

MONEY

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Andy aims to take long-term view

Savings: Engineering student keen to build financial nest egg once he starts earning

BY ROSS DAVIDSON

As young people look ahead to starting their careers, their thoughts often turn to the best way of saving.

Andy McLeod is a fourth-year mechanical engineering student at Robert Gordon University and is now concerned about investing in his future.

The 22-year-old hopes to find work with an energy company to start gaining experience and earning money, but is keen to build a savings nest egg to help meet future financial needs such as buying a home.

"I'd like to know what options I should be considering for both savings and for laying the foundations of a strong, pension fund," Mr McLeod said.

"I hope to achieve my BSc at university this year and, if all goes well, I'd like to do my honours degree.

"In the meantime, I'm really keen to gain work experience with a particular interest in the drilling sector of the oil industry and if I'm successful, it could mean additional income."

Stephen Rowntree, a financial planner at Carbon Financial Partners, said: "It is becoming increasingly difficult for younger people to purchase their first homes, as large deposits are often required to qualify for the most competitive



FINANCIALLY FOCUSED: Andy McLeod . . . I'd like to know what options I should be considering. Photograph: Kevin Emslie

interest rates and the affordability checks performed by mortgage providers become more vigorous.

"In addition, for someone of Andy's age there is great uncertainty over what level of state pension, if any, will be available in the future.

"It is unlikely to be sufficient for Andy's require-

"Begin building up a source of accessible cash, rather than funding a pension"

ments, so some form of retirement savings is vital.

"It is very sensible of Andy to be thinking about

his longer-term financial future, even at such a young age.

"The basis of any financial planning of this kind is to start with a budget.

"Once he's working, Andy should add up all of his regular monthly bills and deduct this from his net income to arrive at his 'disposable' or spare monthly income.

"Once Andy works out how much spare income he has, his main priority should be to begin building up a source of accessible cash, rather than funding a pension. This will give him the greatest level of flexibility in terms of access to the capital as a pension will be locked away until at he's at least 55.

"An account that offers

an attractive rate of interest for 'regular' savings is most likely to meet his needs. Andy should consider maximising his cash Isa allowance first, so that he can benefit from tax-free interest on his savings.

"The current annual cash Isa allowance is £5,640. However, beware the current trend for banks to reduce the rates on these ac-

counts to below that of ordinary deposit accounts or fixed-rate accounts.

"In terms of contributing to a pension, I would not suggest this is an immediate priority for Andy due to his other objectives, however the golden rule with pension planning is to save as much as you can afford, as early as possible.

"Pensions have a whole host of benefits. Contributions receive income tax relief at your marginal rate, meaning that a gross pension contribution of £100 costs a basic-rate taxpayer only £80, and a higher-rate taxpayer only £60. The fund grows almost completely free of tax and currently a lump sum of 25% can be taken out at retirement tax-free.

"The sooner you begin to save, the longer the time period you have to allow the tax-efficient returns to compound and provide you with as large a sum as possible from which a retirement income can be taken.

"Once Andy finds suitable employment, the new auto-enrolment legislation currently being phased in should ensure that he is admitted to a company-sponsored pension scheme.

"The employer will be required to make contributions on Andy's behalf, and Andy will also need to contribute."