1825
Financial Planning
from Standard Life

The value of advice

Introduction

The following case study aims to provide a straightforward demonstration of the value of advice in the lead up to, and throughout, retirement.

In this case study we've used a number of assumptions, for example for rates of future inflation, potential investment growth and annual fees. These are documented in the table 'Default Assumptions'. It's important to understand that actual rates of inflation, potential investment growth etc. could be different and therefore the outcome shown in this case study is only one of many of potential outcomes.

Meet Tony.
He's 55 and earns £60,000 p.a.

Tony's wealth

To date, he has accumulated the following:

- Personal pension (Self Invested Personal Pension) £400,000
- Savings (including his Cash Individual Savings Account)) of £90,000
- Investments totalling £400,000 (Stocks & Shares Individual Savings Account, Investment Portfolio & Offshore Bond)
- House valued at £450,000 with outstanding mortgage of £50,000

Tony's goals and objectives

- Tony would like to retire at age 60 and pay off his remaining mortgage at that age
- When he takes his income in retirement, he wants to keep his tax bill as low as possible
- It's important for Tony to leave a good legacy for his children and grandchildren

Tony's case study

In this case study we compare and contrast two very different ways in which Tony could access his money during retirement.

1. Do what many people do – on retirement, at age 60, take the entire 25% tax free cash from his pension

   Or

2. Follow a strategy whereby he accesses his money, throughout retirement, in a way that keeps his tax bill to a minimum

Default assumptions

Default Inflation/Growth Rates	Value
Inflation	2.0 %
Savings Growth Rate	1.5 %
Investment Growth Rate	5.5 %
Property Growth/Depreciation Rate	3.2 %
Salary Growth Rate	3.5 %
Default Consumer Price Index	2.0 %
Default Retail Price Index	3.0 %
Default Tax Table Assumptions	2.0 %
15 year Gilt Rate	1.5 %
Lifetime Allowance Escalation	2.0 %
Nil Rate Band	2.0%

Option 1

Taking the full 25% tax free cash at retirement

- Entire 25% TFC (maroon spike) is taken from Tony's pension at 60
- Drawdown pension income (gold) is taken, from age 60, at a starting level of £28,000 p.a. with inflation, to meet expenditure, and then stepping down when state pension (pink) starts at 67
- Other savings/investments (blue) are used once the pension (gold) has depleted to meet expenditure for the remainder of the plan

There is no shortfall, meaning that income is sustainable through to assumed mortality at age 100.

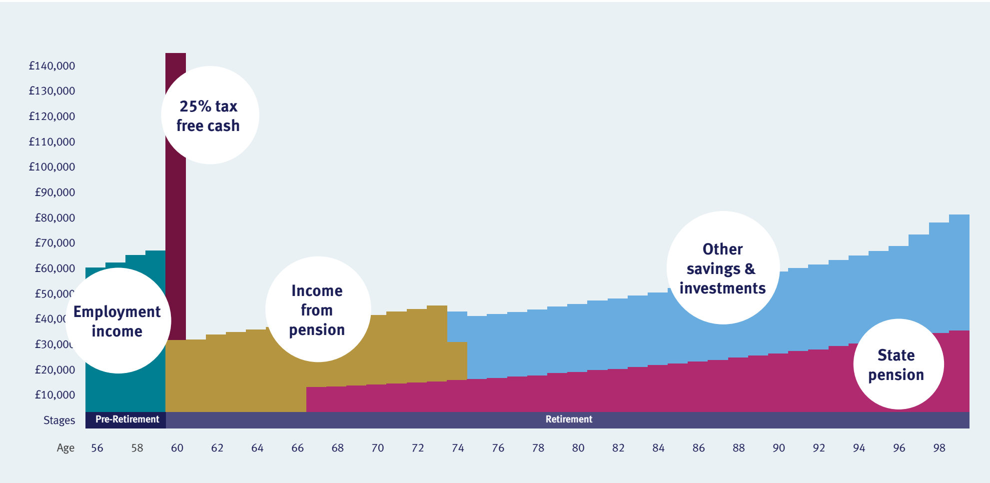
Option 2

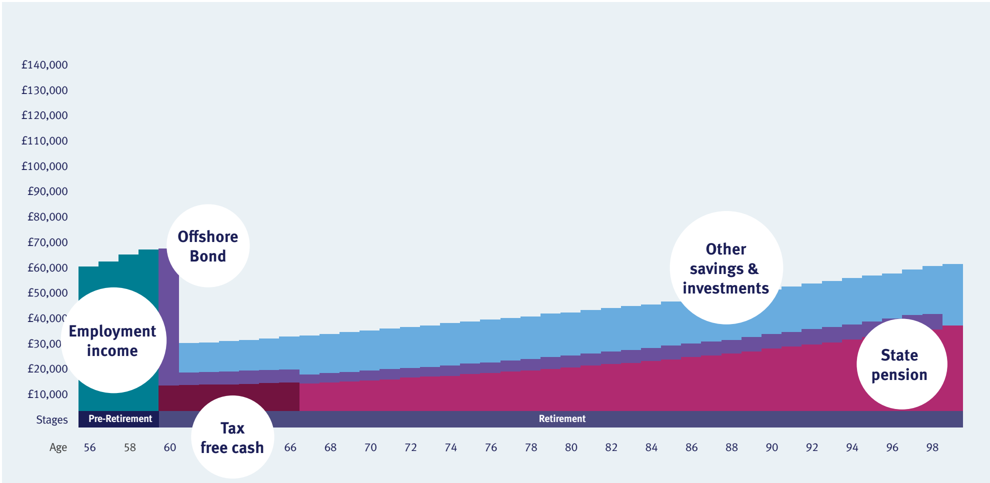
Follow most tax efficient strategy for accessing assets

- Apart from a small amount of tax efficient withdrawals from his pension (maroon), other assets are used to provide income and so preserve as much of his pension as possible
- Notice the lack of gold in this chart (drawdown pension income)

Again there is no shortfall.

But what difference does this make to Tony's tax position and what he leaves behind for his loved ones?





Tony's tax position

Because of the differences in tax treatment applicable to pensions, savings and investments, careful management of the order in which Tony accesses his wealth throughout retirement can make a significant difference to the tax he pays.

- **Option 1** – Over the lifetime of the plan total, Tony's cumulative taxes are £146,034
- **Option 2** – Over the lifetime of the plan total, Tony's cumulative taxes are £78,618

A difference of £67,416, net of all charges, by having in place a robust, tax efficient retirement plan.

Tony's legacy

Option 1 – on Tony's death, aged 100, his potential liquid assets (excluding house) remaining would be £1,712,011

Option 2 – on Tony's death aged 100, his potential liquid assets (excluding house) remaining would be £1,957,631

By following Option 2, Tony has almost an extra £250,000 to leave behind for his loved ones. This difference is largely attributable to making greater use of tax free cash over a longer period of retirement, and the order in which Tony takes income from his various tax wrappers.

Further estate planning could help reduce how much of his wealth is subject to inheritance tax.

What this demonstrates is that the way that tax free cash is used, and the order in which assets are accessed in retirement, can lead to very different outcomes.

Please note, these results are based on a number of assumptions regarding the client and potential investment returns, and are, therefore, subject to a number of risks and uncertainties that could cause actual results to differ materially from the assumptions. The value of investments can fall as well as rise – you could get back less than you paid in. Past performance of investments is no guarantee of future results. Tax rules and legislation can change. Tax calculations used in this case study are based on our understanding of law and current HM Revenue & Customs practice as at August 2019.

Find out more

Your 1825 Financial Planner can advise you on how to access your money through retirement in the most tax efficient way. They'll help you understand how your different assets come together, and work with you to build a retirement plan designed to help achieve your goals.