

Retirement has more potential with

PRUDENTIAL

With-Profits an Investment wrapper in anyone's language!

When it comes to retirement planning, no two clients are the same, yet they all desire a similar outcome – to maximise their income in retirement.

How they decide to do that is down to their individual circumstances, their attitude to risk and their preference for the type of investment they choose to underpin their pensions savings. Advisers have a myriad of considerations to take into account, not least the most appropriate investment to produce the biggest savings pot possible.

Questions arise from investors who are due to retire such as the need to think about how and where they will invest their hard earned cash. What sort of product is on the market and what would suit them? Will what an investor chooses today determine their future income for the rest of their life? What sort of choices are open to them?

When we paint a profile picture of the average person saving for retirement we see that as well as answers to the above questions, they all want an investment that has the potential to grow steadily over time, that isn't racy to the extent that they might lose everything and that isn't fully exposed to a single asset class. Typically they describe themselves as cautious when it comes to investing. What this really means is that they want

to minimise risk. Risk can be referred to in a negative sense because of lack of understanding and a fear of the unknown. Improve the level of understanding of risk and then you are into risk management which feels like a much better place to be. Having worked for many years, people approaching retirement whilst likely to want to make a tidy bundle, do not want to risk their life savings. They are planning for the very near future and therefore are wise to be particularly risk averse.

The main objectives behind any with profits products are to provide solid returns which aim to beat bank and building society rates. It is generally seen as a safe haven for your money, particularly in volatile market conditions. It is a managed fund which invests across different types of assets, such as equities, bonds and property to name but a few examples.

With-profits helps clients manage risk. If an investor, cautious or otherwise, understands the risk and weighs it up against the potential returns they are seeking, the discussion changes. What we now have is a cautious approach to investing, a shift from risk avoidance to risk management.



Frank Morton

**Business Development Manager,
Investments**

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Unfortunately, with profits have had a lot of bad press with examples of investors losing large amounts of money over the last decade. However, there are many good news stories out there. Prudential's with-profits offerings have strength in the fundamentals behind the product which include a consistent bonus setting philosophy and long-term investment growth. Allocated fund managers act on behalf of everyone who has their money within the “pot” and make investment decisions which allow them to perform well in the good times and hold some cash back for the leaner times. This process of “smoothing” means that Prudential are able to pay out good returns year upon year to investors. An example of this is the Prudential Life Fund which has delivered strong investment returns of 91 per cent over 5 years and 134 per cent over 10 years, with the Fund delivering a strong performance of 7.2 per cent in 2007.

Investors preparing for, or in retirement, look to accumulate money in a variety of ways and with-profits can help in the accumulation phase by investing in the following areas:

1. With-profits annuity within a pension fund – aim to provide return on investment within the fund as a medium to long term investment. There are usually low pension fund entry levels and include minimum income guarantees if an investor is willing to accept some risk.
2. Bonds – whether government or corporate which are effectively “loans” that pay interest
3. Products such as Prudential's PruFund – a single premium product which comes with built in life assurance and has no fixed investment period. It is invested in Pru's with-profits fund but does not use traditional annual and final bonuses and instead gives growth rates published on a quarterly basis. It is designed for the longer term

However, the accumulation phase of retirement planning only represents one half of the story.

We shouldn't forget the decumulation phase either where the choices made effectively decide the income that the client gets for the rest of their life as they move from pre into post retirement. Again, the choices here from conventional, impaired, variable and with profit annuities will again have a telling impact on the level of income available. If we look specifically at with-profits annuities – these are invested in a with-profits fund and promise to pay retirees an income for the rest of their lives. Crucially, WPAs generate an income stream that has the potential to grow and provide a natural hedge against inflation. By contrast, a fixed-level annuity will not rise, so a retiree will find that the value of their annuity is gradually reduced by inflation. WPA can also provide an attractive alternative to conventional annuities that are linked to inflation. Although incomes from inflation-linked annuities are guaranteed to rise in line with the Retail Price Index, the starting incomes are usually considerably lower.

Retirement is a key concern for everyone today, particularly with an aging population such as the UK. With-profits is an excellent investment opportunity whether you are saving for, or are currently in, retirement and is a sound investment vehicle which allows investors a level of exposure to the stock market but at the same time protects them from external market volatility. With-profits aim to beat the bank and building society interest rates to provide a better return for the money invested in this way. With today's current uncertainty where one never knows what the future may hold, it can make real sense for those approaching or in retirement to opt for a fairly cautious approach.

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