DO-IT-MYSELF?

SPEAK TO AN ADVISER?

MIKE IS RETIRING

HOW CAN HE ENSURE THE BEST OUTCOME OF HIS PENSION AND IS HE PREPARED IF THE WORST HAPPENS?

OLD MUTUAL WEALTH

SAY HELLO **TO MIKE**

NAME:
MIKE

AGE:
60 YEARS OLD

DEFINED CONTRIBUTION PENSION VALUE:
£500,000

BACKGROUND

Mike recently paid off his mortgage with his long-term savings and now only has emergency instant access savings of £2,000. He is married to Emma, age 57, who is a non-earner and has no pension savings.

Mike has life insurance but neither of them have critical illness cover.

They have two grown up children (Ian aged 30 and Tina aged 32). Mike has an estimated state pension of £9,600 a year at his state pension age of 66 (in 2024). Emma has an estimated state pension of £7,200 a year at her state pension age of 67 (in 2028). Emma doesn't have a full National Insurance record.

He is looking for an annual income of £20,000.

HOW CAN HE ENSURE THE BEST OUTCOME OF HIS PENSION AND IS HE PREPARED IF THE WORST HAPPENED?

MIKE'S **DIY APPROACH**

MIKE'S DIY APPROACH NEEDLESSLY EXPOSES HIS PENSION TO TAX

- ✗ Mike hasn't shopped around for the flexi-access drawdown pension that provides the best value.
- ✗ Mike has withdrawn his tax-free cash (TFC) when he doesn't really need to.

  As a result:

  - his TFC is now in his estate for IHT purposes – a potential tax liability of £50,000.
  - he's invested his TFC into a 5 year fixed rate bond which is illiquid and risks his money being eroded by inflation.
- ✗ The funds chosen by Mike for his flexi-access drawdown pension are exposed to large fluctuations in value and the ongoing effect of this may mean he receives lower investment returns.
- ✗ Mike's pension doesn't give him the full death benefit flexibility that is available under the law and so there is no option to pass his pension on to his children on his death.
- ✗ Mike risks outliving his pension savings and this is being exacerbated by the need to pay income tax on his pension withdrawals.
- ✗ He gets annual statements which he files without looking at and doesn't know if his pension still meets his needs.

HE LEFT THEM WITH NO CRITICAL ILLNESS COVER AND EXPOSED TO ADDITIONAL COSTS ASSOCIATED WITH CANCER OF £6,840 A YEAR

Just after Mike retired, Emma was unexpectedly diagnosed with cancer.

- ✗ With only limited savings of £2,000 to fall back they had no funds to cover the additional costs associated with cancer of £6,840 a year.***
- ✗ They had no free access to additional medical advice or counselling through such a difficult time.
- ✗ Although Mike didn't have any critical illness premiums to pay from his income, he had no cover to provide a pay out as a result. In order to cover the costs of Emma's illness Mike had to increase his pension income by £6,840 a year.***
- ✗ As a result, as well as reducing his pension savings more quickly, Mike has had to pay an additional £8,899 in income tax.

MIKE'S **ADVISER**

MIKE'S ADVISER HELPED HIM AVOID THE INHERITANCE TAX EXPOSURE

What was the effect on his pension?

- Mike's adviser tells him he doesn't need to take a one-off tax-free cash payment if he doesn't need it.
- Mike is presented with a list of flexi-access drawdown pensions that offer automated phased income withdrawals and full death benefit flexibility
- Mike discusses his current circumstances and how much investment risk he wants to take with his adviser. His adviser recommends a portfolio of investments to match his needs.
- As Emma is a non-earner, Mike is advised to claim 10% of Emma's personal allowance (10% x £11,850) under the marriage allowance rules.

MIKE'S ADVISER ENSURED MIKE AND EMMA EACH HAD £100,000 OF COMPREHENSIVE CRITICAL ILLNESS COVER IN PLACE

What happened when Emma was diagnosed with cancer?

- Mike had to cover the additional cost of the critical illness cover from his income. However, when Emma was diagnosed with cancer after Mike retired, her critical illness plan paid them a lump sum of £100,000.
- The money was enough to cover the additional costs of living with cancer, £6,840 a year***, and for Mike and Emma to have a long holiday to recuperate after she was given the all clear.
- They also had the support of a RedArc nurse adviser at no extra cost to guide them through the treatment, listen to their problems and answer all of their questions – for as long as they needed it.
- Mike didn't have to increase his pension income, reduce his pension savings or pay income tax.

**** See assumptions on back page.*

1. Shop around for the best deal for you

2. No loss of tax efficiency

3. Appropriate investment based on your attitude to risk

4. Maintains flexibility if your circumstances change

5. Regular reviews ensure your needs continue to be met

6. Comprehensive critical illness cover offering financial and emotional support

WHICH APPROACH GAVE MIKE THE BEST PENSION OUTCOME?

OVER FIVE YEARS	ON HIS OWN	WITH AN ADVISER
Uncrystallised fund value+	£0	£448,659
Crystallised fund value+	£329,946	£45,046
5 year fixed rate bond	£140,031	–
TOTAL	**£469,977**	**£493,705**
Total income after tax	£104,081	£104,081
Income tax paid	£13,595	£0
In his estate	£140,031	£0

Assumptions* and Glossary+ overleaf

WHAT IMPACT DID TAKING OUT COMPREHENSIVE CRITICAL ILLNESS COVER HAVE?

	NO COVER	WITH COVER
Additional financial support	£0	£100,000
Emotional support and medical advice	✗	✓
Additional income tax	£8,899	£0

Assumptions overleaf*

THE VALUE OF ADVICE **COMPARED WITH DIY**

AFTER 5 YEARS MIKE'S PENSION SAVINGS ARE WORTH MORE BY

£23,728

HE HAS SAVED

£13,595

INCOME TAX

PROTECTED

£140,031

FROM INHERITANCE TAX

£100,000 CI CLAIM COVERED THE ADDITIONAL COSTS ASSOCIATED WITH CANCER OF

£6,840

A YEAR***

***Assumptions:** Fund values within the pension grow at 4% a year net of charges. The charges when Mike does it himself are assumed to be 0.75% a year for the pension with a 'total cost of ownership' (or 'TCO' – the running costs of his investment funds) of 0.75% a year. The charges when Mike involves a financial adviser are assumed to be 0.30% a year for the pension with a TCO of 0.70% a year for his investment funds and 0.50% a year ongoing adviser charge. The net income required by Mike is assumed to grow at 2% a year (equivalent to the Bank of England long term inflation target). Mike's personal allowance is assumed to grow at 2% a year and his personal savings allowance remains at £1,000 for each tax year. The 5 year fixed rate bond is a 'best buy' bond paying 2.68% AER interest annually in arrears (source: moneysupermarket.com). Additional income tax is based on taking additional pension income of £6,840 a year, increasing at 2% per year for five years.

****Assumptions:** Fund values within the pension grow at 4% per annum net of charges. Please remember that past performance is not a guide to future performance. Income tax is based on a 20% basic rate tax on taking the extra £6,840 a year, increasing by 2% each year, for 5 years.

***** Source:** MacMillan: Cancer the hidden price tag, Apr 2013 - £6,840 is the average amount of additional annual expense involved when a family member gets cancer.

+GLOSSARY

Crystallised: When you use your pension to make withdrawals (usually in the proportions: 25% tax-free cash and 75% taxable income), that part of your pension being used to provide the withdrawals is referred to as 'crystallised'. So for every £100 you take as tax-free cash, £400 of your pension is 'crystallised'. The remaining £300 (75% of the crystallised amount), will be treated as taxable income when you withdraw it. When any of your pension savings are crystallised, this is known as a Benefit Crystallisation Event (BCE).

Uncrystallised: When you use your pension to make withdrawals (usually in the proportions: 25% tax-free cash and 75% taxable income), that part of your pension being used to provide the withdrawals is referred to as 'crystallised'. Any other pension savings remain 'uncrystallised'.

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