Case Study: Comprehensive Financial Planning For Retirement

Pensions, Tax and Cashflow Management

Phillip and Claire

THE BACKGROUND

Phillip is a successful business consultant who at the age of 56 has recently taken voluntary redundancy. Phillip has been in receipt of a final salary pension of some £25,000 p.a. from a previous employment, since his 55th birthday. Phillip is married to Claire and they have two adult children. Claire is aged 56 and works part time with earnings of some £10,000 p.a. Phillip and Claire own their residential property which is valued at some £500,000 and there is no outstanding mortgage. They have savings and investments totalling around £200,000. Phillip also holds a paid up money purchased pension scheme of £300,000 and AVC's totalling a further £10,000.

Phillip and Claire wish to retire and they have asked us to review their savings and investments plus Phillips remaining pensions in order to meet their ongoing income requirements. They estimate that they will need a net monthly income of £3,000 p.m. to meet all of their outgoings and they have a shortfall of £1,200 after allowing for Phillip's existing pension income.

OUR SOLUTIONS

Pension - We contacted Phillip's existing pension providers to undertake a detailed analysis of his current position. We discovered that his existing schemes did not contain any guaranteed benefits and offered only limited choices at retirement. As Phillip and Claire hold sufficient cash savings they did not require access to the maximum tax free cash from Phillips pension benefits at the outset. We therefore recommended that Phillip transferred his uncrystallised pension funds of £310,000 into a new personal pension which would enable him to access his benefits under the new flexible pension rules in a way that can be tailored to his requirements by taking withdrawals of part tax free cash and part income for tax efficiency. Claire was nominated as Phillips beneficiary to continue to utilise the pension fund if he were to die and subsequently their children can be nominated to receive any residual funds. As his combined pension benefits are currently valued at some £935,000 (including pension in payment) we also recommended that Phillip should apply for the latest Fixed Protection when it becomes available in order to avoid a reduction in the lifetime allowance to £1,000,000 and a possible future lifetime allowance charge.

Investment – We recommend that Phillip and Claire invest sufficient of their surplus cash savings to fully utilise their ISA allowances of £15,240 each in the current tax year. Any residual cash savings to be held in Claire's name to receive gross interest as she will be a non-tax payer.

FEES

The fee for our research, recommendation and implementation was £6,225. The fee covered a full investigation of Phillip's pension arrangements, a thorough assessment of their investment risk requirements, a detailed report of our recommendations and the implementation of our findings.

VALUE ADDED

- Our pension recommendations ensured that Phillips pension benefits will be managed in researched investment funds that are appropriate to their stated investment risk.
- The pension can be flexibly tailored to meet their ongoing income requirements in a tax efficient manner that will avoid Phillip having to pay higher rate tax on his pension income.
- Phillip will avoid the possibility of a future Lifetime Allowance Charge by applying for Fixed Protection.
- The pension benefits can be passed onto Claire and ultimately the children without any liability to Inheritance Tax
- Investment into new ISA's provide the potential for growth and tax efficient income from researched investment funds.

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