M&G Guide to Retirement Income

M&G INVESTMENTS

Working out how to make adequate financial provision for retirement is one of the most important financial decisions most of us will ever face. However, it can be a daunting topic and the options may seem overwhelming.

We hope this guide will remove some of the complexity around the considerations and challenges ahead, so you can understand the choices you need to make.

Please refer to the glossary on page 11 for an explanation of the words highlighted in **bold** throughout this brochure.

M&G Investments

Since the very beginning, our investors and their goals have been our focus. In 1931, we launched Britain's very first unit trust, giving every investor the opportunity to benefit from the growth potential of 'blue-chip' companies. So not only are we one of the country's most experienced investment managers, we also offer a level of fund management expertise rivalled by very few.

When it comes to managing your money, you are in experienced hands.

The value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and you may not get back the original amount you invested.

Greater freedom, greater responsibility

A major change

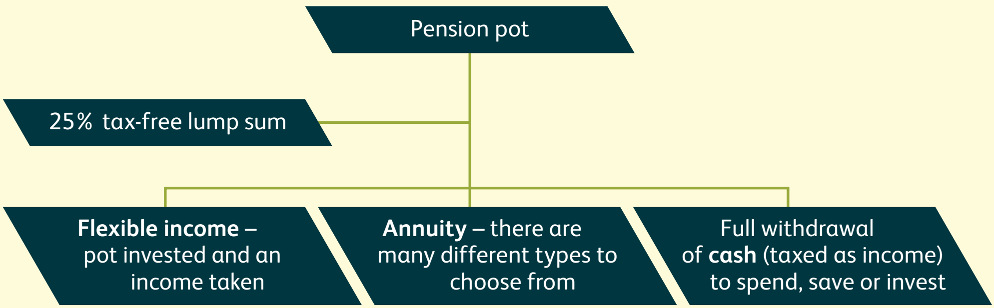
Retirement used to be about annuities for most people, but growing concerns that some of these products were offering poor value, and failing to cope with a changed retirement landscape, led to the Government introducing its 'pension freedoms'.

These radical reforms – announced in the 2014 Budget and extended this year – give you the flexibility to use your pension pot in the way that suits your needs, with the aim of creating better financial outcomes for you and your family.

As long as you are over the age of 55, you have unlimited access to any Defined Contribution (DC) pension pot[1] – to save, spend or invest as you see fit.

Your options in brief

DC scheme members will still be able to take the first 25% of their pension pot tax free from age 55, either as one lump sum or in several smaller withdrawals. The remaining 75% can be used across three broad options, as outlined below.



[1]A workplace pension scheme (also called a Money Purchase scheme) in which the size of the 'pot' at retirement is determined by the employee and employer's contributions, which are invested over the employee's working lifetime.

There is no easy answer or 'one-size-fits-all' solution, so it is important to understand the options. Each has its pros and cons. You do not have to choose just one option and you may find that a 'mix and match' approach is the most appropriate for your situation.

Any decisions regarding investments or pension savings are important. We are unable to give financial advice. If you are unsure about the suitability of your investment, you should speak to your financial adviser who will be able to provide regulated advice. Alternatively, you should consult Pension Wise (www.pensionwise.gov.uk) which is a free and impartial service designed to help you understand your retirement options.

Customer research – key findings

We undertook research to gauge the public's retirement savings habits and their level of understanding of 'pension freedoms'.

Generating an income for retirement was the main financial priority for the largest proportion of people we surveyed

Almost a third of respondents did not know how they planned to use their pension pot to provide an income in retirement

64% had heard of the new pension freedoms, but only 8% fully understood how they would be affected

A few things to think about when funding retirement

Sourcing a sustainable retirement income is a huge challenge, but you also have more options than ever before to help you find a solution.

One starting point could be to ask yourself a few questions:

1. What is the value of my pension pot?
2. What are my other sources of retirement income likely to be worth? (eg the State Pension, ISAs, property and other savings and investments)
3. How long will my money need to last?
4. How much will I require to meet my essential and additional income needs in retirement?

14% of the UK public do not know what type of pension plan they are a member of

More than a quarter of respondents expect the State Pension to be their primary source of income in retirement

For many people, retirement now represents an opportunity to realise life-long ambitions, pursue new passions, or help family members with their income needs. This is why we think it's important to make a distinction between essential income needs and additional requirements.

Essential income needs	The minimum level of income for basic lifestyle needs
Additional requirements	These could include travel, hobbies, starting a business or helping younger generations onto the property ladder
Unexpected costs	Healthcare costs, family emergencies
Leaving a legacy	Passing on an inheritance

After you have made adequate provision for your essential needs, you may want to ask yourself another question with the aim of meeting your additional goals:

Can I afford to take any risk with some of my money to aim for better returns?

Less than 1 in 4 pensioners we surveyed had made a clear financial plan for retirement

Over a third of people were unsure whether they would have adequate retirement income

» What is ‘risk’?

If you have been investing for a number of years, you may be familiar with the idea that **‘risk’** represents the chance your investments could fall in value. In general, higher risk investments have a higher potential return, whereas lower risk investments usually give a lower return. This still applies in retirement, but we believe a bigger risk is the danger of running out of money too soon. This is affected by three key factors:

1. Longevity

Rising life expectancies are undoubtedly good news. However, they are putting significant strain on both the state and private pension pots. In 1925, when the State Pension age was set at 65, average life expectancy for men was only 56. By 2012, it had risen to 79.5, but the state retirement age – for now at least – remains at 65. When you are planning your retirement income, it is essential to consider carefully the risk of outliving the money you set aside for retirement.

Source: Office for National Statistics.

Over 20% of people surveyed did not expect to retire before age 70, if at all

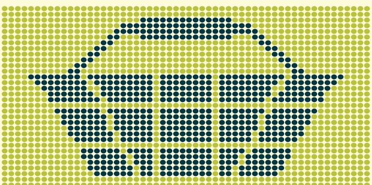
2. Inflation

As prices rise over time, the real value of your money can be eroded. When you are working, your income generally gets **inflation** protection through your annual pay rise. When you retire, inflation becomes much more of a risk if your income is not rising. This is why you may wish to invest some of your money with the aim of growing your **capital** – and, therefore, your income.

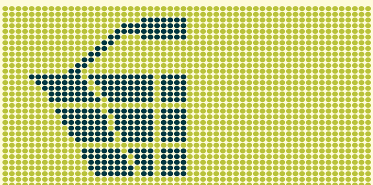
The impact of inflation

Between December 1988 and December 2014, the cost of goods and services in the UK increased by **97.8%**. This means **£100** in savings in 1988 would almost have had to double – to **£197.80** – to buy the same basket of goods and services in 2014. To look at it a different way, your capital would have to grow by **2.5%** a year, on average, just to keep pace with inflation.

1988



2014

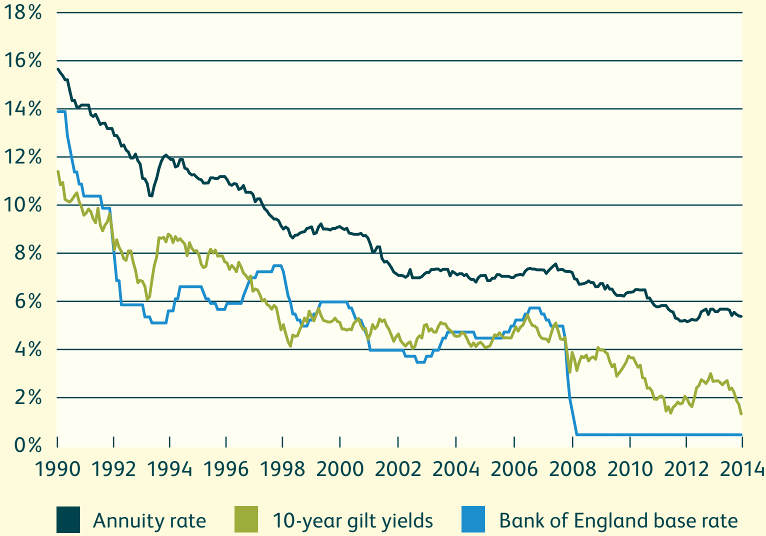


Source: Office for National Statistics and M&G, figures based on the **Consumer Prices Index** (CPI) as at December 2014.

3. Income

We all want to have the finances for a carefree retirement, but this is becoming increasingly hard to achieve. In recent years, pensioners have faced persistently low interest rates and declining returns on **assets** traditionally used for retirement income, such as **UK government bonds** (also called **gilts**). The **yields** on UK government bonds are a key influence on **annuity** rates and, as the chart below shows, they have fallen dramatically.

Traditional sources of retirement income



Source: William Burrows, Datastream. 31.01.15. Rates for male aged 65, £10,000 purchase, single life, guaranteed 5 years and level payments.

Past performance is not a guide to future performance.

47% of people want to secure a guaranteed income for life with their private pension pot, but only 16% intend to use the majority of their capital to buy an annuity

Investing for income

In recent years, cash in the bank has generally paid very little, so drawing an income from savings alone may not allow you to maintain the lifestyle you expect.

As a result, you may want to put some of your cash to work in financial assets (particularly when taking inflation into account), with the aim of generating a better level of income.

» Risk and reward

Of course, it is important to keep enough cash available for short-term needs and to understand the potential risks involved in investing. While there are varying levels of income available across the different **asset classes**, assets that pay higher levels of income also have a higher risk of capital loss. Before you choose a particular income strategy, you need to be comfortable with the level of risk involved.

Up to £85,000* of your money is secure in a bank or building society unlike stocks and shares or fixed interest investments which are less secure.

» Investing in a fund

Once you have determined your investment goals – the level of income you require, when you need it, the frequency of the payments and, of course, your appetite for risk – you are ready to take advantage of the diverse opportunities on offer.

Rather than managing your own investment portfolio, you may choose to invest in a fund. These pool your money with the savings from many investors, so a professional fund manager can buy a portfolio of company shares, **bonds** or other assets with the aim of achieving a specific investment objective. Some funds pay income to their investors in the form of **distributions**.

To find out more about investing for income, please visit **www.mandg.co.uk/income**

*Financial Services Compensation Scheme as at 31.12.10.

Our fund range

M&G offers a comprehensive range of funds to help you make the most of your investments. Below is a selection of our funds. To view our full range, please visit **www.mandg.co.uk/investor**

M&G Episode Income Fund

The Fund's objective is to generate a high and rising level of income over time through investment in a diversified range of assets. Subject to this, the Fund aims to provide **capital growth** over the long term.

M&G Global Dividend Fund

The Fund aims to deliver a dividend yield above the market average, by investing mainly in a range of global equities. The Fund aims to grow distributions over the long term whilst also maximising total return (the combination of income and growth of capital).

M&G Global High Yield Bond Fund

The Fund is designed to maximise total return (the combination of income and growth of capital) while generating a high level of income.

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Glossary

Annuity: An insurance policy that gives you a guaranteed income for the rest of your life or an agreed fixed period.

Asset: Anything having commercial or exchange value that is owned by a business, institution or individual.

Asset class: Category of assets, such as cash, company shares, fixed income securities and their sub-categories, as well as tangible assets such as real estate.

Bond: A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

Capital: Refers to the financial assets, or resources, that a company has to fund its business operations.

Capital growth: occurs when the current value of an investment is greater than the initial amount invested.

Consumer Prices Index (CPI): An index used to measure inflation, which is the rate of change of prices for a basket of goods and services. The contents of the basket are meant to be representative of products and services we typically spend our money on.

Distributions: Refers to the periodical paying-out of interest or dividends received by funds to their shareholders. Dividends represent a share in the profits of a company and are paid out to the owners of company shares at certain times during the year.

Gilts: Fixed income securities issued by the UK government.

Government bonds: Fixed income securities issued by governments, that normally pay a fixed rate of interest over a given time period, at the end of which the initial investment is repaid.

Inflation: The rate of increase in the cost of living. Inflation is usually quoted as an annual percentage, comparing the average price this month with the same month a year earlier.

Risk: The chance that an investment's return will be different to what is expected. Risk includes the possibility of losing some or all of the original investment.

Yield (income): Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

Ways to invest with M&G

At M&G, we specialise in offering a wide range of funds, investing across key asset classes. There are a number of ways to invest with M&G, whatever your long-term goals may be.

The M&G ISA

Invest up to £15,240 tax-efficiently with The M&G ISA within the 2015/2016 tax year. ISA tax rules may change in the future and ISA tax advantages depend on your individual circumstances.

The M&G Junior ISA

Save up to £4,080 within the 2015/2016 tax year for your child's future, starting from as little as £10 per month. Junior ISA tax rules may change in the future and Junior ISA tax advantages depend on your individual circumstances.

Child Trust Fund (CTF) transfers into The M&G Junior ISA

Find out more by visiting our website at **www.mandg.co.uk/ctftransfer** (your current CTF provider may apply a charge when you transfer your CTF).

The M&G OEIC

Choose to invest a lump sum outside of The M&G ISA.

The M&G Savings Plan

Invest little and often to help even out the peaks and troughs of the markets over the long term.

The M&G ISA Transfer

Transfer Individual Savings Accounts (ISAs) from other providers into one or more of our actively managed funds (your current provider may apply a charge when you transfer your investment).

Whatever your financial targets, M&G can help you reach them. We are unable to give financial advice. If you are unsure about the suitability of your investment, speak to your financial adviser. The value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and you may not get back the original amount invested.

For more information visit:

www.mandg.co.uk

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