, while one asset category increases in value, another may be decreasing or not increasing as much. Some critics see this balance as a settlement for mediocrity, but for most investors it's the best protection against major loss should one investment class underperform.

**The consensus is that asset allocation is one of the most important decisions that investors make.** In other words your selection of actual shares or bonds is secondary to the way you allocate your assets to high and low-risk shares, to short and long-term bonds, and to cash and property.

The aim of asset allocation is to reduce risk by diversifying the portfolio. For example, if all of a portfolio's assets are concentrated in one area, such as shares, it is likely to be more risky than a portfolio whose assets are spread out among diverse investment categories.

An asset allocation appropriate to your goals and time horizon provides the best chance that you will meet your financial goals. In addition, you should examine your overall financial resources and personal ability to tolerate risk when making asset allocation decisions. (See Mistake 2)

## **The Problem**

Many investors are either unaware of asset allocation, or have heard of it but may be put off understanding it fully as it does take some time to appreciate the benefits that it can bring. Alternatively, they may be using the services of a financial adviser that does not use the process of asset allocation. We believe asset allocation is crucial. When we meet prospective clients, many have never heard of it and their existing portfolios do not show evidence that it is being used.

### *Diversification*

Most investors are concerned about the risks associated with financial markets; namely, that their investments will lose money or will not grow enough over time to outpace inflation. Diversification is an important strategy used by investors to help reduce this risk.

Because the markets for shares, bonds, property and cash do not all move in the same direction or to the same degree, an investor's portfolio that combines these asset classes should be less risky than one that includes only one type of investment.

A diversified portfolio has historically produced better returns than one that has concentrated in more conservative asset classes, such as short-term bonds or cash. A diversified portfolio is also less likely to experience stomach-churning volatility than one concentrated in the most aggressive investments.

You can also try to reduce your exposure to risk by diversifying your exposure by asset class as well as your holdings within an asset class (for example, equities holdings may be diversified among large-cap shares and small-cap shares).

### *Investment goals and time horizons*

All investment goals have a time horizon, which is the length of time between the investment and when the money being invested will be required. For example, if you are saving to buy a new car next year, your time horizon would be a short one. If you are saving for your daughter's wedding, your time horizon might be medium-term, say ten years.

If you are saving for retirement, you may have a long-term time horizon of about 25 years. Over time, of course, long-term goals such as retirement or funding your child's education will become medium and short-term goals. As your time horizon shifts, your asset allocation may need to alter accordingly.

Typically, investments offering the greatest growth potential also pose the greatest risk. An investor with a short time horizon might want to minimize or avoid higher risk investments such as shares or investment funds because the

growth potential offered by these investments over time can be offset by short-term volatility (risk).

If your time horizon is sufficiently short, say three to five years, you may wish to concentrate on more stable investments such as bond funds, or even cash accounts. While bond funds offer no guaranteed rate of return, they are generally less volatile than shares and usually offer greater returns than cash.

Those with a longer time horizon can generally afford to invest more aggressively because short-term volatility will usually be overcome by long-term growth. For long-term investors, the growth potential offered by shares tends to offset the effects of inflation.

### **Action Point**

So what can you do to make sure your investment strategy has the right asset allocation?

A starting point is to follow these simple steps:

- Look at where your existing investments are spread (all your investments, not just your pensions)
- Complete a risk profile questionnaire. Ask your Financial Planner or search for an online tool
- Decide your time horizons
- Set a new asset allocation
- Review at least annually and rebalance #

### **# Rebalancing**

We do not have time here to cover this subject in detail, but it is important to mention rebalancing as it is a key part of managing your investments in the longer term.

Briefly, it is a way of adhering to the risk level you are comfortable with by ensuring that the balance between the different asset classes that you started with are maintained year by year.

## **Mistake 4**

### **Handing a substantial part of your pension pot to The Chancellor on death**

#### **Background**

Benjamin Franklin famously said “Nothing in life is certain except death and taxes.”

Both of these apply with this mistake, one of the most common of the 7.

When you die, with or without a will, the tax office assesses the total value of all your assets less your liabilities and calculates your estate value. If you are single and have an estate value above the nil rate band (currently £325,000), your beneficiaries are liable to pay Inheritance Tax at 40% on the value for your estate above this amount.

If you are married, no Inheritance Tax is due on first death, assuming you are leaving an estate value in excess of the nil rate band to your spouse (but avoiding this mistake is still crucial). Please note that due to a change in legislation in 2007, a widow or widower can use their deceased spouse's unused nil rate band allowance in addition to their own on their death.

#### **The Problem**

If you've built up a personal pension fund of £300,000 (and died before you took the pension) it's likely that you will want to leave this money to your spouse. However, when your spouse dies they may have this £300,000 in addition to their own assets, thereby increasing the value of their estate for inheritance tax purposes. If this sum exceeds the nil rate band, the tax office will have a potential claim of £120,000 (40% tax).

I'm sure you agree that this is a massive chunk of your retirement pot that your beneficiaries may have to pay tax on, possibly affecting how much money they will have for the rest of their lives.

Fortunately, there is a way in which you can avoid this situation arising and effectively protect your pension pot.

#### **Action Point**

Whether you are just starting to contribute to your own private pension or have built a substantial fund already, you should assign the proceeds of the pension to a trust. This will ensure that the proceeds avoid Inheritance Tax upon your death. The payout will also avoid any unnecessary delays as it will

avoid probate (the legal process that administers your estate on death), therefore the money will be paid to your beneficiaries soon after death.

On premature death the whole value of the pension fund pays out if you have not started drawing a pension. The trust is a legal document that allows you (the settlor) to nominate who you want to receive the monies (the beneficiaries). You also need to appoint at least two people to pass the monies to your beneficiaries (the trustees).

Some pension plans are written under a master trust, with the facility to nominate the beneficiary by filling in a section in the application. This ensures that most plans have a nominated beneficiary. In the great majority of cases this beneficiary is a surviving spouse or partner. This, however, is inefficient from an Inheritance Tax (IHT) planning point of view. The reason is that the partner/spouse's estate is then increased by the value of the fund. This may be in addition to any pension term assurance benefits that may also be paid.

### NHS Death in Service Lump Sum

If you die prior to retirement, the NHS Pension Scheme will pay out a sum of 2 X pensionable salary (or similar if you are a GDP or GMP) in addition to a widow's/widower's pension. These payments are not subject to IHT.

The trustees of occupational pension schemes have a duty to pay the specified death benefits, and the NHS will automatically pay out these benefits to your spouse if you are married.

If you are single, or do not wish these benefits to be paid to your spouse, then you need to nominate who should receive this money (known as a DB2 form) stating who should benefit under the trust.

Without the DB2 form the pension lump sum benefits would be paid to the surviving spouse, and whilst free of IHT at this stage, the estate of the surviving spouse would be increased and this could present the family with a greater IHT liability in the future, unless the money is spent.

If you are confident that your surviving spouse does not require these monies then you should complete form DB2 (available from the NHS) to request the scheme trustees to direct any lump sum death payments to (for example) your children.

If the death in service amount was £200,000, then the IHT saving for the family could be £80,000.

(Please note that the individual scheme rules on Personal Pensions would need to be checked, and if any monies were to be paid to minors then nominees would need to be made to receive and look after these monies until the children became adults.)

## Mistake 5

### Viewing retirement planning in isolation from other planning needs

#### Background

When you are planning towards your future objectives, it is crucial that you are able to view all your planning goals at the same time. The reason is that each area often impacts on the other, either positively or negatively.

For example, if you have three children and want to have sufficient money to fund them through university then it's fair to say that were you to invest the money anyway (and did not use the money for university), you will end up with a greater amount of money for retirement.

As we can see, one area impacts on the other.

What retirement planning should be about is making sure you have sufficient cash flow (income) when you need it the most. Many doctors and dentists want to plan to retire early, say at age 55. However, it may not make sense to draw the NHS pension at this time due to the actuarial reduction that is imposed on early withdrawal from the scheme.

What *is* sometimes a solution is to build up a lump sum that can be drawn upon between retirement and taking the NHS pension. This could be achieved through Individual Savings Accounts and Unit Trusts.

#### The Problem

If you do not list all your objectives and create a plan that includes them all, then it can be very difficult to know where to invest your money. Many doctors and dentists believe that the way in which they can enhance their retirement income is to increase funding to their pension. However, as we can see in the following example, a pension may not be the only investment to consider if you are going to retire early and delay taking your NHS pension.

The good news is that there *is* a solution to help forecast this.

#### Action Point

The first step is to take all your existing investments and pension schemes and marry them up with your objectives over the short, medium and long term. The tool that you'll need to do this is a cash flow forecast – i.e. your own Financial Map or Sat Nav.

We recommend you look to work with a financial planning company that uses cash flow modelling or you can do a search online for one. This enables you to diagnose properly before prescription.

By using comprehensive cash flow forecasts you will be able to obtain a detailed understanding of how far your existing financial arrangements will get you in funding your objectives. This forecast will help you to identify potential periods of vulnerability in your planning which in turn will enable you to effectively direct any extra resources you wish to invest in your future.

Let's look at an example client, a predominantly private dentist aged 54.

His main aim was to ensure that he would be able to retire aged 60 and would have:

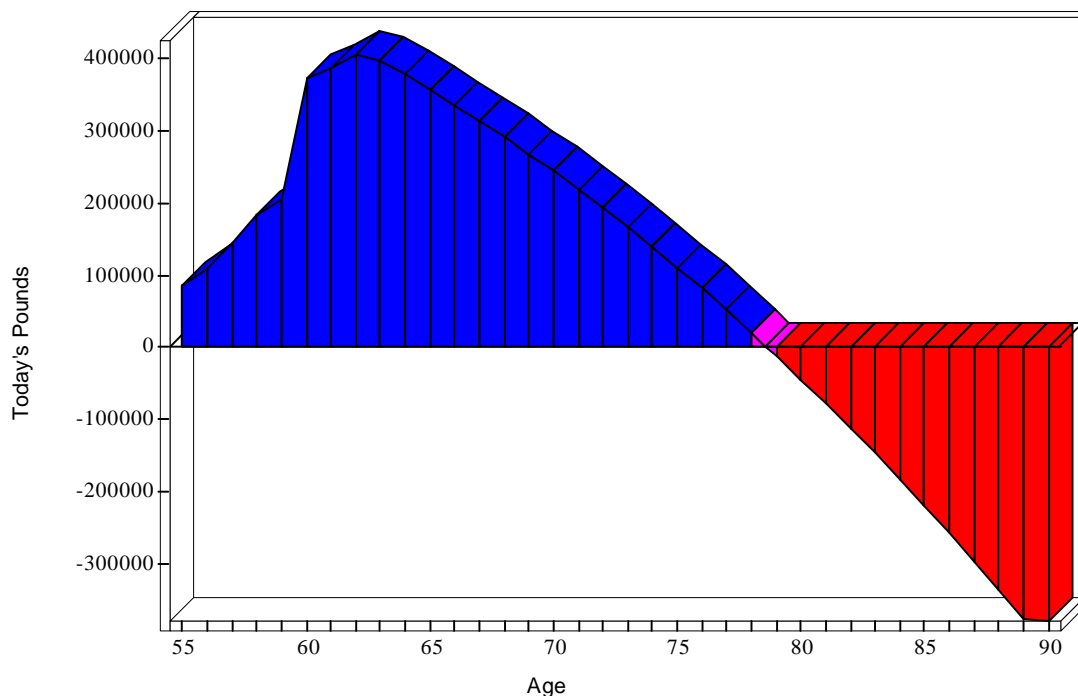
- **£4100** net income per month from age 60, with a life expectancy of 90

One of his main issues was that he had accrued a sizeable amount of money in personal pension funds and wanted to know if he should continue to invest into pensions, or to consider alternatives. Of course, pensions attract tax relief on contributions and as a higher rate taxpayer a £10,000 net investment would gross up to £16,667 for a 40% taxpayer (or £20,000 as a 50% taxpayer).

Having said that, this does not mean that the money should be invested into the pension option automatically, especially when you consider that only 25% of the proceeds can be taken as a tax free lump sum in the future.

He is contributing a small amount to the NHS Pension Scheme and also has a number of investments, including ISAs.

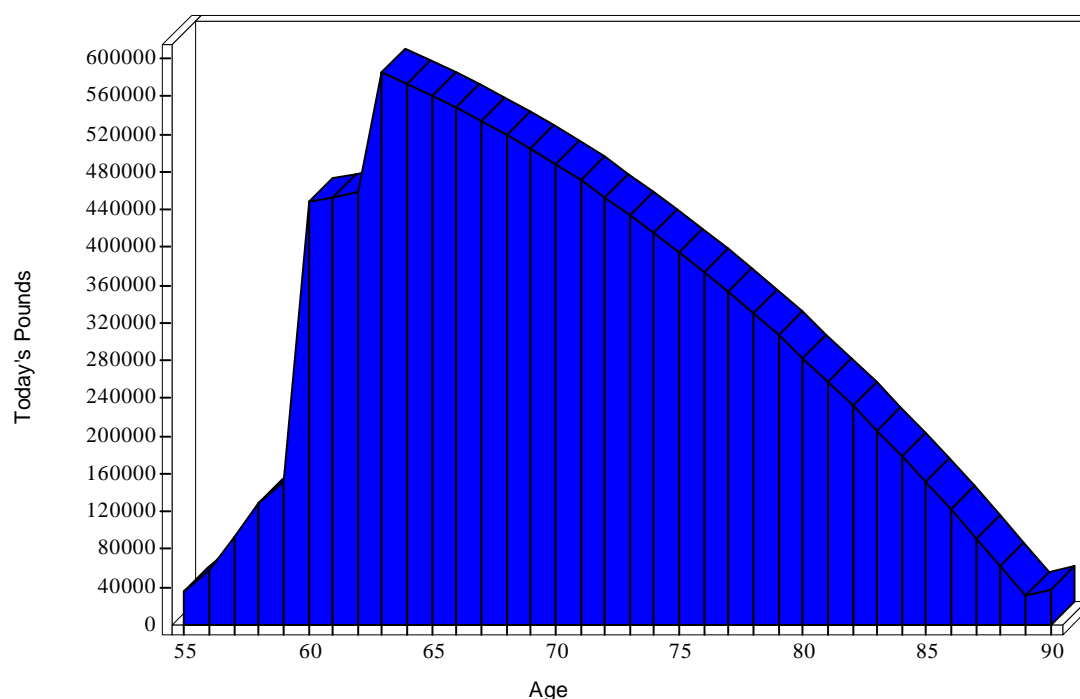
Once we compiled his cash flow forecast the initial results were:



The red blocks indicate that he will run out of capital at age 79, assuming his future spending remains the same and his existing investments grow at 5% pa after charges. We have also assumed inflation to be 3% pa. The left axis shows how his capital progresses in today's money over time. Note, whilst this does not show his ongoing income from pensions etc, the forecast indicates that he will be spending more than his income as he will be depleting the capital to supplement his income.

What we have not factored in is that this dentist is very certain that he will downsize home at age 60, and will use the proceeds of an expected £250,000 in today's money.

Let's look at the situation with these proceeds included:



As we can now see, the forecast indicates that he will have sufficient capital in place to meet his retirement income objective. We have also forecast that he may be able to defer taking some of the proceeds from his 6 private pensions at age 60, instead supplementing his income with ISA monies. This will mean that he will be able to potentially secure a higher income in retirement if he purchases an annuity at a later age (and, as he has a minimum forecasted NHS pension entitlement of £20,000 gross pa, he will be able to utilise flexible drawdown <http://www.medicaldentalfs.com/pension-changes-april-2011-onwards> on his personal pension funds, if appropriate).

We also analysed the amount of **risk** that he was taking with his existing investments and recommended that he reduce the amount of risk that he was taking as:

- The forecast indicates that he requires a return of 5% pa net of all charges. His existing portfolio could return a higher amount but carries more risk than he needs to take (see Mistake 2)
- His existing investments are invested with a heavy bias towards equities (shares) which is above his comfort zone

We also recommended that he did not invest any more money into pensions. After all, why not spend more while you can enjoy it? Instead, this money was diverted into equity ISAs.

As we can see, the forecast provides you with a context in which to make better financial decisions than you may have made without it.

*Please note, the recommended course of action that you should take will depend upon your individual circumstances.*

## Mistake 6

### Investing in a private pension only for tax reasons

#### Background

There are many ways in which you can ensure that you have sufficient income in retirement, such as investments and property. However, by paying into a pension the government will reward you financially. Pensions are long-term investments and attract tax advantages depending on how much you pay into them

The government encourages you to save towards your pension by giving you 'tax relief' on the money you put in. This means that for each pound you put into your pension, the government takes away less tax from the total amount that you pay on your income.

For example, if you're a basic rate taxpayer and wanted £100 to be added to your pension scheme, you would only need to actually pay in £80. This is because your pension scheme would ask for £20 from the HM Revenue & Customs (HMRC) – your share of tax relief which would then be invested by the scheme on your behalf.

If you're on the higher tax rate of 40% or 50%, you'll still get full tax relief for any money you put into your pension. But the way that the money is given back to you is different:

- The first 20% is claimed back from the Inland Revenue by your pension scheme in the same way as for a lower rate taxpayer
- It's then up to you to claim back the other 20/30% when you fill in your annual tax return or by completing a form (PP120) which is available from tax offices or may be provided by your pension scheme administrators

There are more tax advantages to having a pension scheme:

- Your pension fund will invest the money you save (including the tax relief amount) in your pension. Your pension fund growth may be free of tax.
- Any rise in the value of the scheme's assets between what you put in and what it is worth at the end is called capital gains and is tax-free.
- When you come to take benefits you may be able to draw out up to a quarter of the value of your stakeholder or personal pension fund as a

tax-free lump sum. Your pension provider will be able to tell you whether or not you will be able to do this.

### **The Problem**

Just because you receive tax relief does not necessarily mean that investing in a pension scheme is the best course of action. We meet many new clients that are investing large contributions into their own private pensions.

However, when we forecast the likely income that the pension will produce and analyse what the client's future income requirements are, it is sometimes clear that the money should not be invested in a pension wrapper as it places too many restrictions on how the money can be used (typically 25% of the fund can be taken as a tax free lump sum, with the remaining 75% being used to purchase an income). Of course, investing into a pension (in addition to the NHS pension) may be the best course of action for you.

### **Action Point**

We recommend that you know what outcome you are aiming for before you invest any more money in a private pension, or any other investment plan (such as ISAs). Otherwise, you could end up investing into a private pension for 20 years, when you could have been investing in a vehicle that is more appropriate for your needs and future plans.

Alternative investments include:

- Buying property to let
- Buying property to develop and sell
- Unit Trusts
- Investment Trusts
- Individual Savings Accounts
- Venture Capital Trusts

Don't forget to assess how much risk you will be comfortable with before you make any investment (see Mistake 2).

It is also equally valid to bear in mind you can build into your planning any inheritances you may receive, as well as the sale of a practice or indeed downsizing home at/after retirement.

## **Mistake 7**

### **Not doing enough research and not considering ALL the options available**

#### **Background**

Well, here we are at the last mistake. This one may be the one that potentially costs clients the most money over the long term.

Whilst there are a number of options available to you when planning your retirement, you would be surprised at the number of new clients that we meet who can't explain why they bought certain investments that they have. Furthermore, many did not shop around for the right type of financial adviser (if they've used one) or perhaps signed up with the first one they met.

#### **The Problem**

Purchasing any type of financial services can be a complex process. Financial advisers have a number of regulatory requirements that they have to meet (meaning more paperwork) and there are many different types of adviser to choose from. So it can be difficult to know the best place to start.

#### **Action Point**

You can take steps to tip the odds in your favour.

If you are planning to use the services of a financial adviser and want to get the best results out of your financial planning it is crucial that you deal with someone who has the tools and expertise to offer you a financial planning service, rather than a transaction based product based retail service (although the latter may be more appropriate initially depending on your age and stage of your career).

Rather than continuing to fill up your portfolio with financial policies, you should create a clear plan and strategy that can be monitored throughout your career. Otherwise, you may continue collecting policies without really knowing if you are on course to achieve your objectives.

You should also be prepared to pay for a financial planning service, as the outcome of this form of financial planning can only be successful if the impartiality of the service is protected. (e.g. investing more money usually earns your financial adviser commission, whereas repaying debt will not).

So what are the key characteristics of an unbiased financial planning service and what should you ask your adviser? Don't be afraid to ask the tough questions, after all it's your financial future we're talking about.

Apart from ensuring that your adviser is independent (of product provider), ask how the company guarantees the impartiality of their service.

Medics and dentists can choose between using a tied, multi tied or independent financial adviser or an impartial independent financial planner. Let's look at the two services, past and present. Naturally, you should be looking to work with someone on the right hand side!

**The Past -  
Financial Advice**

**The Future -  
Financial Planning**

The vast majority of advisers have the basic financial qualifications	The vast majority of planners have advanced financial qualifications
An overview of your position	A detailed analysis
A reactive diagnosis based on solving an immediate problem	A proactive diagnosis based on planning to achieve your lifetime objectives
Little measurement	Exact measurement using sophisticated cash flow forecasts
Shopping mentality	Ongoing review
Suspicion of bias re commission	Impartiality achieved by being fee based
Buying policies over time	Cohesive financial planning
Looking at individual problems in isolation	Looking at all the issues in context
Ending up with a collection of policies	A comprehensive <b>written</b> financial plan and strategy
Limited choice	Total informed choice
Confusion	Clarity

## Overall Summary

So there you have it.

You will hopefully now have a better idea of how you can approach your retirement planning and the mistakes to avoid.

You can of course choose to do this all by yourself. If you have the time, knowledge and inclination, it is certainly possible (albeit time consuming).

What we do know is that after 40+ years combined advising dentists and doctors, it is rare that we can't improve new clients' financial situation - **very rare**.

Quotes that come to mind are:

***“You don't know what you don't know – and you don't know you don't know”***

***“There are no secrets in life, just things you don't know yet”***

Advanced financial planning is a minefield, and just to keep up with developments is a full time job. I would imagine you can identify with this in your own career!

### The Next Step

We are available to help you with planning your financial future, and we follow all the principles and concepts outlined in this guide, although there **is** a limit to the number of new clients that we can work with at any one time.

To enquire in strict confidence, you can either call **0191 217 3340** or email us at [docden@rwpfg.co.uk](mailto:docden@rwpfg.co.uk). Initial telephone discussions are free of charge and without obligation.

If you're not receiving the twice monthly Financial Tips newsletter, simply visit our specialist website ([www.medicaldentalfs.com](http://www.medicaldentalfs.com)) to join. By doing so you'll be able to keep up to date with all the latest pensions and financial news for dentists and doctors. (Your details are safe with us and we will not sell or pass them to any third parties).

This site also contains free articles and resources to help you effectively plan your finances and save time.

Whatever you decide, we wish you all the best for your financial future and thanks for reading!

## About the Authors



I have worked as a Financial Planner since 1994 and specialise advising dentists throughout the UK. My passion is working with and helping clients who want an unbiased view as to how they can achieve their lifestyle and financial goals and objectives.

I believe that it's all about creating a meaningful financial plan for clients to enable them to make better financial decisions and to plan their financial futures with more certainty. My role is to inform them about their current financial position and whether their future goals are realistic.

I regularly present financial planning seminars and workshops to dentists and continue to contribute to the dental trade press publications. I am an active member of the Institute of Financial Planning (the body that promotes unbiased, comprehensive financial planning advice) and believe in improving my professional skills and knowledge, sitting various exams over the years. I also hold the **CERTIFIED FINANCIAL PLANNER<sup>CM</sup>** licence (one of fewer than 1,100 in the UK) – see my profile here <http://tinyurl.com/rayprincecfp>

I like to help others less fortunate than myself and have volunteered for Crisis, the charity for the homeless, and have done a sky-dive for DentaId, raising funds for under-resourced dentists in the Developing World. I also raised money for Cancer Research UK by running the BUPA Great North Sunderland 10k in July 2010.

Originally from the North East, I have lived in various parts of the UK and returned to my roots in 2004. I am married to Laura and we live in Whitley Bay with our daughter Ava, who was born in December 2009. I tend to lead quite a busy life and it has to be said that my 'to do' list never seems to go down! I like to keep fit through running and the gym. If I'm not doing that, you'll probably find me working through my list 😊

### Qualifications & Memberships

- CERTIFIED FINANCIAL PLANNER<sup>CM</sup> certification
- Advanced Financial Planning Certificate (AFPC)
- Diploma in Financial Planning
- Mortgage Advice Qualification (MAQ)
- Financial Planning Certificate
- Associate of the Institute of Financial Planning (AIFP)
- Member of The Personal Finance Society by Diploma
- MSc Marketing Practice
- Chartered Institute of Marketing, Diploma in Marketing



My name is Graeme Urwin and I also grew up in the North East, in Chester-le-Street.

After working for the Mars group for several years, I joined the Medical Sickness Society (Wesleyan) in 1986 as a Financial Adviser. It was here that I developed my passion for helping medics and dentists with their finances, and became very used to the ins and outs of the NHS Pension scheme.

I became well accustomed to dealing with doctors and dentists in the London and Kent areas, building many relationships with clients that last to this day.

After 16 years I became an Impartial Financial Planner, as I wanted to offer my clients a broader range of services and a totally impartial advisory service. So, in 2002, I made the move, and as a Fee Based Planner & Wealth Manager, my passion is working for the client rather than the product provider.

When not working, I spend a lot of time with my family, and am very aware of the saying “tempus fugit” when my daughter increasingly shows me up with her improving skills and fitness! My other personal interests are local history, genealogy, archaeology and cartography.

I also love walking and playing racquet sports, and regularly play squash. I also completed the Great North Run in 2005 and 2009, raising money for children with cancer and for those suffering from Alzheimer’s.

I am also writing a book based on my interest in history, genealogy and the latest in DNA research showing my ‘clan’ to be the Bonshaw Irving’s. It’s work in progress so watch this space!

### **Qualifications & Memberships**

- Advanced Taxation & Trusts Qualification
- Investment Principles and Risk Qualification
- Financial Protection Qualification
- Mortgage Advice Qualification (MAQ)
- Financial Planning Certificate
- Member of the Institute of Financial Planning
- Member of The Personal Finance Society

## About Rutherford Wilkinson Ltd



Rutherford Wilkinson is a leading firm of Chartered Financial Planners and was formed in 2002 from the merger of Wilkinson Hatton and Rutherford Financial Management (formerly Peter Rutherford & Co).

These two firms were a natural match, combining substantial strengths and resources. Rutherford Financial Management was an investment specialist formed in 1992, and Wilkinson Hatton, established in 1986, had dealt mainly with corporate clients on a fee-charging basis. Both firms placed a strong emphasis on providing quality advice from professionally qualified advisers, matched with outstanding customer care.

The merger has created a full service financial services organisation that can meet the needs of all types of client, whether business or personal.

**A specialist division was created in 2005 when Ray Prince and Graeme Urwin joined the company. This division deals exclusively with the financial planning needs of UK resident doctors and dentists.**

For more details on our services for doctors and dentists, see [www.medicaldentalfs.com/what-we-offer](http://www.medicaldentalfs.com/what-we-offer)

## **Risk Warnings**

All content provided in this special report is only for your own information and use, and is not intended to address your particular personal requirements or to be relied upon in making (or refraining from making) any specific investment or other decision. Such content shall not constitute any form of advice or recommendation by us.

**YOUR HOME MAY BE REPOSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.** Written details are available upon request. The FSA does not regulate all types of mortgages.

The content relating to the past performance of an investment is not necessarily a guide to its performance in the future. The value of investments or income from them may go down as well as up. The value of investments may rise or fall due to the volatility of world markets, interest rates and capital values or, for investments held in overseas markets, changes in the rate of exchange in the currency in which the investments are denominated. You may not necessarily get back the amount you invested.

Where you are unsure about any specific investment or other decision, you should obtain appropriate expert independent advice.

Levels and bases of, and relief from taxation are subject to change as UK legislation and regulations and the UK tax regime are amended from time to time. Any content referring to such legislation, regulations or tax regime should not be relied upon. The content in this guide refers to the 2008/09 tax year.

Unless otherwise stated, this guide is directed only to doctors and dentists in the United Kingdom. Doctors and dentists outside the United Kingdom should not use or rely upon any content provided.

Seek advice from an Impartial Independent Financial Adviser whenever considering restructuring your investments. Each investment should be considered on merit and not just for the tax advantages.

Rutherford Wilkinson Ltd is authorised and regulated by the Financial Services Authority.