



be inspired.

## Introduction

**Retirement Planning** is one of the most comprehensive and difficult areas of planning, often involving transfers and rarely done comprehensively by qualified experts; you should be asking your adviser if they hold any of G60, J04, J05 or AF3 qualifications. For example, when you and your adviser are considering taking the 25% tax free cash (minimum, as older style pension arrangements may be higher), who considers the inheritance planning aspects of the matter; yet, this is a critical issue for wealthier clients. For less wealthy clients the options are even more critical to future returns and income; considering the numerous planning opportunities available before retirement through to the many options at retirement.

**If this matter bores you, or scares you, or both** then just consider one thing. In assessments done by many companies/institutions, the majority of people end up taking an uncompetitive inappropriately low income in retirement, or transferring unnecessarily into the wrong 'products', both of which cost them thousands of pounds. **Do you wish to be one of them?**

### Warning:

This report was written based on the legislation as it stands at the time of writing and our understanding of it. It obviously cannot allow for any future changes that the Chancellor may make. This is for discussion purposes only and **this report is not intended as retirement advice, investment advice or specific risk strategies or advice for you.**

### Brief Description:

During our lives, we change our outlooks and employment, sometimes building up a number of pensions that are old that we don't look at and are most probably not actually doing much for us. A period of continual legislative change has also added to this and left the majority of people with one or more pensions that:

- Are not growing as well as they could
- Are in low growth funds with little option for improvement
- Have a small number of poor investment funds available
- Have a greater risk than you would expect
- Are higher charged than current pensions

### Something 'new' to be considered – an example of changing times - Variable Annuities

1. Variable Annuities (also known as 'third way products') are unit linked products that have the additional option to buy a guarantee(s).
2. These are a relatively new product and a currently only offered by a small number of companies but it is likely that they will become more popular and that they will be offered by more companies in time.
3. The aim is to combine the best aspects of the traditional annuity and traditional drawdown products

It is important that your final decision takes into account how you and your beneficiaries are affected. Below is an example outline report; full reports are written by skilled technicians and provide you with the options and considerations that you require to make a decision. In all our dedicated reports (often 40 pages long), we use our own software, calculations and knowledge for each individual. We do not buy in outside agencies or pre-written reports.

Prepared by **AisaProfessional**

**Advanced  
Independent  
Specialist  
Advice**

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# Example Case Study Answer:

## Retirement (pension) Report

### Introduction

Bob and Jean Colley (both aged 63) have recently retired and wish to plan for long retirements into their 90's. Annual expenditure is £60,000, they have no requirement for tax-free cash, and would like to anticipate that they can receive £60,000 net income from their pensions and investments. Whilst there is no immediate requirement for them to take all their pensions, they are concerned about carrying too much beyond the age 75 as they are concerned about the heavy tax burden of 82%.

They have also stated that they are not too concerned about their children's inheritance as they have made substantial gifts in 1995 to them.

Their primary concern is the income lasting through to their 90's and the taxation issue, whilst important, is secondary to this. I see no reason why it is not possible for them to have both as they have substantial investments which can be utilised:

Type &/or Quantity	Manager & Fund	Currency Held	Current Value	Current Sterling Value	Owner, (a) or (b) or Joint (j)
Trust (t)					
Cash	Society	£	200,000	£200,000	j
Cash	Premium Bonds	£	20,000	£20,000	a
Cash	Premium Bonds	£	20,000	£20,000	b
UT / OEIC	Various	£	250,000	£250,000	a
UT / OEIC	Various	£	255,000	£255,000	b

J = joint, a = Bob, b= Jean

### Overview and Assumptions

- Any re-investment as requested of unit trust funds will utilise up to 55% in equities and equities yield around 2.75%.
- Any other investment made will have yield re-invested for growth.
- Previous growth can be utilised within the investment portfolio and we can utilise their capital gains tax allowance annually (currently £10,100), and that they have not done so in this year.
- That they are happy with around £60,000 pa not allowing for inflation in the first 2 years and thereafter allow for inflation at 3%.
- It may be anticipated that as they become older, after age 75, that their requirement for income at current levels may decrease, but that this should be further discussed and assessed in the future.
- Following on from (5) the immediate plan should be to consider under current tax law a plan to take them to age 75, because by then any number of other variables may be in place or have changed.
- No additional income, regular, ongoing contributions or benefit accruals will be available in the future
- At inflation at 3%, £60,000 per annum would be £85,546

# Example Case Study Answer:

## Retirement (pension) Report

### Assumptions

#### They have:

1. a UK resident / domicile.
2. had no major health problems in the past 5 years.
3. Income which exceeds expenditure and no requirements to use cash savings.
4. no expectation of a significant change in monthly expenses.
5. no expectation of any cash windfall such as inheritance.
6. set up Life, Critical Illness cover and Income Protection insurance.
7. updated wills and Power of Attorneys in place (or they would be advised to ensure that they have).

### Main considerations

There should be consideration regarding protecting their assets and pensions if one of them dies.

Want to consider options now to take income only (Phased retirement) as well as options at age 75, together.

They have a £600,000 second death life policy. Whilst they do not have any desire to concentrate on inheritance tax, the calculation below demonstrates that as long as the pensions remain outside of the estate then this policy is sufficient. If the pensions were to be brought into the estate then the inheritance issue would be dealt with largely by the policy in place, allowing for first death planning. Although a deficit of £68,000 would remain in place if Mr Colley were to die first. See below

<b>Second Death Calculation</b>	<b>Mrs Colley died first</b>		<b>Mr Colley died first</b>	
Assets inherited from first death	£370,000		£720,000	
Joint assets	£1,000,000		£1,000,000	
Own assets	£0		£0	
Investments	£270,000		£275,000	
<b>Assets Total</b>	<b>£1,640,000</b>		<b>£1,995,000</b>	
Liabilities	£0		£0	
<b>Net Liquid Assets total</b>	<b>£1,640,000</b>		<b>£1,995,000</b>	
Insurance (not in trust)	£0		£0	
<b>Net Assets prior to gifts</b>	<b>£1,640,000</b>		<b>£1,995,000</b>	
Existing Gifts	£0		£0	
<b>Tax due on gifts made</b>	<b>£0</b>		<b>£0</b>	
<b>Gross Assets</b>	<b>£1,640,000</b>		<b>£1,995,000</b>	
Nil Rate Band used in gifts	£0		£0	
Legacies / NRB still available	<b>-£325,000</b>		<b>-£325,000</b>	
<b>Taxable Estate</b>	<b>£1,315,000</b>		<b>£1,670,000</b>	
<b>Total Tax due (second death)</b>	<b>£526,000</b>		<b>£668,000</b>	
<b>Remainder</b>	<b>£789,000</b>		<b>£1,002,000</b>	
Plus Pension Assets	£720,000		£370,000	
Plus Life Policies or Trusts	£600,000		£600,000	
Discounted Gift saving	£0		£0	
Gifts in excess of seven years	£0		£0	
IHT Free Gifts (e.g. £3000 one off)	£0		£0	
<b>Outside of estate</b>	<b>Mr Colley £1,320,000</b>		<b>Mrs Colley £970,000</b>	

# Example Case Study Answer:

## Retirement (pension) Report

### Possible solution

We could leave the building society deposits as requested, looking to improve the yield.

I would recommend that Premium Bonds be left.

We could concentrate on the Unit Trust investments.

The pensions are not required for tax free cash at this time. I am therefore ruling out annuities as an option. Whilst, we could still utilise this tax free element, it would then form part of the estate, and lead to inheritance tax issues. It is best to leave this as late as possible to the enforced legal age of 75. So, in 12 years time, take as much tax free cash as possible and consider a vehicle to allow for guaranteed income after age 75 as well. I have considered the advantages and disadvantages of the various schemes and elected to recommend a phased retirement pension providing part of the income requirements for Jean and Bob, and then a combination of yield and capital crystallisation from the investments to make the most tax efficient and balanced form of income.

### How it works

Phased retirement is a means of taking retirement benefits from a personal pension plan, with the main objective of providing a greater degree of control and flexibility over your pension fund.

Typically all pension funds are brought together into one personal pension consisting normally of 1,000 identical segments, which can be drawn on as required. In the first year of retirement we calculate the level of income that they require and the provider calculates the number of segments needed to provide for the chosen level. Normally up to 25% of each segment can be taken as a tax free cash sum with the remaining balance securing an annuity at the then available annuity rates/or unsecured pension. The remaining segments not needed to produce an income are left invested until required. In the second year they decide how much income is needed after taking into account the income already being received from the annuity/unsecured pension in the first year. It is possible to vary the type of annuity/unsecured pension selected on each occasion and it need not be on the same basis as the first or subsequent years. In each subsequent year the same process is repeated allowing them to take account of changing personal and family circumstances.

It should be noted that by the time they reach age 75 any remaining segments must be used to provide a tax free cash sum and an annuity.

### Income flexibility

Compared to a conventional annuity phased retirement allows more flexibility with income being varied according to changing needs. The government's announcement on the **Special Annual Allowance Tax Charge** 6 April 2011 onwards, should not affect them.

### Death Benefits

The benefits paid when they die will normally comprise two elements:

- First, each time they buy an annuity they can arrange for it to continue to be paid to their spouse when they die, at the same or a lower level. In this way more of the phased retirement plan is used to purchase annuities.
- Second, those segments that have not been "opened" when they die will be paid to their estate, normally as a lump sum. Usually, there will be no tax to pay on the lump sum and it will not be included in their estate for inheritance tax purposes.



# Example Case Study Answer:

## Retirement (pension) Report

<b>Investment Income</b>	£ 6,875.00	£ 8,593.75	
<b>Tax to be re-credited</b>			
<b>Total Taxable Income</b>		<b>£ 22,618.75</b>	
Non taxable income (e.g. ISA)			
Total Investment Income			£ 8,593.75
<b>Savings/Investment Tax already paid</b>		£ 1,718.75	
<b>Additional Higher Rate Tax</b>			
Cash			
Own company Dividends			
Other Dividends			
Deferred Income (e.g. Bonds)			
Other	£ _____		
		£ 1,718.75	
			-£ 1,718.75
			<b>£ 24,570.00</b>
		<b>Net Income after Investments</b>	

### Jean

Pension	£10,000 gross from phased withdrawal
Building Society cash yield	Calculated on 2% gross of cash account, allowing for further growth from additional yield obtained by changing account
Investment yield	Based on 2.75% average on whole unit trust portfolio
Investment capital crystallisation	Worked on the taking £9,722.50 (representing capital gains tax allowance) which is 3.81% of the portfolio

REMUNERATION INFORMATION		Mrs Colley		Totals
Salary (primary)				
Benefits in Kind (primary total)				
Pension income	£ 10,000.00	(Gross)		
Rental Income				
Total Gross	£ 10,000.00	(Gross)		£ 10,000.00
Personal Allowance	£ 6,475			
	£ 3,525.00			
<b>Income Tax</b>				
£ 2,440.00	20%	£ 488.00		
£ 1,085.00	20%	£ 217.00		
£ _____	40%	£ _____		
		£ 705.00		
Less MCA				
£ _____	10%	£ _____		
		£ 705.00	£ 705.00	
<b>National Insurance</b>				



# Example Case Study Answer:

## Retirement (pension) Report

### Investment considerations

The expectation in investment terms, over the longer term, is that a safe investment in cash deposits would be unlikely to outperform the returns on gilts. It is therefore likely that the most suitable investment mix will consist mainly of equities.

**Volatility** is a measure of risk. Assets that experience wide fluctuations in value are defined as high risk, Very low risk assets have the smallest fluctuations in investment return terms. High volatility may affect income levels when future annuities are purchased.

**Spreading the risk** Utilising more than one asset class can reduce risk.

### Further considerations of phased retirement

- Use of tax free cash as 'income' reduces the overall liability to Income Tax.
- They must still purchase an annuity to provide income whenever they draw part of the tax free cash sum and annuity rates at that time may not be favourable.
- The pension fund balance (i.e. the segments not cashed in or 'vested' to provide them with a given level of income required) continues to be invested, with that risk attached.
- Annuity rates rising and providing higher income may happen. However, deferring the purchase of the annuity does not guarantee a higher level of future income, as annuity rates can go down as well as up.
- Future retirement income may be changed to reflect personal circumstances in the future.
- Withdrawals of tax free cash and annuities purchased may erode the value of funds if investment returns are not sufficient to make up the balance.

### Attitude to Risk

In everything that we do, our attitude to the risks that we take in our lives is paramount. The degree of risk they are prepared to accept **for each one** would be a major factor in considering the most appropriate choice of product. It is these separate assessments, along with a discussion about the consequences of achieving and not achieving their goals that we would use to determine whether we follow the possible solution above and also the asset allocation in the investment portfolios.

We have been told to assume they are happy with around 55% of their money invested in equities and an appropriate asset allocation, allowing for a 12 year time period, would be as follows:-

Area	Percentage
UK Fixed Interest	27%
Property	15%
UK Equity	22%
USA & Canada	9%
Europe excluding UK	9%
Japan	5%
Global Equities	5%
Far East excluding Japan	4%
Emerging Markets	4%
<b>Total</b>	<b>100%</b>

# Example Case Study Answer:

## Retirement (pension) Report

This places 58% of the investment into equities; the ABI definition of a Cautious Managed Fund has up to 60% invested in equities. Please consider they are also holding a further £200,000 in cash which means that overall the equity content would reduce below 50% for the whole portfolio.

### Summary of Actions

- We have considered a route by which your investments are being utilised by encashment (capital crystallization) at a rate less than 4% and under current CGT exemptions.
- We are projecting utilising a yield of only 2% gross on the cash accounts and average 2.75% on equity based portfolios.
- We accept there will be little growth in the investments, but would also anticipate little loss as well over the long term.
- We would be utilising pensions to make up the difference in income required and we are allowing a phased retirement strategy to remain flexible. We accept at the rates of income being taken that after charges the pension funds may decrease over the next 12 years.
- At the 12 year point we would look to take remaining tax free pension cash and increase investments again.

### Monitoring and review

All investment strategies should be reviewed frequently, not less than annually. Any significant life event or change in investment conditions should lead to a reappraisal.

### Conclusion

We have achieved all the initial objectives, through the efficient use of Phased Retirement plans, kept the money out of the estate, whilst achieving income targets in a manner that will be taxed minimally. In the event of future death or illness then this plan provides the most flexibility for the other spouse.

### Other Areas of Importance

- Review inheritance tax planning, an up to date Will and Enduring Power of Attorney
- Confirm money held on deposit is receiving a competitive interest rate
- There could also be given further consideration as to Variable Annuities in the future

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