What would you do with extra income?

How could investing for income help?

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Do you ever think what life would be like if you had more income? What would you do more of, or less of?

You might think investing for income is for when you're retired. But investing for income may be appropriate at different stages of life.

So how does investing for income work?

Depending on where you are in life, you might be more familiar with investing for growth, which focuses on building up an investment pot over time.

Investing for an income is different because it aims to give you a regular stream of cash income from an investment without touching the initial investment.

There are two aspects to investing for income:

- Income that is paid out to you to spend. Depending on what you've invested in, this regular income can be paid monthly, quarterly or annually and is usually in the form of **dividends** or **interest payments**
- Income you reinvest to grow your money for the longer term.

What are dividends?

These are a portion of company profits paid out to shareholders in the form of cash. Dividends vary with the success of a company, but many big businesses have a long history of reliable payouts to investors.

What are interest payments?

Government or corporate bonds pay out interest throughout the life of your investment. They then repay the money originally invested at the end. Interest payments are generally viewed as a more secure option to dividends due to the nature of how they're invested.

If you choose investing for income, it may help keep on top of the regular outgoings like school fees or rising mortgage payments.

You may decide to reinvest your income instead of spending it. This can amplify growth through the power of compounding and help to achieve longer term plans you're working towards. These might include saving for a holiday home deposit, the dream car or paying for your child's university education.

What is compounding and how does it work?

You can receive income on the amount you've invested. If you reinvest your income, the amount you've invested increases. This means the next income payment will be based on your new larger investment amount. This is compounding.

For example, if customer A invests £1,000 and it earns 5% in income each year, after the first year they'd have £1,050 (their original £1,000 plus 5% or £50). Then in the second year, they'd have £1,102.50. That's because the next income payment is being calculated on the £1,050.00 that they now have. They're earning 5% of £1,050 which gives them £52.50 in income.

Here are some common questions explaining how investing for income could help at key moments throughout your life.

I already have so many outgoings, could investing for income help me?

Life can be costly, especially during your 40s and 50s which are often the most expensive times. School or university costs, an increase in mortgage payments or meeting care costs for older relatives can all put a squeeze on your finances. At times like these, investing for income could provide you with an income just for you, giving you the freedom to choose what you want to do with it.

Withdrawing income rather than reinvesting it means your money may not grow as quickly. However, if you're looking to top up your income, it keeps you invested and could also provide you with any financial breathing space you need. You could always revert back to reinvesting your income at a later date.

Example 1

An increase in school fees has meant David and Sam are finding it's squeezing their monthly budget which is stopping them doing some of the nice things they enjoy. To help meet the extra cost of fees, the monthly interest from their investment that they were reinvesting, they have now chosen to take as income payments. If their monthly budget becomes more manageable in the future, they may decide to stop having the monthly interest from their investment paid to them and go back to reinvesting it to continue to grow their investment.

How does investing for income work in retirement?

At this point in life, investing for income may provide a retirement income that lets you do all those things you've looked forward to during your working years.

With many people now spending 20-30 years in retirement, if you're considering slowing down or moving into retirement then it's important to think about how your income can keep pace with price rises and give you the life you've dreamt about.

If you're switching from building wealth to taking an income from your investments, it's worth making sure you hold the right type of investment. Most investments have two options – 'income' shares which pass on any income received to you, and what's called 'accumulation' shares which are designed for future growth.

Example 2

Sunita is in her early 60s and thinking about her approaching retirement. She's always dreamt about taking a sabbatical for a year and then returning to work part-time but is worried if she can afford this. To help Sunita feel more confident that her trip was possible, she spoke to a financial planner to talk through her plans. She was advised to use the dividend from an income fund to supplement her part-time earnings every month after she returns back to work. She was also reassured that regular costs such as insurance would likely be covered while she was on sabbatical.

Whether you're completely new to investing for income, or perhaps thought it was just something for people in retirement, investing for income could play a role as you move through life.

Helpful resources

If you'd like support with investing, you can get online help through our Digital Investment Adviser tool, or specialist advice from our qualified Financial Planning Managers. Find out more about how we can help

Santander is able to provide literature in alternative formats. The formats available are: large print, Braille and audio CD.
If you would like to register to receive correspondence in an alternative format please visit **santander.co.uk/alternativeformats** for more information, ask us in branch or give us a call.

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