

I recently met a couple that had me concerned. He was about to retire at the age of 63, with 30 years in a good company pension scheme and she had already stopped work and was drawing a modest State pension.

They had made a decision to take maximum tax-free cash from the pension scheme and that left a very small pension. "We realise that our lifestyle will have to change," they said, "cutting out holidays." Why" I enquired, "do you not want Holidays now you have the time to enjoy them?"

The problem they faced is the new rules on cash from pension schemes that came into force in April 2006. These rules give a much larger cash sum in some cases and a much smaller pension.

In the past it has been a good rule of thumb at age 63 to take the maximum cash but that was when it was limited to one and half times your annual income. Now it can be as much as five times the pension or more!

Sure its great to have the cash but as recent events at Northern Rock have shown it introduces risk and if interest rates reduce (as predicted) then the income from the cash is going to reduce whilst your bills are increasing, not a good situation.

As I have written many times the key to a successful retirement is controlling your expenditure, every £50 saved could mean another weeks holiday in the sunshine somewhere!

Having got them to look in detail at their budget they realised that they could not afford to live on the small pension and would simply have spent their capital making up the shortfall in income, rather pointless taking the cash in that case.

Looking at the savings they could make on the budget coupled with no debts HP or mortgage, in this couples case I hope I have persuaded them to take only half the available cash and a much larger pension.

With their full State pensions in two years time, and a modest income from their smaller portfolio, I calculate that their net income will be about the same as it was when he was working, and they managed a lot of holidays then at full cost!

Taking less cash means he must live for a fair old time to break even but it's safer to have a guaranteed income rather than one at risk from falling interest rates.

It still surprises sometimes me what IFA's can do and if you've never chatted to one ask your friends if they are pleased with theirs and go along for a chat yourself.

Like the above couple it could make all the difference to the rest of your lives!