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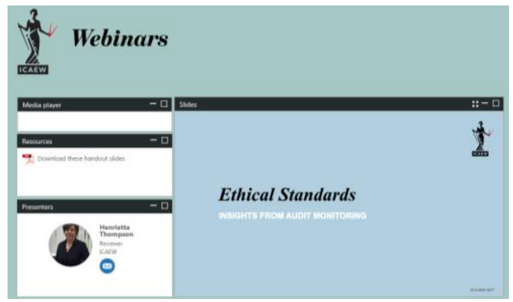

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Webinar:
Retirement Planning: Navigating the Annual and Lifetime Allowances

FACILITATED BY JOHN GASKELL HEAD OF PERSONAL FINANCIAL PLANNING ICAEW

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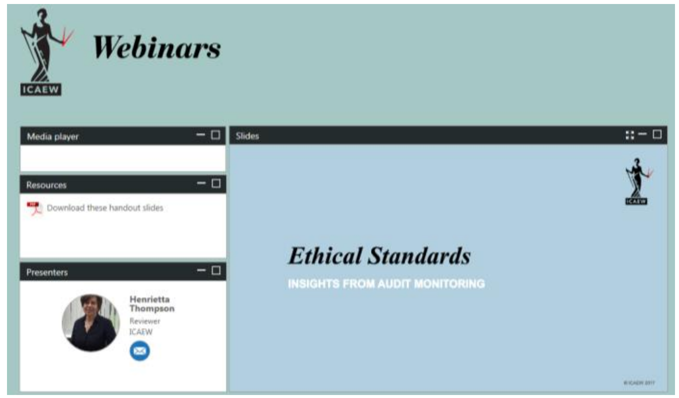

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Today’s speakers

CHARLOTTE RANSOM, CO-FOUNDER AND CEO, NETWEALTH

MATT CONRADI, HEAD OF CLIENT ADVISORY, NETWEALTH

netwealth

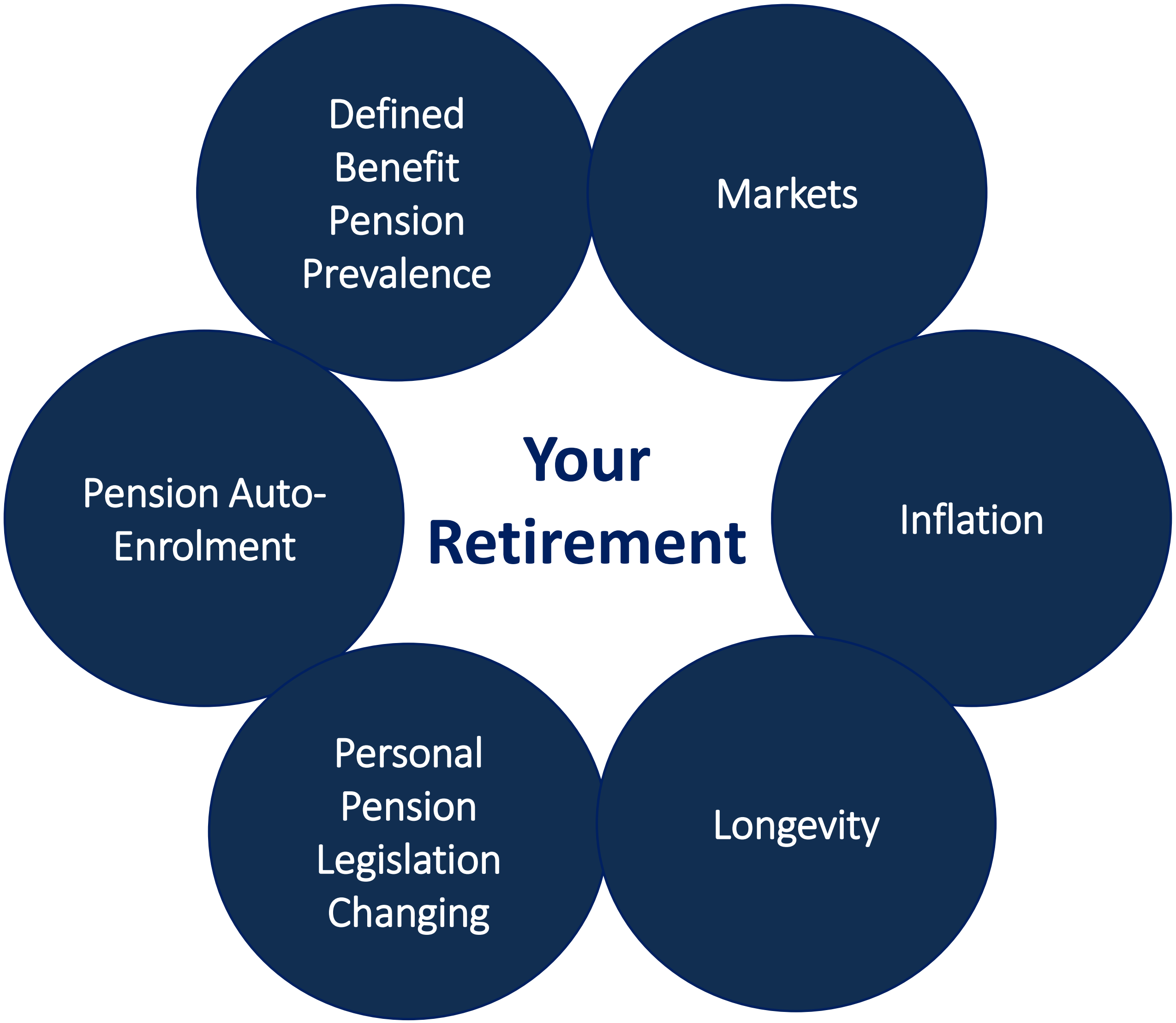
Discretionary wealth management as it should be

Retirement Planning:

Providing for your retirement with pensions and other important investment tools

11 December 2018

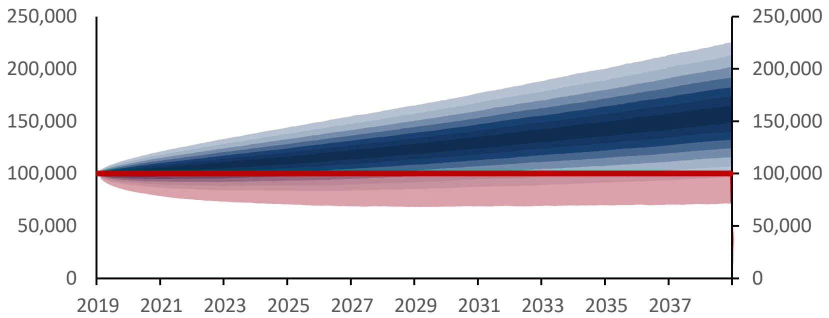
Changing Retirement Environment



The ‘Uncontrollables’

Market Performance

- In order to meet your longer term objectives you will need to achieve a certain level of returns.
- If markets are weaker then you may be forced to lower your expectations.



Inflation

- We all experience our own unique inflation rate dependent on our sources of expenditure. Whatever the rate it is likely to be positive. There has only been one year since its start in 1958 when the Retail Price Index has been negative.

£500 in 1977 → £1,692 in 1997 → £2,933 in 2017

Longevity

- Life expectancy continues to rise and with a DC pension you take on the risk of living longer.

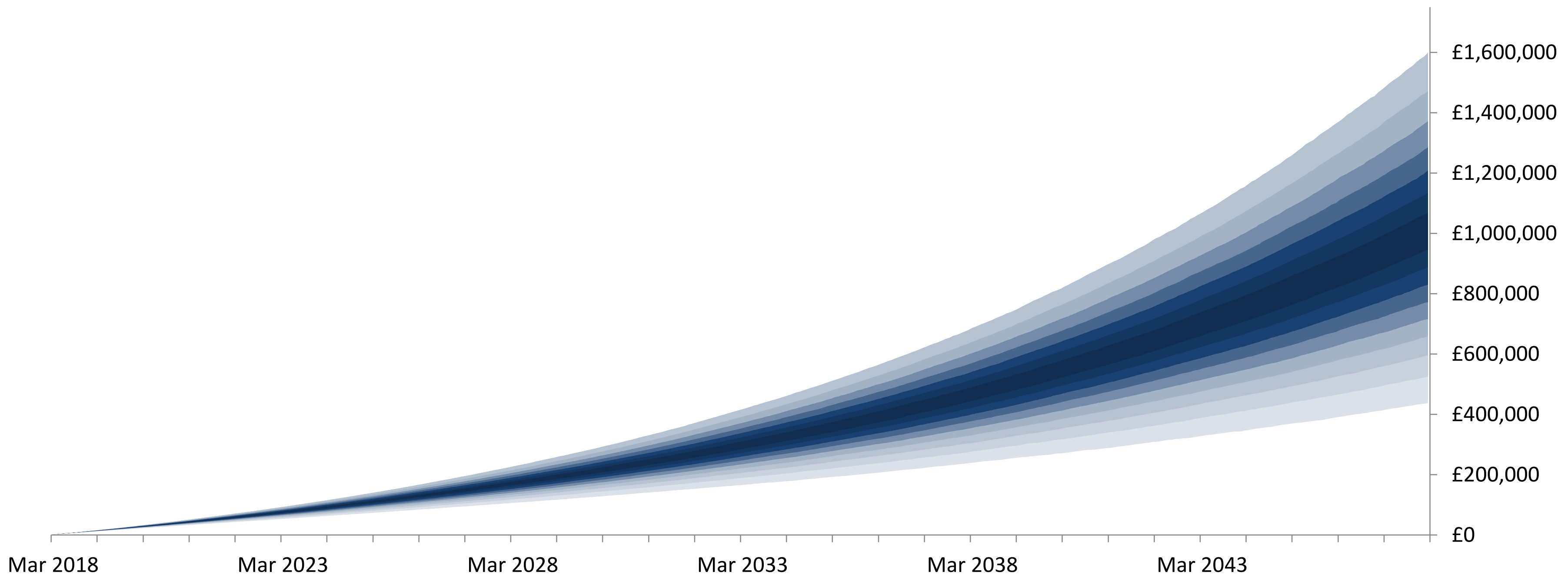
Age 30 Today

Life Expectancy	90	87
	1 in 4 chance of reaching 99	1 in 4 chance of reaching 97
	22.5% Chance of reaching 100	16.6% Chance of reaching 100

Life expectancy and RPI inflation source data ONS: http://visual.ons.gov.uk/what-are-your-chances-of-living-to-100/; https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation

Making Regular Savings Will Be Vital

It will be important to save regularly in order to build up a significant pension pot. Below we look at the potential end result if saving £1,100 a month (gross) for 40 years



Legislation Changes

Changes to Pension Rules

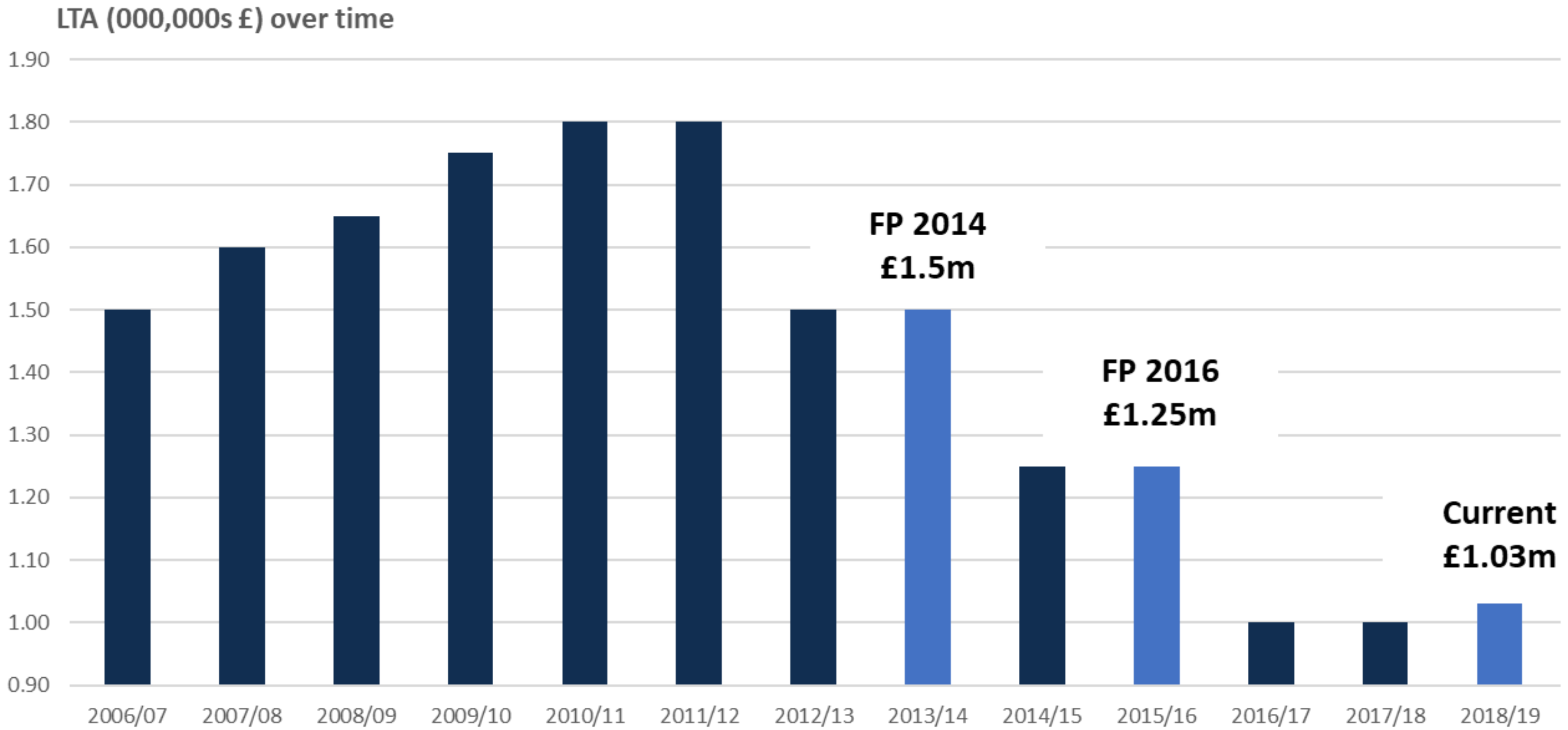
Over recent years there have been wide ranging changes to tax rules surrounding pensions.

- Reduction of the Lifetime Allowance
- Reduction of the Annual Allowance
- Pension freedoms to allow for flexible access of pensions in retirement.
- Pensions currently sit outside of your estate for IHT and can be accessed by your beneficiaries completely tax free if you pass away prior to 75 or at their marginal income tax rate after 75.

Lifetime Allowance

Lifetime Allowance

The Lifetime Allowance (LTA) is the overall limit of tax privileged funds an individual can accrue over their lifetime before a tax charge applies.



Lifetime Allowance

The LTA Tax Charge applies once benefits valued at more than £1,030,000 have been 'crystallised'.

The Tax Charge is either:

55%
If excess taken as a lump sum

25%
If taken as income or retained within the pension.

In this scenario it will subsequently be taxed at the recipient's marginal income tax rate (0% - 45%)

It is important to monitor the value of your combined pension benefits. With careful management the LTA tax charge can be avoided.

In some scenarios, paying the tax charge may be the best option.

LTA Example - Approaching the LTA

Rachel is 60 and about to retire from her role as a CFO where she has built up a Defined Contribution pension pot of £800,000. She also has a DB pension which has just gone into payment of £10,000 per annum.

Pension	Value	% of LTA
DC Pension	£800,000	77.7%
DB Pension	£10,000 * 20	19.4%
Total		**97.1%**

Option 1 - Crystallise pension

When might it be appropriate?

An additional income is required

Estate planning / Inheritance tax not a concern

Large cash lump sum required

Option 2 - Allow pension to continue to grow

When might be appropriate?

Additional rate tax payer, who later has need for income

If no requirement to draw an income from the DC pension.

LTA Example – IHT Considerations

Charles is aged 55 and has a pension valued at £1.03m. Over the next 15 years, he expects his pension to grow at 5% per annum.

Option 1 – Take tax-free lump sum, invest outside of pension, avoid LTA charge

Age	55	70
Pension Value	£772,500	£1,605,972
Tax-free Cash	£257,500	£463,743
Total	£1,030,000	£2,069,715

Pension paid to Beneficiaries at age 70	£1,397,604
Cash paid to Beneficiaries at age 70 after IHT	£278,246
Total	£1,675,850

Option 2 – Leave within pension, pay LTA charge

Age	55	70
Pension Value	£1,030,000	£2,141,296

Pension paid to Beneficiaries at age 70	**£1,863,472**

LTA Example – Significant non pension assets

Rosemary has DC pension assets of £1.03m at age 60. She has property and financial assets outside of her pension of over £5m. She does not envisage needing to draw income from her pension in the future.

Option 1 – Leave assets untouched within the pension wrapper

As pension assets fall outside of her estate it may be beneficial to leave the funds within the pension, even though she will likely exceed the life time allowance.

Option 2 – Crystallise the pension with a view to gifting it away

Fully crystallise the pension and gift the tax free cash away. This gift would be a potentially exempt transfer (PET) and outside of Rosemary's estate if she lives for a further 7 years.

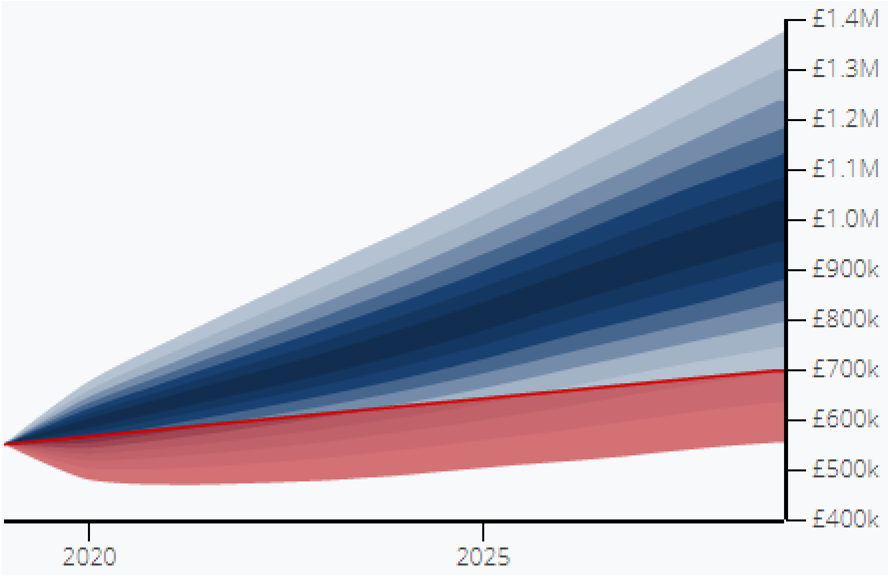
LTA Example – Not Currently Close to the LTA

Tim is 45 years old with £550,000 in a pension. He plans to contribute £1k per month to his pension until the age of 55.

It will be important to monitor his fund and decide if any action needs to be taken in the future. This might mean contributing less and building up other savings pots such as ISAs.

This pot could reach £1m by age 55, with returns of only 4% per annum.

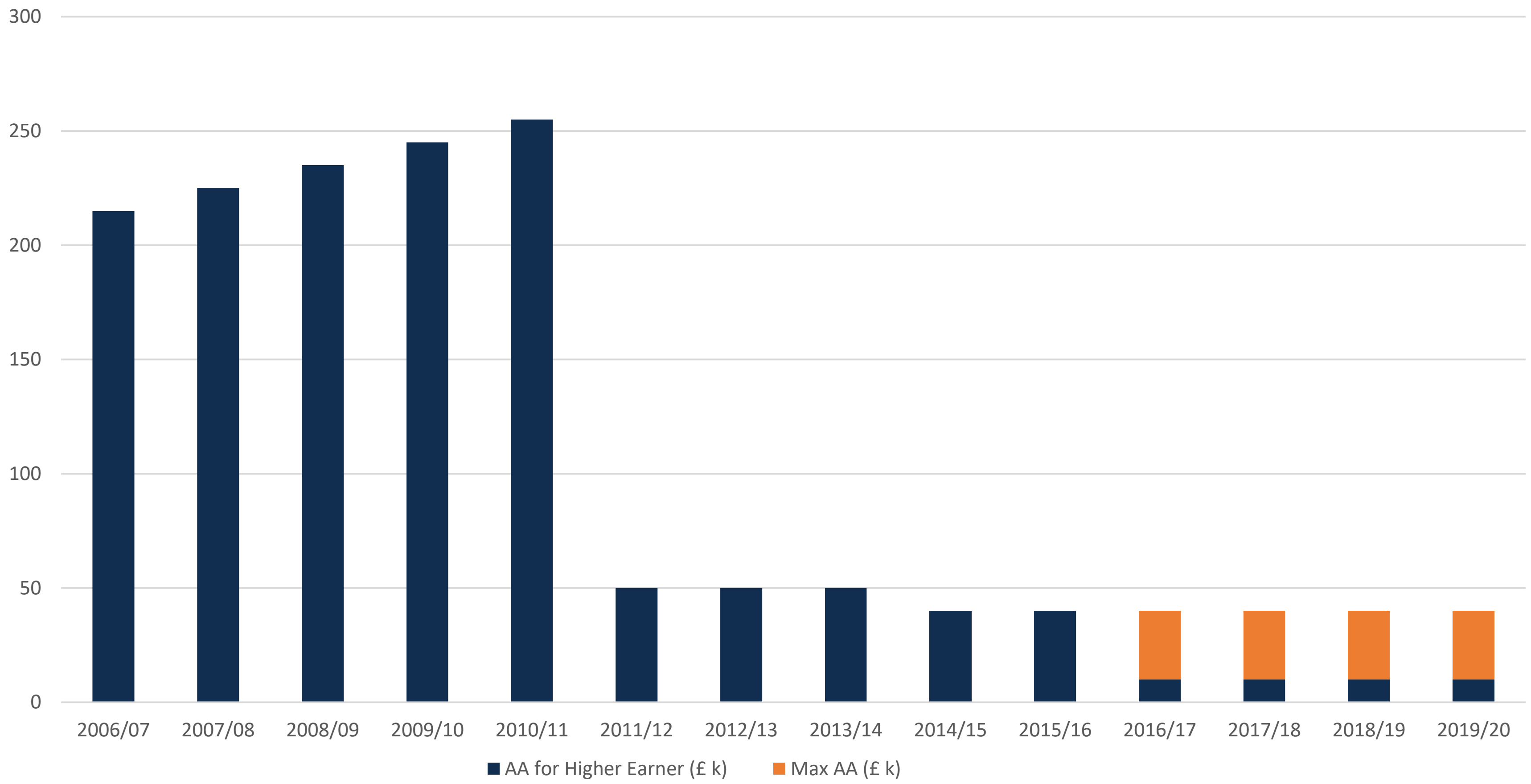
No immediate action required, but monitor closely.



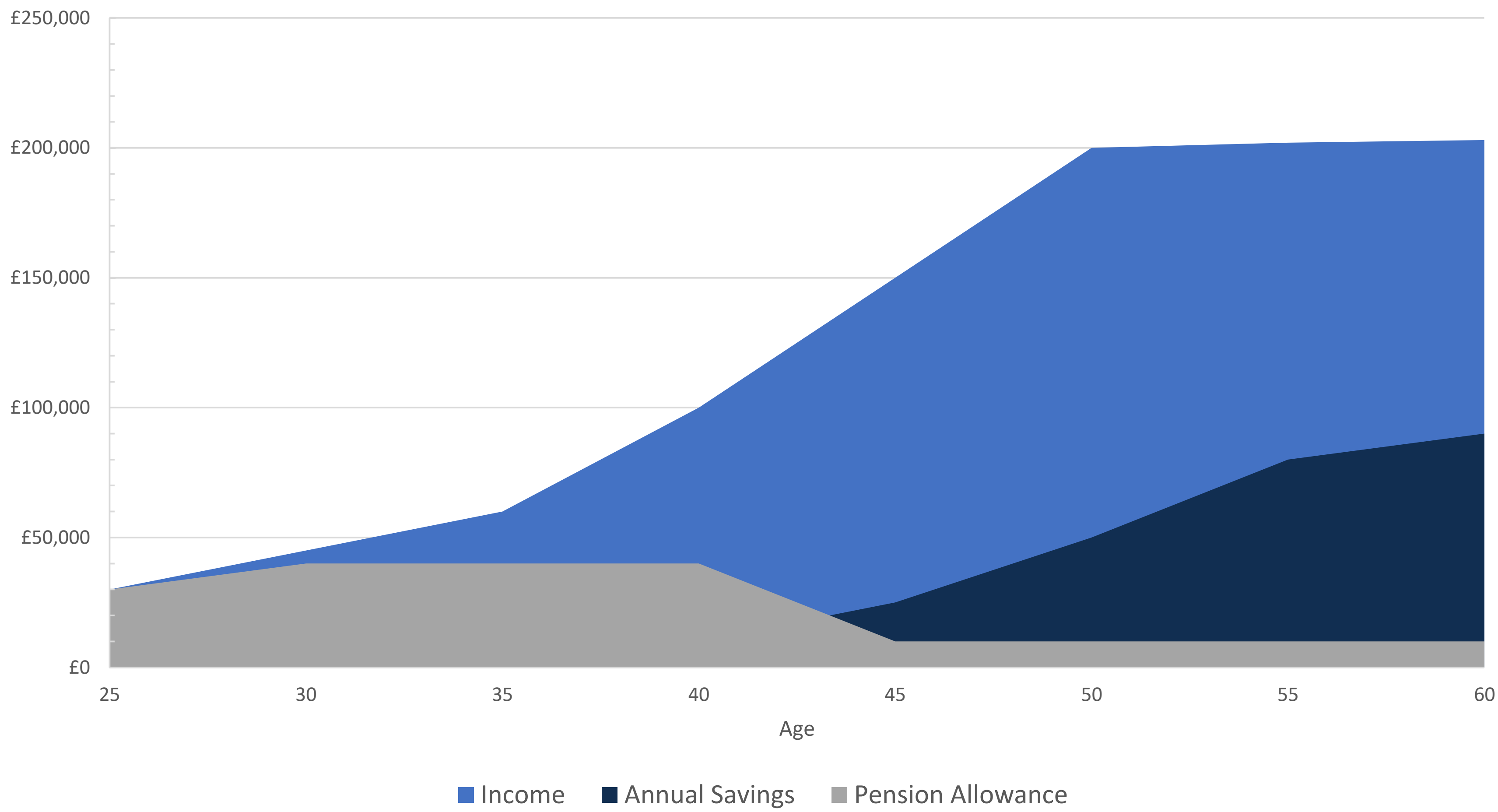
Building a Retirement Pot: Annual Allowance

Annual Allowance

Limits the value of pension contributions that can be made in a tax efficient manner.



Savings Vs. Pension Allowance



Annual Allowance Considerations

For those with 'adjusted' incomes of £150,000 or more, the annual allowance taper introduced in 2016 gradually reduces this to £10,000 for those earning more than £210,000, as below:

'Adjusted' income is your earnings, plus contributions made to your pension directly by your employer.

Annual Allowance Considerations

Someone earning £210,000+ this year could contribute up to £70,000 this tax year.

Tax Year	High Earner's AA	Cumulative AA
2015/16	£40,000	£40,000
2016/17	£10,000	£50,000
2017/18	£10,000	£60,000
2018/19	£10,000	**£70,000**

Note: To use carry forward you need to have had a pension in place in each of the three previous years.

It is also possible to make pension contributions on behalf of a spouse or child, up to the maximum value of their earned income, or £3,600 if there are no earnings.

Saving for your retirement is about more than just pensions

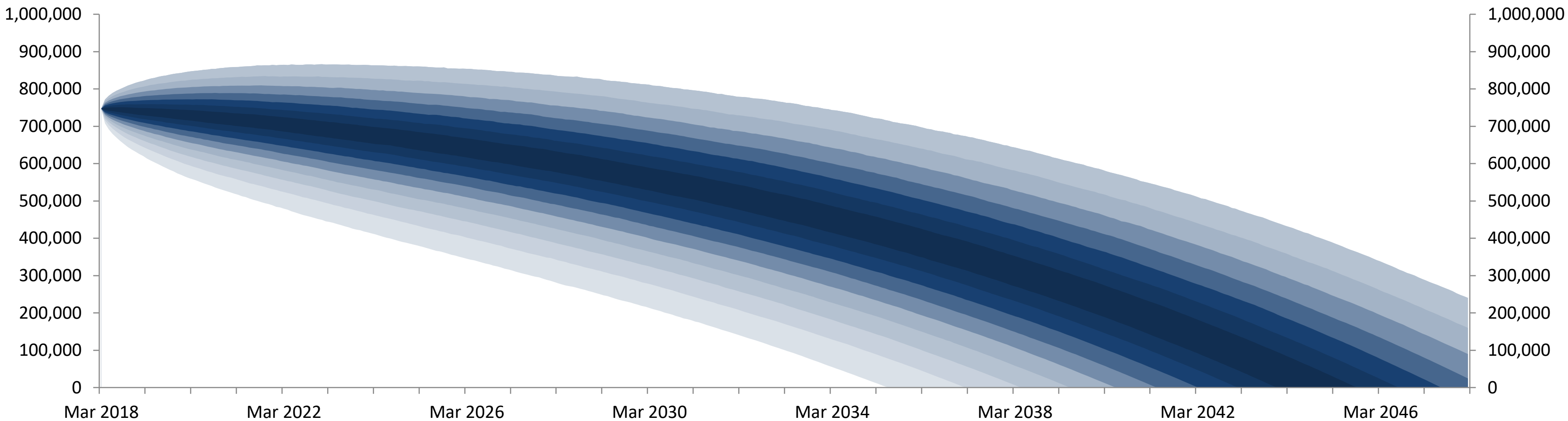
Providing Income in Retirement

Circumstances and requirements

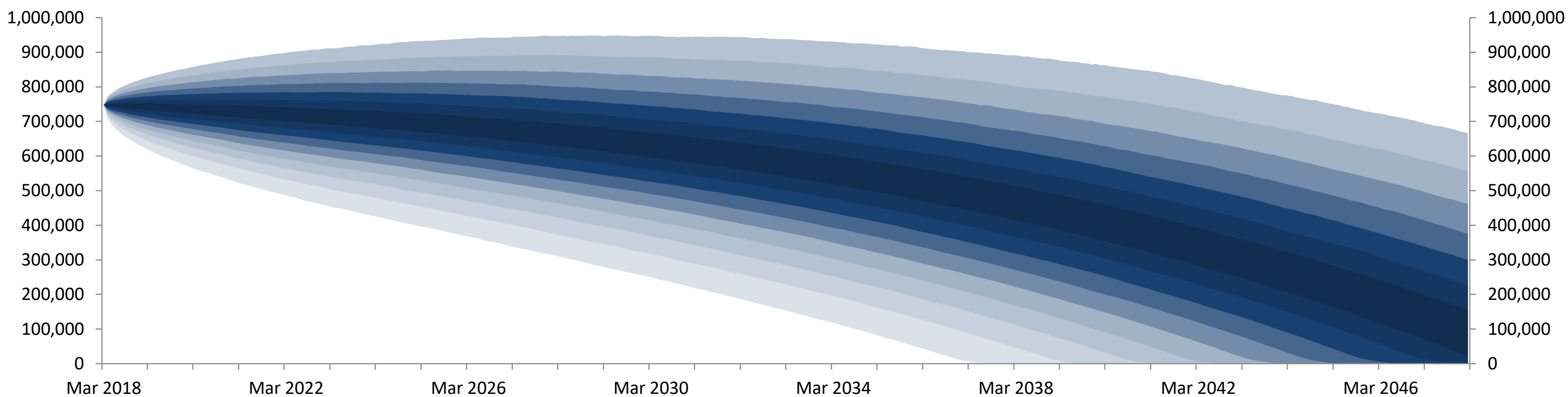
	Scenario 1	Scenario 2
Total Assets	£1,000,000 in Pensions	£750,000 In Pensions and £250,000 in Taxable Investments
Overall Investment Objective	Net income of £50,000 per annum inflated by 2% per annum	
Current Age	65	
Current Income	£30,000 net from a combination of State Pension and DB pension	
Income Shortfall	£20,000 net to be drawn from pension assets	£20,000 Net to be drawn from combination of pension and other investments
Capital Requirements	£250,000 to pay down mortgage and become debt free.	

Funding Your Retirement Through Income Drawdown

Investing in a balanced portfolio and drawing £20,000 net per annum from a pension only

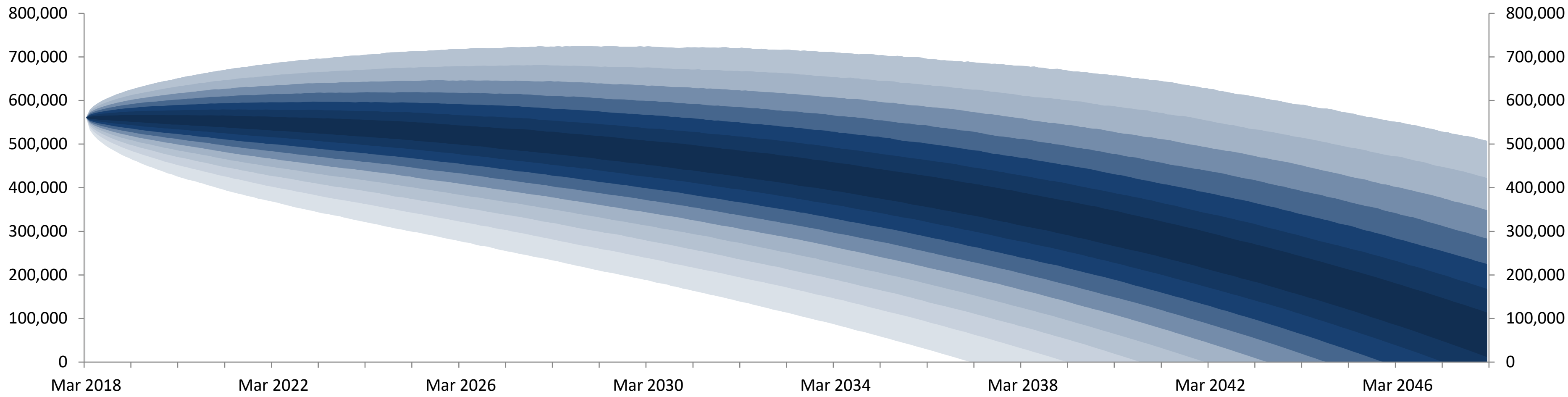


Using a combination of GIA, ISA and Pension can extend the life of your assets

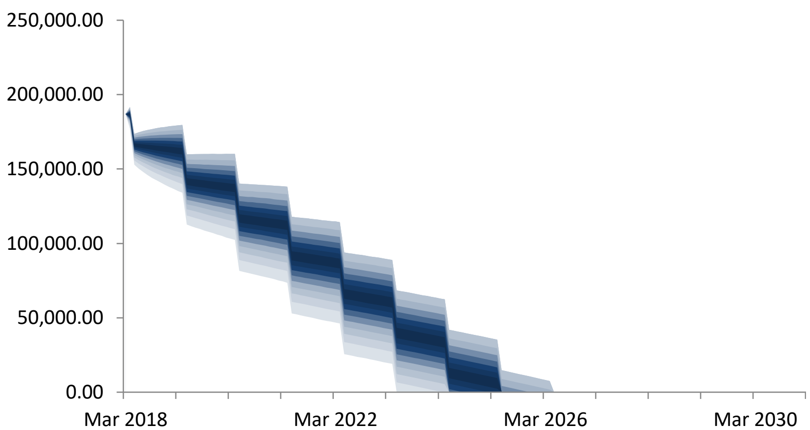


Using a Combination of Pension, GIA and ISA

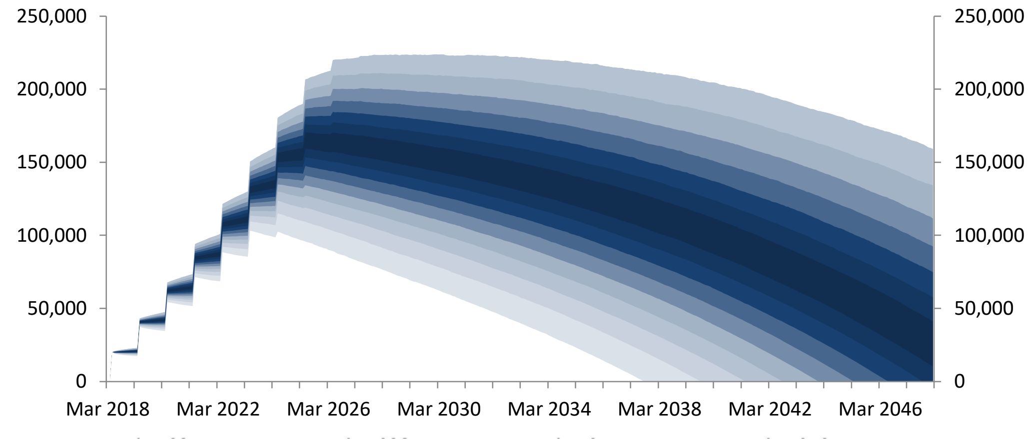
Pension – By drawing less from the pension you pay less tax over your retirement



GIA – Each year this funds the ISA



ISA – Once the GIA is exhausted, income is drawn from the ISA



The Role of Different Investment Types

Three Pot Theory

Saving for your long term goals will involve a combination of different types of asset. We break these down into three simple pots. We believe Pot 2 should act as the core of your investments and is best served by discretionary wealth management.

Your Financial Goals

Salaries, Cash, Rental Income

Pot 1

Cash and other sources of income. Provide safety and certainty to help you meet your shorter term outgoings

Multi Asset Portfolio
GIA, ISA, Pension

Pot 2

Liquid, low cost, medium/long term investments that are the core of the portfolio. Help you protect against inflation and accumulate assets and income for long term.

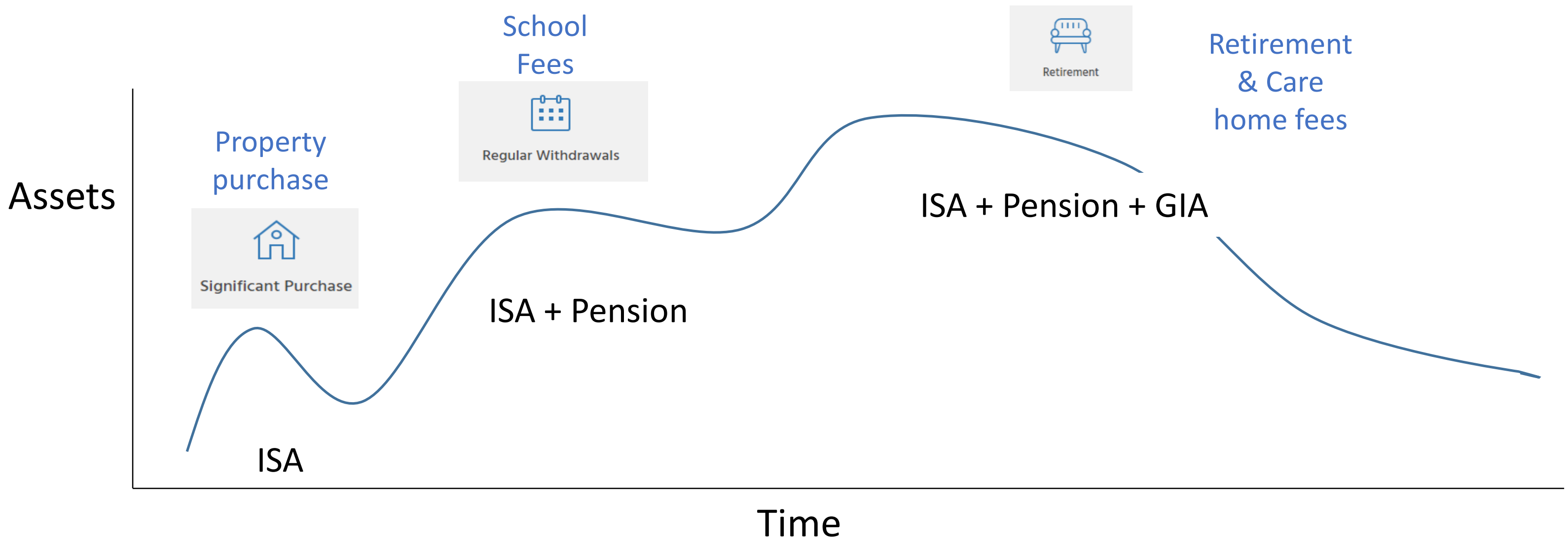
Buy to let property, EIS, Private Equity

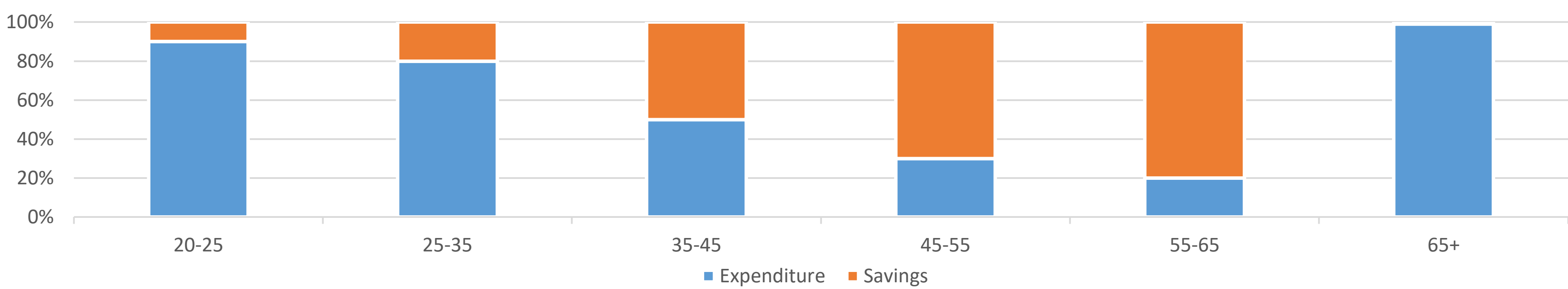
Pot 3

Longer term, illiquid and higher cost investments that aim to generate high returns over longer time periods

Make Use of a Range of Different Investments and Wrappers to Meet Your Lifetime Goals

It's likely that as your savings and goals evolve you will need to change your mix of investments and make use of a combination of account types to meet your goals.



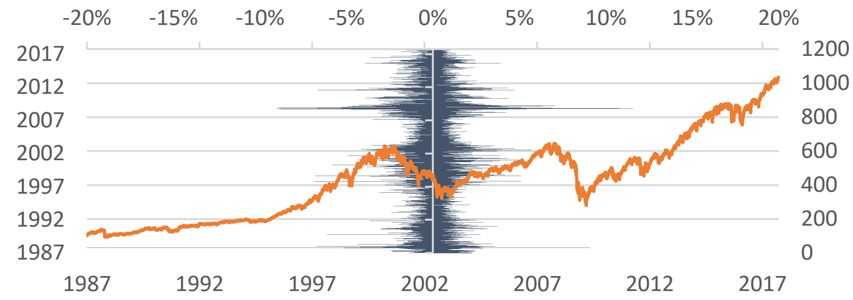


Achieving your goals will be driven first and foremost by how much you save and secondly by how effectively and efficiently those savings are managed.

Control the Controllables

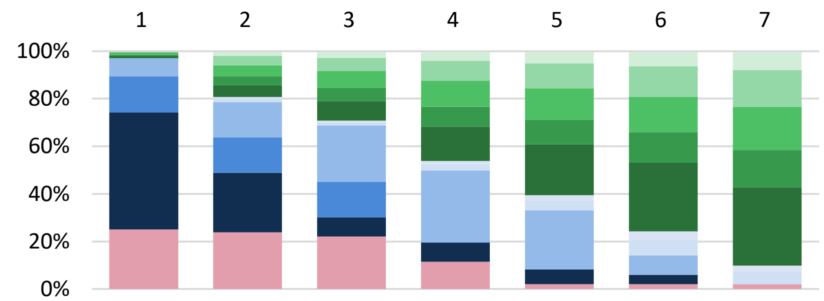
Time in the market, not timing the market

- Market can be volatile but generally climb the wall of worry.
- In a compliance constrained environment not only do you need to time when to sell then buy back you also need to get approval.



Diversification

- Diversification can help to smooth the path of returns and provide better risk adjusted outcomes

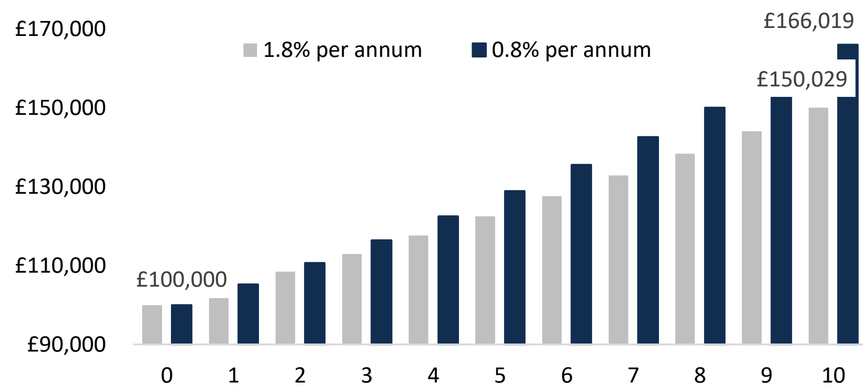


Use Tax Wrappers

- Making use of available tax allowances and tax wrappers such as ISAs and pensions can help you to achieve your goals

Minimise Costs and Charges

- For every £100k invested a fee saving of 1% per annum could make you over £15k* better off after 10 years.

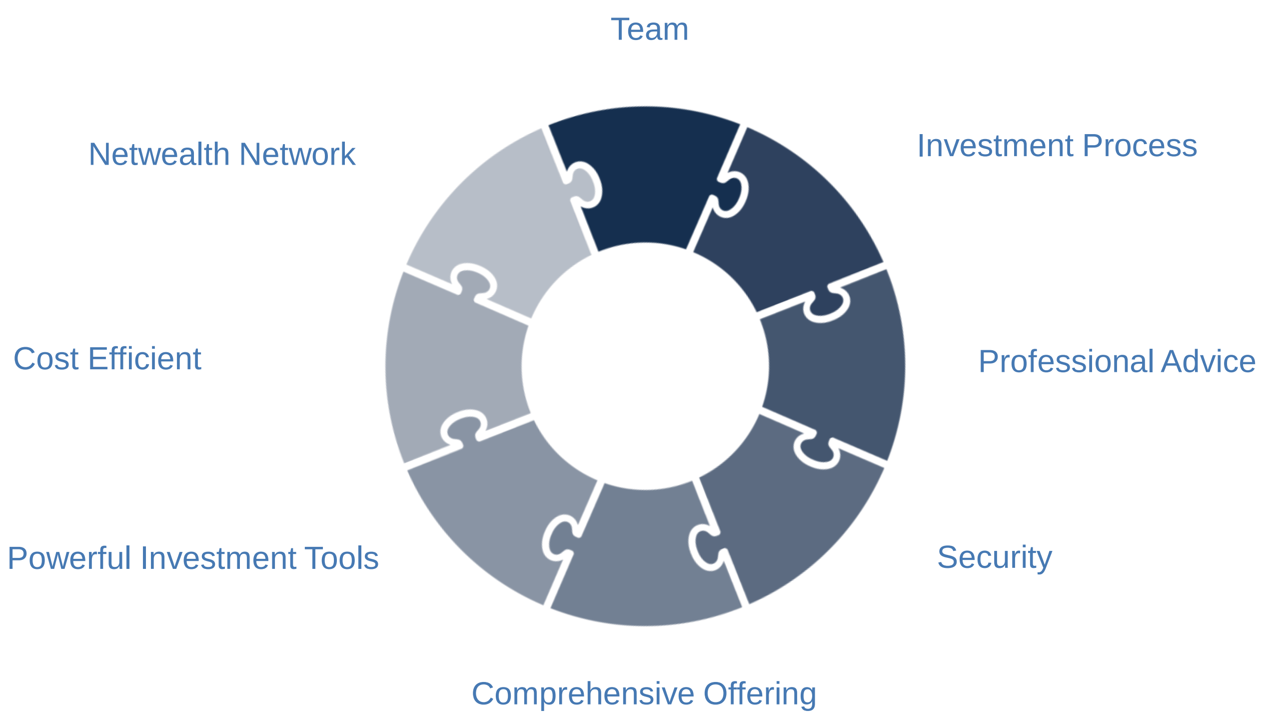


*Assumes a gross annual return of 6% and fees of 1.8% and 0.8% per annum.

Netwealth

Why Netwealth is Unique

Our hybrid approach combines the best of discretionary wealth management and financial technology



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When investing your capital is at risk. The value of investments may go down as well as up, so you could get back less than you invested.

Netwealth offers advice restricted to the services provided, and does not provide independent advice across the market.

Netwealth is covered by the Financial Services Compensation scheme (FSCS). In the event that we have stopped trading or are declared to be in default and cannot meet our obligations, a client may be able to claim compensation. This depends upon the type of business and the circumstances of the claim. The FSCS offers different levels of cover for different types of business. Most types of investment business are currently covered for 100% of the first £50,000. Further information is available from the FSCS website (www.fscs.org.uk).

Any questions?

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