'Private Dentists - How To Plan Your Ideal Retirement'

A Step by Step Guide and the Pitfalls to Avoid Pre and Post Retirement

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2nd Edition

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For ideas on how you can improve your financial position visit our specialist site at www.medicaldentalfs.com

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

Introduction

Thank you for requesting this comprehensive guide:

'Private Dentists - How To Plan Your Ideal Retirement'

Whatever stage of career you're at, one thing is guaranteed; ***you'll be wanting to retire from going to work one day***. The definition of retirement means different things to everyone. What you want your life to look like may well look significantly different to that of your peers.

The website dictionary.com defines retirement as:

- The state of being retired from one's business or occupation
- The act of retiring or state of being retired

Effective retirement planning can be split into 2 parts; pre and post-retirement. It is crucial that you make the correct (and best) decisions that you can between now and when you decide to retire. And if you've already retired, there are probably ways in which you can improve your financial position.

Retirement 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 that affect their futures when they have a source of quality, unbiased information at their disposal.

We decided to write this guide, exclusively for UK resident private dentists, as we are fully aware of the shift that is taking place in UK dentistry away from the NHS towards private practice. We won't be getting into the politics of practitioners who make the decision to move partially or fully to a private practice set up, instead focussing upon what action you can take to plug the gap that will be created in your retirement funding when you are not contributing to the NHS Pension Scheme (you will still have the option to contribute to the scheme if you are doing a certain percentage of NHS work).

We'll also be taking a look at how to actually retire and when you should draw your income from the various assets that you'll have accrued. When investing in areas such as pensions and ISAs there are various tax advantages available at the time you invest and whilst the money remains invested. It's also crucial that you draw an income from your various investment vehicles in the most tax efficient (income tax, capital gains tax and inheritance tax) and timely manner.

Making mistakes with these decisions could cost you tens of thousands of pounds over the long term.

During our years of helping clients with their financial planning, we've often come across 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

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
- Understand what you need to do to make any changes (and when)

We've tried to keep this guide as concise as possible, however as we were writing it we discovered that we could not leave out some of the information as our aim, as always, is to provide you, the reader, with a full and clear picture of the issues at hand. Having said that, you should be able to read it in 30 – 40 minutes or so.

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 **http://www.medicaldentalfs.com/client-comments** and see some published articles at **http://www.medicaldentalfs.com/mediaroom**).

We wish you well with your planning!

Ray Prince | Graeme Urwin

Ray Prince, CFP
Financial Planner

Graeme Urwin
Financial Planner

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Pre-Retirement

Step 1

Goal Setting - What Do You Really Want Out of Your Life?

The first step of any successful financial strategy is to decide what your objectives and life goals are. Get your goals right and everything falls into place. You may have heard this quote before:

"The Harvard class of 1954 was asked who among them had written down on paper the goals they hoped to accomplish in their lives. Only 2% had taken the time or had the inclination to specifically and clearly record their goals in writing. Twenty years later, the same group was contacted. Those individuals who were in the 2%, those who had clearly defined, written goals, had amassed more wealth than the remaining 98% combined".

Simple, yes.

But easy?

Probably not.

It is not easy to get your goals right. If it *was* easy, everybody would be doing it. Getting it right requires clear thought, some soul searching and, above all, honesty**.**

For many of our clients this is the most challenging and revealing part of their financial plan. The reason for this is that for many it is a new concept and is not an exercise that they have really put much thought into before. Of course, everyone has an *idea* what they want to achieve, but few actually put their thoughts to paper.

It's the differences between goals, targets and objectives that are more important. Targets are something for which to aim, and are usually given to you by someone else and always involve third parties. You may or may not buy into the targets because you did not set them for yourself. You may have been involved, but you were not necessarily committed.

Goals require a serious personal commitment.

You cannot set a goal for anyone else. It must belong to you.

How do you do it?

Write down on a piece of paper all the things that you genuinely want for yourself, including your dreams and aspirations. You can be as selfish as you like as they can concern only you. These are likely to fall into a number of broad categories:

- Personal
- Relationships
- Work
- Physical / health
- Personal space / environment
- Educational / intellectual
- Hobbies / interests

Don't confuse what your real goals are with haphazard thoughts. Some of the ones we commonly hear are when clients say they want:

- A big pension
- Enough money
- Save some money for the family
- Pay off the mortgage

It's fairly obvious to see that these thoughts will not help them build a robust financial plan.

It's worth noting that not all goals are purely financial, although most have financial implications.

The next test to apply is whether you really need to achieve these goals. If they are not essential, they remain selfish wants and lose their status as goals. This could shrink your list drastically and this is where the soul searching starts.

Focusing the Mind

Do you want and need this goal so much that you are prepared to do everything it takes to achieve it? Only if you can honestly answer 'yes' to this question, will you have identified what your goals really are.

The result should be no more than about 6 – 8 powerful goals that will make a big difference to your life! The acid test will have already confirmed that they are compatible with your values and belief systems, but will also test if they are mutually compatible with each other. It may then be possible to place them in some order of priority, but this is not essential.

Planning for Success

Success in life is no more than the achievement of your own goals. So, once you have completed the exercise, you will have taken the earliest, but most significant steps in having a plan with a successful outcome. See Appendix 1 for an easy to use template to help with this exercise.

Step 2

Forecasting the Future

Viewing retirement planning in isolation from other planning needs is a major error many investors make.

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 dentists want to plan to retire early, say at age 55. However, it doesn't usually make sense to draw the NHS pension at this time due to the penalties that are imposed on early withdrawal (although you'll need to compare between leaving it to 60 and taking the benefits immediately with the early reduction penalty).

What ***is*** often 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.

By using comprehensive cash flow forecasts you will be able to obtain a good 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 direct effectively any extra resources you wish to invest in your future.

As you will have already determined what you are aiming towards (see step 1), the next step is to assess what existing assets you have in place that will be used towards funding your goals and objectives. These will probably include:

- NHS Pension
- State Pension
- Private Pension
- Present and future income
- ISAs, Unit Trusts, Investment Trusts

- Bonds and Cash
- Investment / Rental Property
- Practice Value
- Downsize Main Residence?
- Future Inheritance?

The Forecast

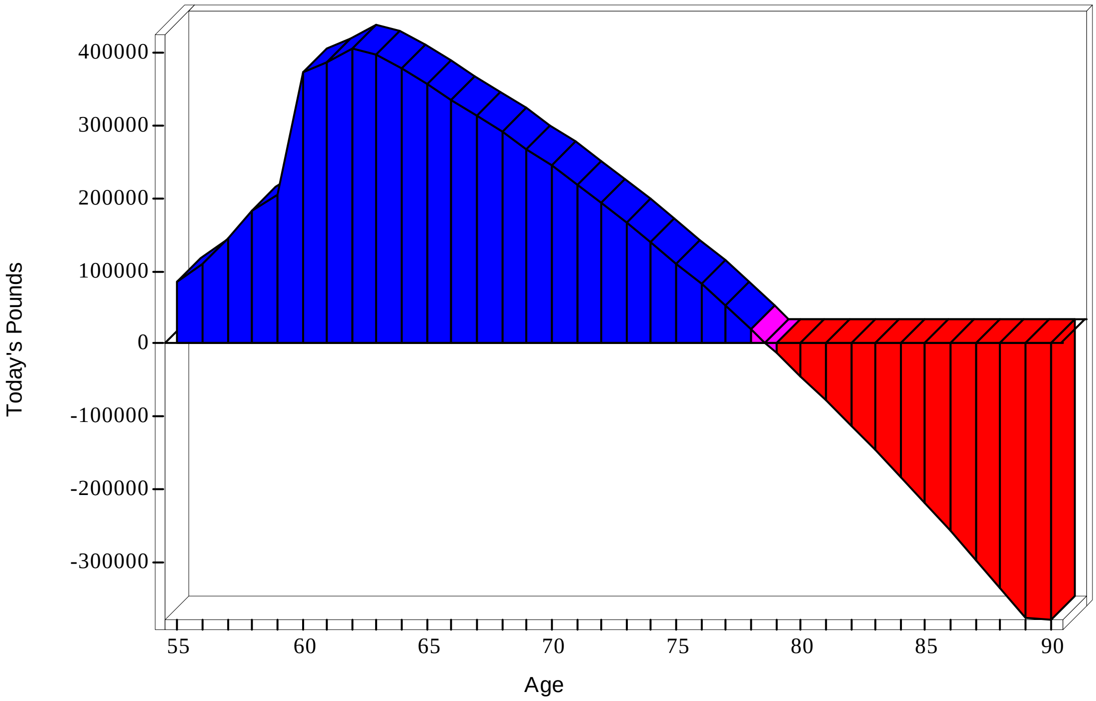
Let's look at an example client, a private dentist, aged 54. Her main aim was to ensure that she would be able to retire aged 60 and would have:

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

One of her main issues was that she had accrued a sizeable amount of money in personal pension funds and she wanted to know if she 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. 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.

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

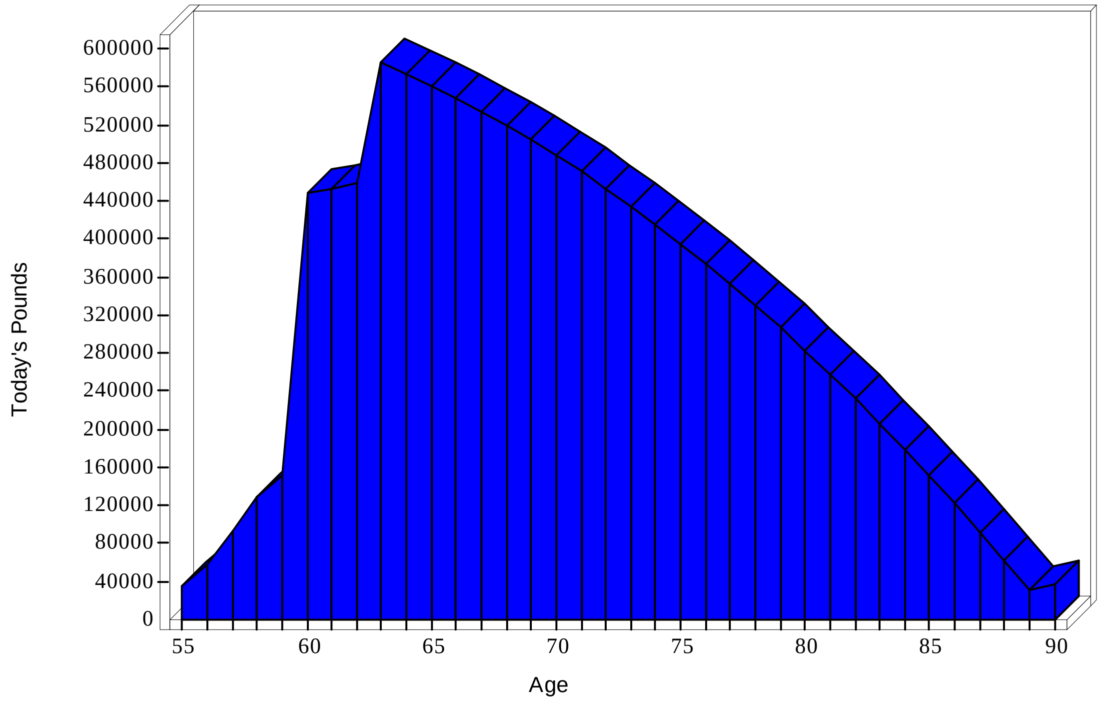
Once we compiled her cash flow forecast the initial results were:



The red blocks indicate that she will run out of money at age 79, assuming her future spending remains the same and her existing investments grow at 5% pa after charges. We have also assumed inflation to be 3% pa. The left axis shows how her funds progress in today's money over time.

What we have not factored in is that she will be receiving the proceeds of her practice sale at age 60, when she is expecting £250,000 (after tax) in today's money.

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



As we can now see, the forecast indicates that she will have sufficient funds in place to meet her retirement income objective. We have also forecast that she may be able to defer taking some of the proceeds from her 6 private pensions at age 60, instead supplementing her income with her ISA monies. This will mean that she will be able to potentially secure a higher income in retirement if she purchases an annuity at a later age (see Post-Retirement section).

We also analysed the amount of risk that she was taking with her existing investments and recommended that she reduce the amount of risk that she was taking as:

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

We also recommended that she did not invest any more money into pensions.

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.

So, once you have your cash flow forecast, what action can be taken to improve your existing or any new investment decisions?

Step 3

Making the Right Investment Decisions

It is very important to remember that a personal pension plan or an ISA 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.

It's therefore crucial to understand **where** you're investing your money.

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.

It needs to be understood that the mix of assets used enable us to anticipate a likely return that you can expect to achieve. This is important as this percentage is used in your cash flow forecast, and can verify that not only (commonly) can you reduce the risk you are taking on your investment, but still achieve your goals in life.

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’s 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.

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.

Remember, 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.

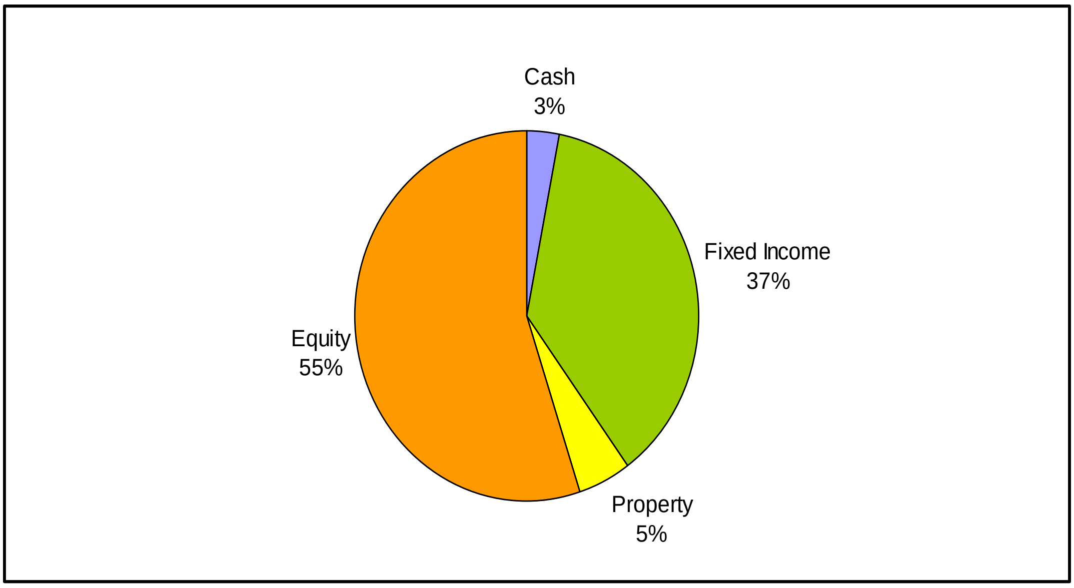
Diversification

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.

Let’s look at an example portfolio:



As you can see, this portfolio includes a spread of all four major asset classes and would probably be suitable for a balanced risk type investor. **Don’t** make the mistake of believing that you have a diversified portfolio just because your money is spread across different equity funds.

You need to have your investments spread across different **asset classes** to achieve diversification, which will help you manage the amount of risk you are taking.

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 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 minimise 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.

Passive Funds or Active?

So, having chosen your time horizon and asset allocation, you will need to choose the funds that will populate these choices.

But should you choose passive / index or active funds?

Well, over to Warren Buffet:

"Most investors, both institutional and individual, will find that the best way to own common stocks is through an index fund that charges minimal fees."

This is based on the massive amount of academic research that has proved that markets are efficient, and therefore active fund managers cannot really add value consistently.

With the market beating 91% of surviving managers since the beginning of 1982, it looks pretty efficient to me." Bill Miller, portfolio manager

Other factors that need to be taken into account are the significant extra costs that are incurred by active fund managers buying and selling stocks within the fund (known as portfolio turnover rate).

And guess who ultimately pays for this?

You can read more about this at the links below:

http://www.medicaldentalfs.com/?s=passive

http://themeridian.blogspot.com/2007/01/indexing-works-but-dont-take-my-word.html

And if you want to read more about this style on investing, there is a fantastic book called Smarter Investing, written by Tim Hale. Just visit amazon.co.uk to read the reviews.

It's also fair to point out that there are active fund managers that have consistently performed well over the years.

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 your asset allocation and choose the appropriate passive funds through a wrap platform

- Review at least annually and rebalance your portfolio (ensuring that the asset percentages are kept the same as they fluctuate in value)

There is no space here to go into the full investment process we use, however suffice to say that it is perhaps **the most crucial part** of the whole investing process.

You can get a complimentary copy of our Investment Process & Philosophy document (8 pages) which will provide you with an in depth overview to help you grasp the basics of this type of investing.

To get a copy just call Catherine Lowes on **0191 217 3340** or email us at **docden@rwpfg.co.uk**

Step 4

Choosing the Right Investment Plan

Once you've been through steps 1 - 3, it's fairly simple to decide which investment vehicle(s) will be the most appropriate, as your forecast will point towards the solutions you need.

Quite often the solution you come to is very different from your original thinking!

Let's look at your main choices.

Pension Plan

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:

- Your pension fund will invest the money you save (including the tax relief amount) in your pension. Your pension fund growth is also tax efficient.

- 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.

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's 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 – see step 2).

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.

Other Factors

- Another consideration here is that if the pension route is chosen, is it better to pension your spouse's income rather than yours? It can be very tax advantageous to do so.

- It is important to recognise that new rules introduced in April 2006, also limit the "pot" that you can build up – called Lifetime Allowance.

- Any pension that pays an income of more than circa £45,000 pa (in total), will be taxed at the higher rate of 40%.

So it is vital that you are aware that retirement planning does not always equate to buying more pensions.

Now let's take a look at other investment options:

Buying Property to Let

Over time, property can offer the greatest return on investment. The home you purchased ten years ago is likely to have risen in value above the normal rate of inflation, with some places now fetching three or more times their original value.

Owning more than one home, therefore, can be a worthwhile investment, and renting the property in the meantime should ensure that you are able to keep up the repayments on your additional mortgage.

The trend towards renting rather than buying also means that you shouldn't have much trouble finding tenants. However, make sure you do thorough local market research beforehand.

In addition, changes in the 1988 Housing Act have given landlords more power over troublesome tenants - a factor that has dissuaded many prospective landlords in the past - with the facility to evict repeat offenders now more easily available.

What you want out of it

Essentially, purchasing an additional property is an investment, which means you must decide whether you want to help that investment to grow or use it as an income.

If growth is your primary aim then city centre locations can offer high levels of return. However, the majority of rental property is concentrated in these areas and competition for tenants will be high.

If you're looking to use your rental property as a mode of income, then suburban areas are worth greater consideration. Whilst properties will generally be cheaper and the rent lower, the relative returns are likely to be greater over the long term.

The Association of Residential Letting Agents (ARLA) estimate that, as a landlord, you should be able to claim gross rent equivalent to between 130% and 150% of the property's mortgage repayments (interest only).

Preparing for the risks

There is no doubt that buying a property to let can be a worthwhile investment option. However, it's important to remember that buy-to-let also comes with risks attached.

Your main concern is ensuring that you can fund the mortgage that the property demands. You must consider the possibility of having no tenants for any period of time, with mortgage payments still being required.

The state of your property is also worth careful consideration. Places that need renovation, or those in run-down areas, may be cheap to buy but they could be expensive to refurbish. In addition, when you look to sell the property in the future, you may not get the return on investment you expected.

The key to getting the most out of a buy-to-let property, as with most investments, is in long term plans. Housing markets constantly fluctuate as the economy changes, but the trend has always been with growth. By taking the right advice and making the right choices, the property you buy-to-let now should provide strong returns in the future.

Buying Property to Develop and Sell

The other option with property is to purchase properties that require refurbishing. The basic premise is that you purchase a property that may have been neglected by the previous owners. Your job is to modernise the property for today's market.

It's common that you'll be able to purchase the property at a lower price than the market rate. Once the property is modernised / refurbished you put it back on the market. Your aim is to make a profit on the project. This type of investment requires project management and financial skills. No doubt you've seen the property development programmes on TV. Just make sure you do as much research as you can!

Dentists Selling a Practice

It is becoming increasingly clear that well set up and established dental practices are achieving high prices on sale.

Recent experience in discussion with clients from Kent to Newcastle Upon Tyne have shown valuations of £1million plus.

This of course is not an exact science. Who knows how this market will develop? However, this is now a very important factor to build into your cash flow forecast.

This raises an important point.

If a dentist can expect to receive a large lump sum on the sale of his / her practice at retirement, why would that dentist invest in further pensions without working out if the future lump sum received will be sufficient to supplement their retirement income?

Individual Savings Accounts

An ISA (Individual Savings Account) is a tax-efficient annual investment allowance launched in 1999 to replace the PEP and TESSA allowances. When you put your savings or shares into an ISA account, the income and gains from the investments are sheltered from capital gains tax and the growth is free from income tax (although dividend income is taxable, paid by the ISA manager).

There are two ways of investing:

- Equity ISA – you can invest up to £7,200 per tax year (£10,200 from April 2010).

- Cash ISA – you can invest up to £3,600 with one provider (£5,200 from April 2010). If you invest the maximum amount, you are able to invest an additional £3,600 into an equity ISA with the same (if they offer one) or alternative provider.

As with a personal pension, the ISA is simply a tax wrapper. If you invest in a stocks and shares type ISA, it's likely your money will be invested in what is known as a pooled fund. The most common ones are Investment Trusts, Unit Trusts and Open Ended Investment Companies.

The main difference between a personal pension and an ISA is:

- You receive tax relief on your contributions to pensions, but not to ISAs

- 75% of your pension fund must be used to buy an income, whereas the whole ISA fund can be accessed tax free

Other Alternative Investment Choices

Although we cannot go into detail here, there are other ways of investing that should be mentioned, some of which would be viewed as "more risky".

There are a huge number of alternatives, including:

- Derivatives
- Enterprise Zone Property
- Commodities
- Alternative Investments – art/antiques/wine etc
- Lloyd's Membership
- Exchange Traded Funds
- Friendly Society Bonds
- Annuities
- Ethical funds

For full information on Alternative Investments and to obtain your ***complimentary guide***, please contact us on **0191 2173340** or at **docden@rwpfg.co.uk**

Debt Repayment v Investing

It should be also noted that it could well be better for you to use available monies to pay off, say, mortgage debt rather than use the same monies to invest.

After all, in broad terms, if you can achieve a "return" of, say, 6% on paying off debt, this is **without risk**.

Again, your financial planner should be able to guide you here as to your best course of action.

Other Considerations

Coming to the end of this section on pre retirement planning, various other issues and factors are very important.

Here they are in no particular order:

- Your accountant may recommend that you invest into a pension because of the tax relief. This of course may well be good advice, but ensure you investigate first whether you need extra income in retirement and if the decision to invest into the pension is being made within the right context.

- If you have gone totally private, or are thinking of doing so, you must remember that this could have a massive impact on your NHS pension benefits accrued and what would have been accrued further if you had remained in the NHS.

- When building your forecast for retirement, it is well worth asking whether you will be spending as much age 75 plus as you will at, say, age 60 - 70. You may well be the exception and be the 85 year old skiing the black run, but most will not be as active! This can have a big effect on how your forecast will look.

- Have you thought about going part time at, say, age 55? This is usually a great option for clients, particularly those free of children commitments and debt.

Reviewing Your Strategy

It perhaps goes without saying that things change in life, and the very best of planning needs attention over the years.

Harold Macmillan said when asked by a journalist what causes a government to go off course.

"Events dear boy. Events".

The same is true for our clients who perhaps we start dealing with at their age 40. By age 55 it is safe to say that their strategy has been amended several times!

We would recommend a review at least annually, and this should also include the following:

Monitoring and Rebalancing

The unique combination of your personal goals and attitude to risk forms your financial strategy. The portfolio that we construct for you (or you do) is a direct product of these factors. If the composition of the portfolio changes then it may cease to be aligned with your financial strategy. Similarly, if any of your personal goals or your attitude to risk changes, then the portfolio may cease to be appropriate.

Any misalignment between your portfolio and your financial strategy means that the portfolio is no longer relevant to you, and could seriously jeopardise the likelihood of you achieving your goals.

Also, because your portfolio is made up of different assets, it is inevitable that some of them will perform better than others in any given year. Therefore, at the end of each year it is recommended that the performance of the assets in your portfolio are reviewed and **"rebalanced"** to restore the original composition of the portfolio. This may involve selling part of an asset that has performed well and re-investing the proceeds in one that has not performed so well.

The discipline of rebalancing raises another important aspect of the ongoing monitoring of your portfolio **-** keeping you on the straight and narrow. If you are to achieve your financial goals then it is essential that you stick with your strategy. There is a real temptation to sell a particular asset after a period of poor performance, however in doing so you increase the risk of continually buying assets at or near the peak of their value and selling them at or near the bottom. In addition to this risk, regularly buying and selling assets to chase short-term gains will incur additional transaction fees that could drag down the overall performance of your investments.

By encouraging you to hold a spread of assets through the peaks and troughs of their investment performance we maximise the probability that, over the long term, your portfolio achieves the market returns of the asset classes in which it is invested, and thus maximise the probability that you achieve your financial goals.

Action Point

Take the time to do thorough research before you make any type of investment. If you do use the services of a financial adviser, make sure they are using the techniques and processes covered in this guide.

This concludes the **Pre Retirement** planning section. Now let's look at **Post Retirement**.

Post-Retirement

Step 5

Taking Your Retirement Pension Income

You reach that point when it is time to retire: it might seem as though you have done all the hard work in building up a pension pot, but converting this to income will be the most crucial financial planning decision of your life. Unfortunately many people miss out on thousands of pounds in income by not researching all of the options.

How and when you take income depends on your retirement goals. One of our clients told us that he plans to ride across the US on a Harley Davidson as soon as he retires. You will probably have high income requirements in your 50s, 60s and perhaps early 70s. Usually in your 70s your income requirement goes down.

Take the Tax-Free Cash

The golden rule to maximising retirement income is to take the maximum tax-free cash (known as pension commencement lump sum) from your pension fund. You do not have to take this lump sum, but it can be very advantageous to do so. The maximum you can take is usually 25 per cent of the underlying fund value, possibly more with some occupational pension schemes.

The only exceptions relate to final salary schemes. With these, taking cash might not be such a good deal as it could reduce your final salary income too much.

Once you have taken your tax-free cash, this money is no longer considered to be ‘pension money’. If you want to generate income, you can do so more effectively and tax-efficiently if the funds you use are not deemed to be ‘pension’.

You could, for example, invest up to £7,200 a year in an ISA to generate a tax free income. Therefore, couples can invest £14,400 jointly (limits increase in April 2010).

Alternatively, you could buy a purchased life annuity. These are similar to conventional annuities but have extra tax advantages. Purchased life annuities could be advantageous for income in retirement. People don’t tend to use them because it means your capital is committed to the annuity and cannot be ‘reclaimed’.

A third option is to invest in life insurance bonds. This route allows you to take 5 per cent income from your investment tax deferred. In effect, what you are doing is deferring the income tax liability. If you encash the bond after, say, 20 years there will be a further income tax liability if you are a higher rate taxpayer. If you are a basic rate taxpayer (after encashing the bond) there will be no further tax liability. As a higher rate taxpayer, you need to gross up the 5% income withdrawal from the bond to calculate the equivalent gross return that you would need from an alternative type of investment, such as a deposit savings account.

Therefore, the rate you would need is 8.33%. If you don't want to take any risk with the bond investment you can actually invest the money into a deposit account within the bond wrapper. Do take care which bond you decide to invest in, as the deposit rates fluctuate between the providers of these types of products.

Annuities

The traditional way of turning your pension pot to retirement income is to use the capital to buy an annuity, which is an annual income from an insurance company. Annuities are one of the oldest financial contracts and date back to Roman times.

In 1811, Jane Austin in *Sense and Sensibility* observed: "People always live forever when there is an annuity to be paid to them. An annuity is very serious business; it comes over and over every year, and there is no getting rid of it".

Once purchased, an annuity contract cannot be changed. There are two important ways to boost your annuity income that the vast majority of retired people miss out on.

1. **The Open Market Option**

   Seven out of ten people, according to annuity provider Just Retirement, make the mistake of buying their annuity from the company with which they invested their pension. This can mean you miss out on a huge chunk of extra retirement income.

   David Cooper, group marketing director of Just Retirement, says failing to shop around for the best annuity rate might undo much of the effort made in selecting the right fund and pension scheme in the first place. "With so much focus on selecting the right fund managers to add value, allowing funds to roll over into an annuity with the holding provider might be equivalent to throwing away additional returns of 2.5 per cent a year over 10 years before retirement".

2. Enhanced Annuities

Annuity provider Just Retirement claims seven out of ten people are unaware their health or lifestyle might qualify them for an increased annuity. If you smoke or have a serious medical condition you may be able to get a higher value annuity as insurers recognise these factors can affect your life expectancy.

Just Retirement estimates up to 40 per cent of people could receive a higher income at retirement thanks to enhanced or impaired annuities. You don't have to be a particularly heavy smoker – 10 cigarettes a day for the past 10 years will qualify you for enhanced rates. Illnesses that qualify for enhanced annuities include diabetes, liver impairment, heart conditions and many types of cancer, whether or not you are in remission.

If your spouse is also on your annuity, don't forget to take his or her health into consideration as this could also improve rates.

Other Annuity Options that Make a Difference

How you maximise income from a pension fund really depends on what your fund is worth. More money means that you may be able to take more risk, and vice versa.

Anyone with the average pension pot of £30-40,000 should secure a guaranteed income. But if your pot is £100,000 or more (which many private dentists will have), you may be able to take on additional risk to generate extra income.

Conventional annuities offer the security of a set level of income for life. There are several options under the 'conventional' umbrella, for example how often you want income and whether to secure an income for your spouse when you die.

Most couples choose an annuity that benefits the surviving spouse, so that when you die, an income is paid to your survivor for life. The higher the amount paid, the lower the original annuity will be.

An alternative (and addition) to a partner's pension is using a guarantee period. This ensures payments continue generally for five or 10 years, even if you die within that time. Using a guarantee period can be a good way of providing for financial dependants, but will also reduce annuity income.

Most importantly, you need to choose between an income that is fixed for life or one that rises each year. With inflation proofing, this could make a real difference to your retirement income.

Choosing an escalating annuity will give you a lower starting income than a level annuity (one that doesn't increase). On the other hand, if you opt for level income, your annuity will provide no protection from inflation.

Intuitively, most people go for level annuities because you get a higher initial rate of income. Someone with a pension pot of £100,000 would get around £2,000 a year more from a level annuity than from an escalating one. An escalating annuity can be linked to the Retail Prices Index (RPI), in which case your income will change in line with inflation. Alternatively you can opt for a fixed percentage of escalation, say 5 per cent a year.

One specialist financial adviser has conducted an interesting study to find out how long it takes for an escalating annuity to catch up with a level annuity. If the annuity increases at 3 per cent a year and inflation is 3 per cent it takes more than 30 years for the cumulative payments from the increasing annuity to overtake the total payout from the level annuity. However, if inflation is 1 per cent higher at 4 per cent per year, the break-even point is brought forward by nearly 10 years.

Higher Risk Investment - Linked Annuities

If you can afford to take some risk with your retirement income, perhaps because you have a large pension fund, consider an investment-linked annuity. This gives you the opportunity to beat inflation while keeping your income at a reasonable rate. But bear in mind that there is a risk that if markets perform poorly your income could drop.

The annuity is linked to a unit-linked or with profits fund. You still get a regular income, but the pension fund you use to buy the annuity is invested with the goal of achieving a higher level of income.

You are normally required to assume a future rate of growth for the underlying funds. Under a with profits annuity you have to assume a future level of bonus rate. The higher the selected rate, the higher your initial income will be. If investment performance exceeds the assumed rate, your income will increase. If not, your income will decrease.

A Combined Strategy

Those who are concerned about inflation but don't like the idea of escalating annuities might consider splitting their pot to buy some level and some increasing annuities, plus perhaps an investment-linked annuity.

If you have enough money in your pot you could buy a level guaranteed annuity income of say £10,000 plus an RPI-linked income of £6,000, which will go up. Use the rest to buy a unit-linked annuity, which will give you an income that fluctuates. You won't be able to do this if you have a pension fund of £30-40,000, but with £100,000 or more it could make sense to split it.

Annuity Alternatives

If you really hate the idea of buying an annuity, there are ways of delaying purchase in the hope rates will improve or, in the event of you suffering ill health, that you will get enhanced rates later on.

1. **Unsecured Pensions**

Unsecured pensions (also known as income drawdown or pension fund withdrawal) are a popular alternative to buying annuities. They allow you to draw an income directly from your pension fund while the fund remains invested.

The maximum level of income you can draw is about 120 per cent of the level lifetime annuity payable to a single person of your age and sex; the minimum is zero. You can use your remaining fund to buy a lifetime annuity at any time.

Anyone in a stakeholder or personal pension scheme can use an unsecured pension, apart from those with very small funds.

2. **Staggered Vesting**

Similar to unsecured pension, staggered vesting (also known as phased retirement) is a way of drawing an income from your pension fund while delaying the purchase of an annuity.

With this, most personal pensions are set up as 1,000 segments. Staggered vesting allows you to take benefits from segments in stages over a number of years. Each time you draw on a segment, a tax-free lump sum of 25 per cent can be taken and the balance used to buy an annuity. The remaining funds stay invested, and hopefully will grow to beat inflation.

This can be a useful financial planning tool if, for example, you want to ease back gradually on work and start to replace your earnings with pension income. The danger is that taking withdrawals may erode the capital value of your fund and result in a lower income in the future.

With both these routes you need to pick a careful investment strategy for the underlying pension fund. Those who are overcautious might not achieve enough growth to maintain their income. Equities probably need to play some part in your portfolio.

One investment company, Fidelity, recently launched a retirement income fund that defies the conventional wisdom that a retired person should hold fixed income and cash, maintaining a solid exposure to shares, property securities and commodities, typically at 30 per cent. Fidelity believes this continued investment in equities is necessary to combat the corrosive effect of inflation over the far longer retirement periods enjoyed by people today.

Fidelity's research indicates that by keeping nearly a third of the portfolio invested in shares, property securities and commodities, with the balance in fixed income and cash, a fund can produce a reasonable, stable income while still allowing the underlying assets to keep pace with inflation in the long run.

3. **Taking the Middle Way**

A new concept in retirement income has recently arrived in the UK from the US. Guaranteed drawdown plans offer protected income with little growth potential, and full drawdown offers opportunity for investment growth with no protection. The 'third way' product combines growth potential with the security of guaranteed income.

When I'm 74…Annuities or an Alternatively Secured Pension?

Under current government rules, you are compelled to buy an annuity or transfer to an alternatively secured pension at age 75.

It might not be the right time for you, but you have to make a decision even if annuity rates are not good or you still don't need the income. At 74, then, you should be consulting a financial adviser in preparation.

An alternatively secured pension is similar to an unsecured pension, but the maximum income allowed is lower, being 90 per cent of the annuity you can buy at age 75. The minimum income is 65 per cent of the same annuity.

But if you think this will be a handy way to pass on your pension wealth to your heirs, you are wrong.

The Government has back-tracked on its original plans for alternatively secured pensions and slapped a huge penalty tax of 70 per cent of the fund on anyone trying to do this. As a result, alternatively secured pensions have lost their attractions. Standard Life, one of the biggest drawdown providers, has sold few plans.

Key Points

- Shop around the open market
- Take advantage of enhanced rates if you qualify
- Use tax-free cash to generate extra income
- Ignore inflation at your peril

- If comfortable with risk try investment-linked options or drawdown / phased retirement
- Try and defer taking your NHS pension to age 60, otherwise there will be an early retirement to pay (consider using other assets / funds to generate an income between retirement and age 60)
- Seriously consider if you need to take the pension income now, as deferring the decision to purchase an annuity, for example, could mean you will get a higher income in the future (and the whole fund will remain in your estate to pass on to your beneficiaries)

Also refer to Appendix 2 for details on another option to generating an income in retirement – Equity Release.

Step 6

Getting Advice and Taking Action

We've covered a great deal of information so far and it would be natural if you were feeling a little overwhelmed at this point.

So where **do** you start?

Having helped medical and dental clients for many years, and having been able to develop what we believe to be the right planning strategies, we believe that any planning must have a structure. Indeed, as members of the Institute of Financial Planning (IFP), we agree with their stance on setting out the standards that need to be covered and achieved.

This is so that you will have more confidence that you are receiving the guidance and assurances you need to make informed decisions that affect your financial future.

Just as you want to help your patients to a healthy future, we want to ensure you achieve financial security and peace of mind.

Clearly, being organised is a crucial part of any planning. So let's look at an overview of what you can expect from a good financial planner who adheres to the standards of the IFP.

Please note – this report concentrates on retirement planning. However, it should become abundantly clear as you read on that it is absolutely vital that **all factors** need to be taken into account.

So, what should be taken into account? The IFP standards are:

STANDARDS FOR A COMPREHENSIVE PERSONAL FINANCIAL PLAN

1. Client Data
2. Client Goals and Objectives
3. Identification of Issues and Problems
4. Assumptions
5. Balance Sheet / Net Worth
6. Cash Flow Management
7. Income Tax

8. Risk Management and Insurance
9. Investments
10. Retirement Planning and other special needs
11. Estate Planning
12. Recommendations
13. Implementation
14. Periodic reviews and plan updates

Let's look at these in more detail:

ELEMENTS OF A COMPREHENSIVE PERSONAL FINANCIAL PLAN

1. Client Data

Getting organised - the planner will need detailed knowledge about yourself and where you are now with your planning. This will include information on:

- NHS and State pension
- Investments, personal pension and protection policies
- Debt
- Wills
- Properties & Practices owned

2. Client Goals and Objectives

What are your goals in life?

Have you ever really sat down and thought through what is important to you?

A quote that comes to mind here is "if you don't know what you want, how will you know when you get there?"

On many occasions when we have an in depth discussion with a client about their goals in life, they tell us that it has helped them enormously to focus on what is really important to them.

3. Identification of Issues and Problems

Most of all, the planner will listen to your priorities and concerns.

Then the planner will **list** personal and financial issues and problems which may affect you, such as major illness, education costs, taxes etc. While you may be aware of many if not all of the issues, the planner may discover other areas that are or could develop into a problem.

These issues and problems, when combined with your goals and objectives will complete the framework and direction for your financial plan.

The planner should be fee based and therefore is **working for you and only you**.

4. Assumptions

The planner will identify and state material assumptions used in the preparation of the plan. Assumptions would typically include inflation, investment growth rate, mortality, etc.

5. Balance Sheet/Net Worth

A schedule listing your assets and liabilities includes a calculation of your net worth and itemised schedules of liabilities and assets as appropriate.

This helps with various calculations including Inheritance Tax, and helps you see the bigger picture.

6. Cash Flow Management

It is unlikely that you will have seen this vital tool before. Quite simply, we would find it incredibly difficult to do our job without it.

Imagine a software programme that maps in graphical and numerical form (see step 2) what you want to achieve in life against all the resources you have to commit to these goals.

Computer modelling is now very sophisticated, and we use the most advanced tools to be as accurate as possible. What this achieves is a very comprehensive picture of where you are in relation to your goals.

So, for example, in retirement planning, you will see for the first time how your existing planning looks in relation to the standard of living you know you require.

7. Taxation

Any plan needs to take into account taxation, and quite often your planner will liaise with your accountant.

8. Risk Management and Insurance

The aim here is to ensure that if at all possible, you can achieve your objectives in life in the event of illness / accident, or the death of yourself or partner.

Again, this is where the cash flow forecast can be used to include these scenarios.

Any NHS benefits should be built in, as any dentist with, say, 20 years service will have considerable death and incapacity benefits.

9. Investments

Do you have a risk assessed portfolio or a collection of policies?

What we find with most clients in their forties or fifties is that they have built up a collection of investments and policies over time with no real structure or aim. It is extremely important to look at these in detail, since such plans are going to be part of the solution to your goals.

What the planner analyses includes:

- Liquidity
- Timescale
- Diversification
- Risk
- Asset Allocation

You may have not heard of asset allocation. This is crucial, and yet we find most clients do not understand it or why it is important.

10. Retirement Planning and Other Special Needs

This is all about you achieving financial independence when you want to. Sounds simple doesn't it!

Your analysis will include a projection of resources expected to be available to meet those needs at that time. Inflation, growth of assets and State and NHS benefits will be considered.

A question here of course is - do you know how much income you will truly need per month to have the lifestyle of your choice?

11. Estate Planning

"We would like to always have enough for our needs, but not leave large amounts of what's left on our deaths to the government."

We find that as an overall statement, this is what clients tell us they want.

It is also true to say that even if a client has a Will, it is normally not Inheritance Tax (IHT) efficient, meaning your children/family could pay more in tax than needed.

Trusts and powers of attorney also need to be covered.

12. Recommendations

At the end of this process, you will be clear on what to do, why you are doing it, and the benefits such actions bring.

All recommendations will aim to help you achieve your goals, and give you a clear picture of where you stand, and where you are going.

13. Implementation

It may surprise you, but most of our clients do not like paperwork!

Once the recommendations are agreed, the planner will do as much of this for you as possible. Anything remaining should have step by step instructions for you to action.

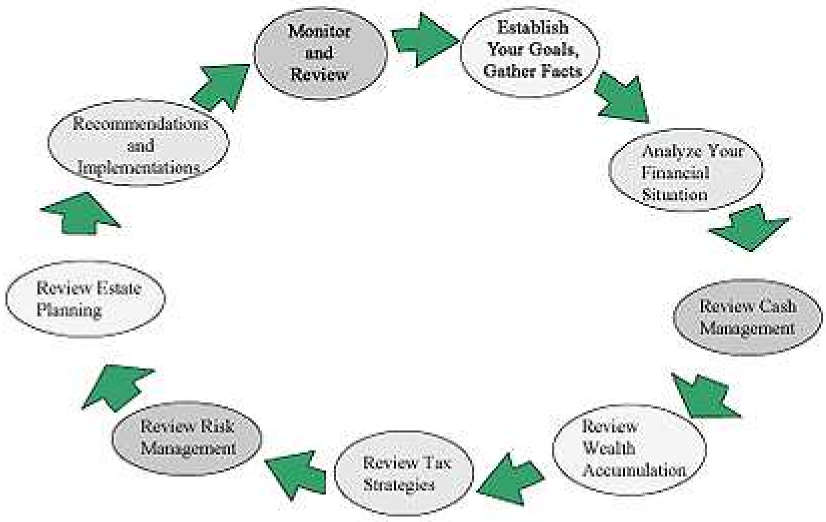
14. Periodic Reviews and Plan Updates

Reviewing your plan regularly is vital.

Just as a dental patient needs to have their check ups, you need to ensure that your plan is up to date and still delivering year on year.

We would normally recommend an annual review, with other discussions in between as and when required.

Your planning should look something like this:



Source: Monteith Financial Group

Summary

So there you have it.

You should now have a better idea of how you can approach your retirement planning and the pitfalls 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 30 years combined advising doctors and dentists, it is rare that we cannot improve a new clients planning, **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. We would imagine you can identify with this in your own careers!

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 every month.

To enquire in strict confidence, you can either call Ray Prince on **0191 217 3340** or email us at **docden@rwpfg.co.uk**

If you're not receiving the twice monthly Financial Tips newsletter, simply **visit our specialist website** (**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. (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

Ray grew up in the North East of England and attended Kings School in Tynemouth, an experience he remembers for the cold weather, all year round! After school he continued his studies, completing a Master's degree (business and marketing) in 1999 at Sheffield Hallam University.

Ray started working as a financial adviser in 1994 with Friends Provident. In 1996 he made the step to become an Independent Financial Adviser, joining medical and dental specialists Baxter Fensham Ltd. It was here that he developed his specialist knowledge, advising doctors and dentists how to get the most from their financial planning.

Ray started presenting his ideas in seminars and workshops and has since spoken in front of hundreds of doctors and dentists throughout the UK. In 2000, he left Baxter Fensham to team up with Thomas Dickson and together they were founding members of money4dentists.

Ray has presented financial planning seminars to groups within dentistry, including Women in Dentistry, dental health education council, the BDA and both undergraduate & postgraduate schools. He continues to present to groups alongside Newcastle Dental School.

In 2004, Ray relocated from the Midlands back to the North East and has since teamed up with Rutherford Wilkinson Ltd to deal specifically with members of the medical and dental professions.

Ray has continued to pass various financial papers and is one of only 952 (as at May 2009) Certified Financial Planners in the UK. He also holds the Advanced Financial Planning Certificate and the Diploma in Financial Planning accredited by the Chartered Insurance Institute.

His 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. He likes to help others less fortunate than himself and has volunteered for Crisis, the charity for the homeless, and has done a sky-dive for Dentaid, raising funds for under-resourced dentists in the Developing World.

Graeme also grew up in the North East, in Chester-le-Street. He remembers very clearly helping out in his father's newsagents nearby, delivering round upon round of newspapers far too early in the morning!

After working for the Mars group for several years, he joined the Medical Sickness Society in his mid twenties. It was here that he developed a passion for helping medics and dentists with their finances, and became very used to the ins and outs of the NHS Pension scheme. It was this same passion that made him move on after 16 years to become an Independent Financial Planner, as he wanted to offer his clients a broader range of services and a totally impartial advisory service.

After working in London and Kent for many years, he returned to the North East in 2000 with his family. They are now settled in Rothbury, Northumberland, and have invested in thick fleeces and walking boots!

When not working, Graeme spends a lot of time with his family, and is very aware of the saying “tempus fugit” when his daughter increasingly shows him up with her improving skills and fitness.

His other personal interests are local history, genealogy, archaeology and cartography. He also loves walking and playing racquet sports, and regularly plays squash. He also completed the Great North Run in 2005, raising money for children with cancer (and is doing it again in 2009!).

In 2008, he decided to write a book based on his interest in history, and research is well under way. Work in progress so watch this space!

About Rutherford Wilkinson Ltd

Rutherford Wilkinson Ltd is a leading firm of Independent Financial Advisers 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.

As well as holistic fee based financial planning, Rutherford Wilkinson offers a wide range of financial services:

- Comprehensive Mortgage Service, residential and buy to let (sourcing the right deal for you and handling many aspects of the administration)
- Practice Acquisition Advice, including practice finance
- Estate Planning / inheritance tax mitigation / wills
- Retirement Strategy, to help you manage your affairs when you decide to give up work
- Long Term Care, planning for when you can’t look after yourself or a family member
- Family Protection, to make sure your family have financial security if you die prematurely or suffer a critical illness
- Income Protection, ensuring you have enough income if you can’t work due to illness, injury or accident
- Debt Management, understanding how to make debt work for you
- Foundation Planning including product selection (suitable for younger clients)

- Portfolio Evaluation, so you can align your investment strategy with your attitude to risk
- Individual Product Research, to help you buy the right financial policies

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.

Appendix 1

Goal Setting Template

Your Priority	Goal	'Need to'	'Want to'	'Would like to'

Appendix 2

An Additional Option – Equity Release

Rising property prices mean many homeowners now have most of their capital tied up in their property. Consequently there is a growing interest in equity release where a 'lifetime mortgage' is arranged so that the capital can be paid out.

The snag with these schemes is that the roll-up of the interest can cause the debt to escalate rapidly. Mike Philps, business manager at specialist equity release advisers, Hinton & Wild, says: "At current rates of interest, your loan will nearly double every 10 years, so after 20 years a £75,000 loan could have grown to £300,000". For this reason, at age 65 loans are typically limited to 25 per cent of the house value.

Philps says that when people approach his firm the first thing they do is discuss alternatives. "We ask them whether they have claimed their full entitlement to state benefits; if they want to make home improvements (we tell them whether there are grants available); we suggest traditional interest only mortgages if they have enough income; we encourage them to put off equity release until they are older and the cost is therefore lower; and we suggest they trade down as this is a more cost-effective way of releasing equity". In the end only one in four people opt for equity release.

A danger of equity release is that people take a lump sum and put it on deposit in a bank or building society account where it earns less than the rate of interest being paid on the loan. Over the last two years, equity release schemes that allow the loan to be drawn down gradually have been introduced. This keeps the cost down as interest is only paid on the amounts actually borrowed. Drawdown schemes used by Hinton & Wild include those offered by Hodge Equity, National Counties Building Society and Stonehaven.

Home reversions are another form of equity release where all or part of property is sold to the provider. No interest is paid, so the amount owing is a known quantity in relation to the property value.

In other words, if 50 per cent is sold, it will always be 50 per cent. But the price a company will pay is considerably below the market price to compensate it for having to wait until the homeowner dies or moves to recoup its loan.

Equity release: key facts

- Equity release should be the last resort after all other options have been considered.

- Delay as long as possible to reduce costs.

- Eligibility for state benefits such as pension credit and council tax benefit may be affected.

- Take equity gradually through a drawdown plan to help reduce interest payable.