Retirement

Your retirement **journey**

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You may have heard that the retirement landscape is changing. At Alexforbes Offshore, retirement planning is often the main reason that people come to us for advice. Our job is to help you achieve your goals, so that you are happy that you are making the right choices when planning for and enjoying your retirement.

This article explains the different steps in your retirement journey and no matter where you are along the way, we are here to help.

When we meet our clients, we always start with a free consultation to find out what you are looking for. We start with the basics of where you live, what you do, how much money you save and what you want to do in later life.

We will also work with you to consider how much risk you can take with your savings and how much money you might have available when you need it.

Nobody can predict the future, but we know that people who plan for their retirement feel more confident that they are doing everything they can to make their future as secure as possible.

People have many desires for their retirement including:

- Retiring earlier
- Retiring later or maybe working part-time
- Taking some cash and spending on a 'bucket list'
- Renovating the house
- Giving money to help the grandchildren on the housing ladder

How should you plan?

There are four basic phases in your retirement journey and they roughly correspond with your age:

Accumulation

Your age:
18-55

Consolidation

56-65

Active retirement

65-80

Passive legacy

80+

Accumulation

When should I start to save?

The easy answer is: as soon as you can. It can be difficult to set aside money now for the long distant future, but the sooner you start the harder your money can work for you.

Consider this:

Jim is 25 years old and his friend Ralph, is 45 years old.

They both decide to save **£48,000** towards their retirement, with the aim of stopping work at age **65**.

Jim is starting early, so he has time on his side. He can only afford **£100** a month, so this is what he puts away into a retirement savings account.

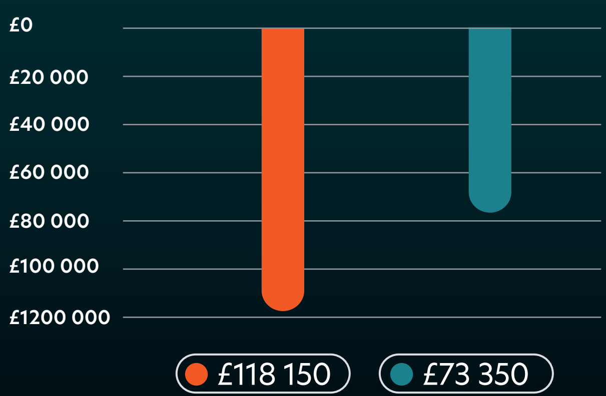
Ralph is starting much later, but as he is older he is earning more, so he can afford to put away **£200** a month.

SAVES £100 per month for **40 years**

SAVES £200 per month for **20 years**

They both earn a return of **4%** a year on their money.

So who has the most at retirement?



Even though they save the same amount overall (£48,000) Jim's money has much longer to grow, so at retirement he ends up with £44,800 more than Ralph. This is due to the power of compounding returns.

The power of compounding

Essentially this is the only 'magic' there is in the investment world.

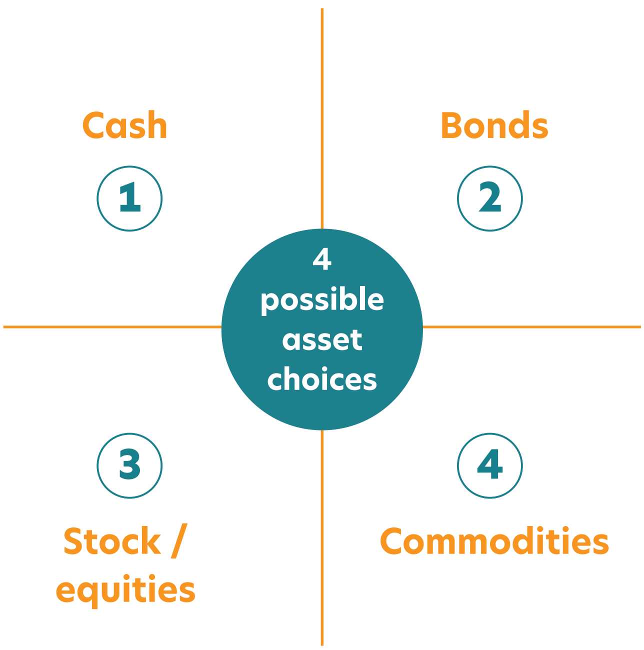
In Jim's example he is putting £1,200 a year into his retirement savings account. He is receiving a return of 4% a year on this money. Each year, his savings grow by £1,200 plus the 4% return, however, the power of compounding means that if he leaves his 4% return in his retirement account, the next year's return will be paid on what he has saved plus the 4% he has earned. He is earning returns on his returns. Over time this can add up to a considerable sum of money.

To harness the power of compounding you need to start with setting savings aside and earning a steady return on your money.

Aim to start as soon as you can with what's affordable and let the power of compounding grow your savings.

How should I invest?

There are four possible asset choices in which to invest.



Each of these asset classes has different levels of risk and there are thousands of different ways of investing in combinations of them to achieve your goals.

Cash

This is the simplest and most familiar to everyone. If you have cash in your pocket, you can spend it immediately.

Cash is generally considered a very safe option, however, if you hold cash for a long time and prices are rising i.e.inflation, the impact will mean that your money will buy less in the future.

Cash is usually kept at a bank and the bank pays interest to you for holding your cash on deposit with them. If interest rates rise, the bank may pay you more interest, but they do not have to.

Usually cash is held to help you with short-term needs or unexpected life events. It is not a long-term investment.

In Jersey, if you hold cash of up to £50,000 in a bank account in your name and the bank goes bust, your cash should be protected by the Jersey Depositors' Compensation Scheme.
See www.gov.je for more details.

Bonds

Bonds are simply borrowing by governments or companies. They issue a bond to investors and in return for lending them money, you receive interest. The bond is usually issued with a fixed date at which your capital (the money you used to buy the bond) will be paid back to you.

In some cases, you may have to pay a premium to buy the bond, or you may get the bond at a discount, it depends on who is issuing the bond, how much they are willing to pay in interest and when it matures.

The global bond market is huge, with trillions of pounds' worth in bonds traded every day.

People use bonds to give them a fixed income at the same time every year, with a known end date. High quality bonds, with a relatively short date, such as those up to 5 years, that are issued by the UK government (called UK gilts, because they used to be issued on paper with a gilt-edge) generally do not change a great deal in price and are often seen as a safe option for investors.

Most final salary pensions have bond investments as the returns are certain if held to maturity.

Stocks or equities

Shares are issued by a company when it lists on the stock market, so that people can invest in the company by buying them. If the shares are not publicly listed, then you can only buy them from the owners and this is called private equity.

Publicly listed stocks are traded on a stock market, which can be anywhere in the world and in any currency. The aim is to buy at a low price and sell at a higher price. There are thousands of shares to choose from and most give the shareholder the right to vote at company meetings and the opportunity to earn a dividend if the company decides to pay out some of its profits.

Dividends are usually paid on a quarterly basis and companies announce their intentions to pay dividends when they announce their earnings. If the dividends are reinvested to purchase more shares this is another example of compounding returns to help your money grow.

There is a huge variety of factors that can change the price of a stock from day to day. From supply and demand, to company news, to a downturn in the sector, region, or country. The movement of prices up and down is called volatility and it is viewed as the biggest risk when investing in a stock. Over time (generally five years plus) the stock market has shown better returns than bonds and cash, so the key factor here is how long your money is going to be invested. If it is more than five years, then the stock market should give you a better return than bonds or cash but remember that this is not guaranteed.

Commodities

This asset class can include property. In Jersey, many people will be relying on property prices to rise, so that they can sell their house and 'downsize' to somewhere smaller when they retire.

This also has its risks, since the property market does go through cycles of prices rising and falling, although in Jersey we have been lucky that prices have generally risen due to the shortage of land.

There are many other commodities such as gold, silver, corn, wheat, copper, coffee etc. These items can be very volatile in price, but they can also protect your money against rising prices; inflation. In many cases commodity prices do not rise or fall at the same time as stock markets, so they are sometimes used to help diversify portfolios. Commodities can be held in a fund, which means you do not have to buy the physical assets.

When thinking about investing, you should always think about how much risk you are taking with your money. If there is a risk that you might lose your money, then you should expect a reward (in interest, dividends or a gain in price) for making that investment.

Alternatives

You may have heard people talking about 'alternatives' as an asset class. This is not really true, as alternatives are simply alternative ways of earning returns from these four basic asset classes.

For example, a long-short hedge fund, can buy stocks that they think will do well, but they can also borrow a stock and sell it short, earning a return if the stock falls in value and they buy it at a lower price than the one they sold it at.

These transactions can be complex and they are carried out by professional investors. They are simply looking for a different way to earn returns, usually where they do not have to wait for stock markets to rise. These investments are generally not available to the public, although provided you understand how they work and the risks taken, they can be helpful in diversifying a portfolio of investments.

Diversification can help to reduce risk

People do not usually pick one or other of the asset classes listed above. It is important to have a variety of investments in case one or more do not do well.

Most people use a fund, pooling their money with other investors who are looking for the same rate of growth to avoid exposing themselves to just one stock or bond.

It is better if you can combine the asset classes together and take advantage of their attributes as you need them. For example, when stock markets are rising, you want to be invested in the stock market. When interest rates are falling, you want to be invested in the bond market and when stock and bond markets are falling, you may want to be in commodities or cash.

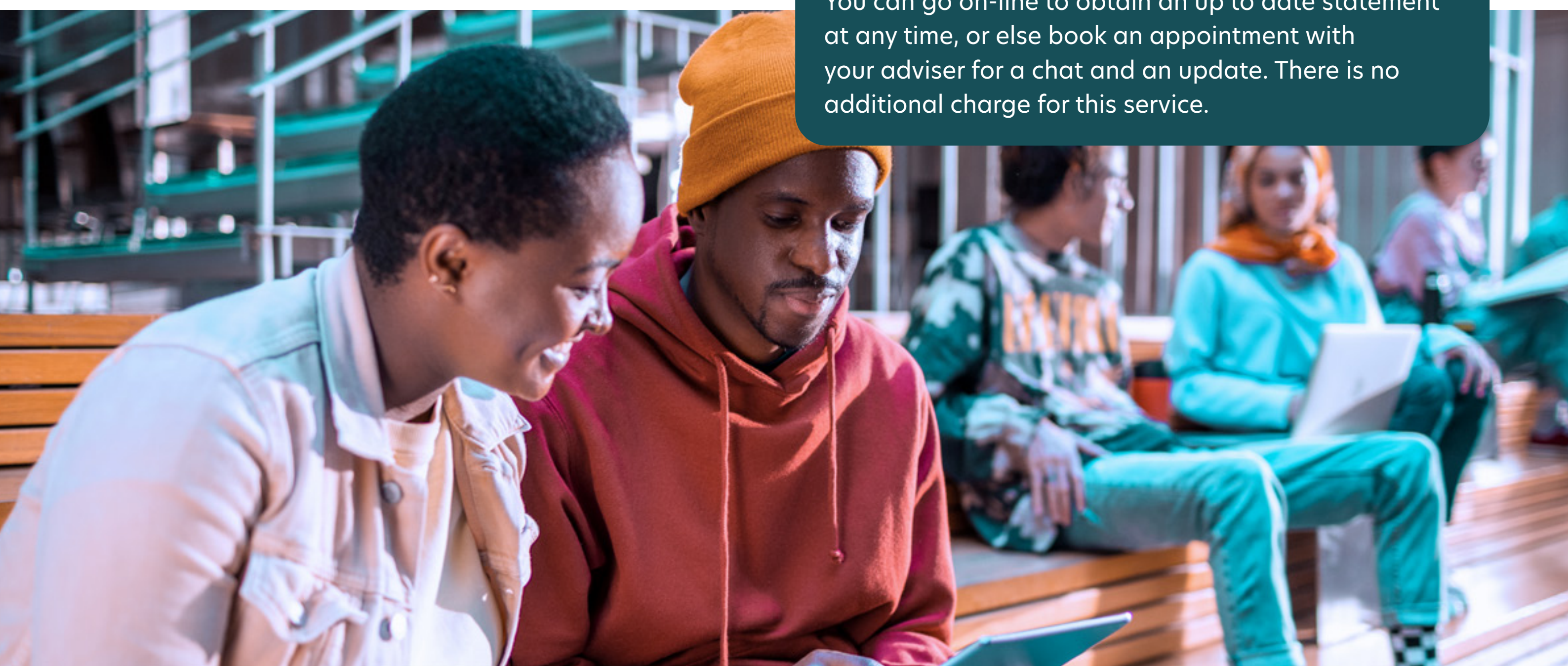
It is time-consuming and complex to choose the right investment strategies for your retirement, so we have worked with some of the best investment managers in the world to simplify the choices available based on the level of risk you are comfortable taking.

Our financial advisers will walk you through a short risk questionnaire to understand not only how much risk you feel you can take with your savings, but also, how much you can afford to lose. At the end of this process, they will provide you with a recommendation for the most suitable basket of investments for your circumstances.

Review your progress

Our ongoing fees include a regular check-up with you to show you how your investments are doing. It is easy to forget about them, but it is important that you look at them at least once a year to make sure that the mix of assets is right and you are happy with the level of risk that is being taken.

You can go on-line to obtain an up to date statement at any time, or else book an appointment with your adviser for a chat and an update. There is no additional charge for this service.



Consolidation

When you approach your mid-50's, retirement does not seem quite so far away. It is the ten years or so before retirement when your investment decisions are critical to the amount you will have when you retire.

We call this period 'consolidation', because it is the time when you should be considering bringing all your investments together and thinking about what you might need when you retire. Your aim is to have the largest retirement pot you can, so that at retirement you can take some tax-free cash if you want it and start to take an income from your account.

In recent years, we have seen demand changing so that many people are either extending their working lives or only working part-time at 65, gradually phasing into their retirement.

The average lifespan for someone reaching 65 is now well into their 80s, so as a 'rule of thumb' your retirement savings need to be able to support you for at least 20 years.

Although in the past people have reduced all their investments to bonds and cash by the time they reach 65, based on actuarial advice we have been advised that in fact this may be too cautious. Traditionally on retirement it would be common to buy an annuity, a known level of income for life. All of the money in your retirement pot was used to purchase the annuity from an insurance company. We have seen in the past five years that retirees do not want to commit to an annuity, they want the flexibility to take some tax-free cash and also to take an income from their retirement savings when they need it.

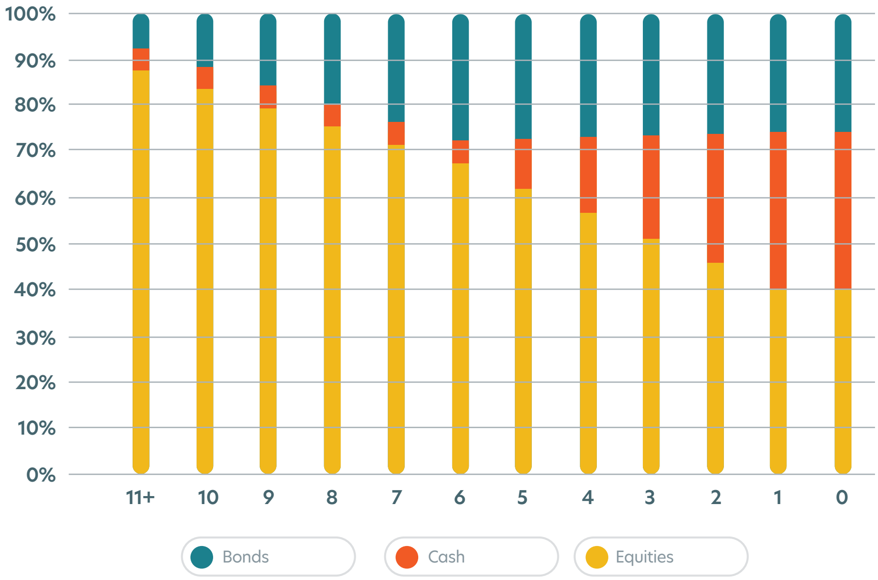
We mentioned above that bonds can provide a steady income over time, but bonds do not protect your money from inflation and they can drop in value. The advice from our actuaries is to consider holding up to 40% in stocks, (depending on your risk tolerance) to protect against inflation and continue to grow part of your savings whilst you are in your retirement. This approach is higher risk than taking an annuity, because of course the stock market could fall in value.

In the example below, the exposure to the stock market is gradually reduced in the period from 10 years to retirement onwards. Exposure to cash and bonds is increased, giving sufficient cash to fund up to 30% for a tax-free cash withdrawal if required.

This is simply an example and does not constitute investment advice.

Our advisers will help you to look at the best solution for you, considering the amount of risk you want to take and the level of spending you think you might need when you retire.

Lifestyle asset alloction example



As you approach retirement you will gain a better idea of what you want to do when you stop working and the closer it is, the more accurate you will be in estimating the level of income you will need.

The key risk in retirement is that of running out of money from your retirement account. Allowing your savings to continue growing by investing a portion in the stock market can help to fund your income for longer, in retirement.

Active retirement

When you stop working or reduce your working hours, you will need to review your retirement plan and decide whether to start taking money from your retirement account.

Spending patterns in retirement

For most people, retirement is a time for doing the things you have always wanted to do and perhaps relaxing more after a life of hard work. The general pattern of spending in retirement is as follows:

Stop working → Spending rises → Spending falls → Spending rises

When you stop working you may wish to take advantage of having more time. In the early stages of retirement, you may well be fit and healthy and able to do more, which might increase your spending. On the other hand, you may pay off your mortgage and find that your day-to-day costs are lower, as you don't need to pay for parking every day, save for your children's education or your own retirement. Often this is the time that people take their 'once-in-a-lifetime' holiday or take the opportunity to do something that they have always wanted to do.

At some point during your retirement you may find you prefer to spend more time at home and naturally spend less on holidays, gifts and so on. At this time your spending will fall and you should find that your income is more than enough for your spending.

In later life, if you become more passive, you may find that you need to consider care in your home, or in a nursing home and the costs of long-term care need to be taken into account. At this point, you will find your spending rising once more.

Be aware that everyone is different and you can speak to an adviser to discuss your own retirement needs. The most important factor is for you to feel in control of your spending and income, so that you do not worry unnecessarily about your financial well-being.

Tax-free cash

In Jersey, the current rules allow you to take up to 30% of your retirement account as a tax-free cash lump sum from the age of 50. You do not have to retire to take this money out of your retirement account, but it is a 'one-off' event, unless you continue to make contributions to your account. If you make further contributions, you can take 30% of those contributions as tax-free cash at a later date.

Most schemes allow you to withdraw this money in up to three lump sums at any time after the age of 50. There is no obligation to use the money for any particular purpose, so you could fund children or grandchildren at university, make repairs to your house or take a luxury holiday

The main point to remember is that once you have withdrawn your money and spent it, you will have less on which to retire.

Pension income

Depending on any other savings you might have set aside, or rental income from property, you may be able to delay taking out your pension income until you need it. Although there is also an argument to enjoy it whilst you are fit and healthy.

State pension

Don't forget that if you have been working in Jersey you will be entitled to the State Pension. From 2020 the State Pension is gradually increasing from 65 years, so that by 2031 the state retirement age will be 67. To earn the full state pension, you will need to have paid social security contributions for 45 years. This is rising to 47 years at the same time as the retirement age is increasing.

The Jersey state pension does not allow you to make additional contributions or purchase additional years, it is purely based on the number of years you have been earning in Jersey.

Annuity or retirement trust scheme

Once you decide to take your income, an adviser will help you to decide how much is a reasonable amount to take and make sure that your retirement account is invested to help you meet your income needs.

At this stage, you need to decide whether to opt for an annuity, which gives you a guaranteed income for life, based on your fund value, your age and current gilt yields.

An insurance company will provide you with a quotation for the amount of income you can expect from your retirement account and our advisers can arrange this for you. You need to be aware that once you have chosen an annuity, it cannot be changed, so if rates rise in the future you cannot ask for your rate to be adjusted. Annuities are generally suitable for people who have a very low tolerance for risk. Essentially the insurance company guarantees that you will be paid an income for the rest of your life.

There are other benefits that can be added to the annuity, such as a benefit for your spouse or partner if you die and your adviser will be able to explain these to you.

If you decide you do not want to take an annuity, or else you want to wait and decide at a later date, then you can continue to use your existing retirement account, if it is in a Retirement Trust Scheme. These are Jersey regulated pension schemes that are individual to you. In the scheme you can choose the type of investments you want and the amount of income (subject to limits) that you want to take in retirement. At Alexforbes Offshore your scheme will be called a Jersey Pension Investment Trust (JPIT).

The Jersey rules on the amount of income you can take are based on the UK government's actuarial tables which state the gilt yield (UK government bond return) that must be used for these calculations. They also take into account mortality rates (the average age that people pass away,) and your age. Your adviser will calculate the maximum amount of income that you can take every year and you can receive this either monthly or annually as cash. The amount is reviewed every three years.

It may not be the best idea to take the maximum income early in your retirement, as you may find that this reduces your retirement account to a point where it will not provide you with enough income later in life. It is important that you regularly review the amount of income and discuss this with your adviser, to make sure you are comfortable with the level of income you are receiving.

When you receive income from your pension, either as an annuity or from a retirement trust scheme, it is taxable based on your current Jersey rate of income tax. You need to report this income on your annual tax return.

Passive legacy

When you are in your mid-80s, you may find that your thoughts turn to inheritance and what you might leave to your loved ones when you pass away. For your pension, you should make sure that your nomination of beneficiaries form is up to date.

For your other assets, it is vitally important that you have a will that sets out how you wish your assets to be divided and who should inherit them from you. Having a will makes it much quicker and easier for everyone to follow your wishes.

Jersey currently has no inheritance tax, so you can pass on whatever you wish to your family or friends without them suffering a tax charge. Keep an eye on regulations in case this situation changes and talk to your adviser if you need to confirm the situation for yourself.

The States of Jersey has a long-term care scheme in place requiring that everyone who pays income tax on the island pays towards the scheme. When needed, benefits can be accessed by all Jersey residents. Care costs are capped for single persons and married couples, full details available at https://www.gov.je/Benefits/LongTermCare/Pages/LongTermCareBenefits.aspx.

If you have significant assets, you may wish to consider setting aside these care costs, in the knowledge that should you need support in a nursing residential home, the States of Jersey will pay towards the costs of care. You should note that the Government does not pay for everything, so speak to your adviser, or review the information on the States of Jersey Government website www.gov.je and look for the long-term care scheme.

You may also wish to consider signing a 'lasting power of attorney'. The law around this changed in October 2018 and you can now sign up on-line on the Government website above. The Power of Attorney can be for medical or property purposes (or you can do both.) Once it is completed and has been witnessed it will need to be registered at the Judicial Greffe. This allows people whom you trust to take over your affairs when you are no longer capable of doing so yourself. It has to be signed when you have full mental capacity and can be kept on hand for a later date, should it be needed.

Traditionally we tend not to talk about money and passing on inheritance to the next generation, but it is important for your peace of mind that you know that your wishes will be honoured. Arrange for a family discussion so that you tell people what matters to you most. It can be a difficult subject to raise, but we know that it can significantly reduce your concerns and help the loved ones who might be left behind.

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Contact details

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All investment involves risk. Past performance is not a guide to future investment performance. The value of investments and the income from them can fall as well as rise as a result of market fluctuations and you may not get back the full amount you originally invested. Where investment is made in currencies other than the investor's base currency, movements in exchange rates may have an independent effect, which may be favourable or unfavourable, on the gain or loss otherwise accruing to the value of the asset. Investors should read and understand the Prospectus of the Funds they intend to invest in so they understand and are capable of assuming the risks of investing in the Fund

Data protection

The data supplied by you will only be used for the purposes of processing your investment including administration and handling any query which may arise. The data supplied will not be passed to any other parties except as necessary to provide you with the services you have requested and to comply with our legal, tax and regulatory obligations. It is important that the data you have supplied is kept up to date. You should therefore notify us promptly of any changes so that we may update our records.

Full details of our privacy policy are available on our website at www.alexanderforbesoffshore.com/privacy-notice. This notice includes a list of your rights as an individual over your personal data. If you require further information regarding our data protection policy, please contact our data protection team at dataprotection@alexforbes.je