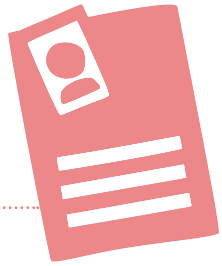
SECURE LIFETIME INCOME

CASE STUDIES



CHOOSING A BLENDED RETIREMENT INCOME TO PROVIDE SECURITY AND FLEXIBILITY

Many people want the best of both worlds when it comes to their pension funds. This means having control and flexibility but with a degree of security that comes with having a guaranteed income to cover regular expenses.

Richard's story

Richard is 64 and about to retire on his 65th birthday. He wants to retain control of his pension assets but he would also like his regular expenses covered to give him more flexibility with his invested assets.

Funds

Richard's fund value is £200,000.

Aim

To secure a guaranteed income to cover Richard's regular expenses.

How Secure Lifetime Income (SLI) can help Richard

Buying SLI within his SIPP will mean Richard can keep control of a significant part of his pension assets whilst securing a guaranteed income for life to cover his regular expenses.

His adviser calculates that Richard needs to receive a gross income of £1,100 each month to cover his regular expenses (£13,200 a year). Richard's state pension is £8,767 a year, leaving a gap of £4,433 a year to fill.

Assuming he's in reasonable health, when Richard turns 65, he could get £4,433 per year from SLI in his SIPP for £85,000 (equivalent to a rate of income of 5.2% per year).

This will leave him with £115,000 to continue investing and give him the blended retirement income solution he's looking for.

Richard will also get a death benefit with his SLI, for a set period, which will pay a lump sum to his SIPP which can then be passed on to his loved ones. Also, if his circumstances change significantly, he can cash in his SLI for a lump sum whilst the cash-in value is available.

Key client benefits

- A death benefit and cash-in value period
- Simple de-risking option as attitude to risk changes over time

Case Study based on an individual age 65 purchasing SLI with £85,000 who is in reasonable health. In our example, reasonable health means they are slightly underweight, an ex-smoker, and they suffer from high blood pressure and cholesterol, for which they take one medication for each condition daily. All numbers are illustrative only to show how SLI could be used. This is not intended to provide any form of advice or recommendation. Indicative SLI rates provided by Just as at 26 April 2019.

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OPTING FOR PHASED DE-RISKING TO REDUCE MARKET RISK

Your client may be willing to take some investment risk early in their retirement. To make sure they don't run out of money in later life, they might consider gradually reducing this risk by moving some of their funds into less risky assets such as Secure Lifetime Income (SLI).

Michael's story

Michael, 70, is single and has been retired for five years. His pension assets are in drawdown. He now wants to gradually reduce his exposure to the markets and have more guaranteed income for peace of mind.

His adviser plans a phased de-risking strategy – gradually taking funds to buy SLI over a 10-year period.

Funds

Michael's current drawdown funds are £500,000.

Aim

To gradually secure income over the next ten years and to have a sum of around £50,000 (excluding any growth) to pass on to loved ones.

How our SLI can help Michael

The suggested advice is to re-assess his portfolio every two years so that £90,000 is invested into SLI. This will give Michael a guaranteed income for life.

At current rates, SLI would pay the following gross incomes for each of the £90,000 lump sum purchase prices:

- £5,600 (age 72)
- £5,870 (age 74)
- £6,250 (age 76)
- £6,700 (age 78)
- £7,300 (age 80)

This gives Michael a guaranteed income for life of £31,720 at the age of 80 as well as the state pension he already receives.

Note

Buying SLI in phases means there's a possibility that SLI rates may increase as Michael gets older – this will give him a higher income than suggested. This can also work the other way around and rates can end up being lower, resulting in a lower income than suggested.

Key client benefits

- A simple solution to de-risking as attitude to risk changes
- Easily manage longevity risk so your client won't run out of money
- All phased income is aggregated into the SIPP for ease of management

Case Study based on an individual age 70 purchasing SLI with £90,000 lump sums at different ages using current rates, who is in reasonable health for the ages listed. In our example, reasonable health means they are slightly underweight, an ex-smoker, and they suffer from high blood pressure and cholesterol, for which they take one medication for each condition daily. All numbers are illustrative only to show how SLI could be used. This is not intended to provide any form of advice or recommendation. Indicative SLI rates provided by Just as at 26 April 2019.

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RETIRED BUT DECIDES TO GO BACK TO WORK

Let's take the example of someone who has already bought Secure Lifetime Income (SLI) and is receiving a guaranteed income for life but is then tempted to go back to work. They will carry on getting their guaranteed income – paid into their SIPP – but they might not need to take this money. Leaving this money in their SIPP can provide your client with more flexibility around a change in circumstances and a potential tax advantage.

David's story

David is 66 and retired last year. He bought SLI that pays him a guaranteed income but he's now been offered a contract consultant role by his previous employer. This role will provide him with enough income to live on so he doesn't need to take any of his SLI for the time being.

David currently gets £8,767 a year in state pension. He also receives £10,473 a year from an SLI – having invested £200,000 via his SIPP. This gives him a total gross income of £19,240 a year to cover his regular outgoings.

In his new consulting role, David will earn £45,000 a year. This means he doesn't need to withdraw the income he gets from his SLI.

Because David's SLI is paid into his SIPP, he won't be taxed on this income until he takes it from his SIPP. This means David is saving £4,000 a year in tax whilst leaving SLI income in his SIPP. This gives him the chance to manage his tax at a later date, when he may be in a lower tax band.

Another potential benefit is that David has the option to reinvest his SLI income into other SIPP investments. This is a significant added benefit as it allows him to reinvest £10,473 per year (paid in monthly instalments) until he needs it again (SIPP charges may apply to reinvested income).

What about reinvesting and the Money Purchase Annual Allowance (MPAA)?

When someone takes income flexibly from a SIPP it may be tested against the Money Purchase Annual Allowance (MPAA). This restricts the amount that can be contributed into a pension scheme to a maximum of £4,000 per year (based on current rules). However, in David's case, the income is reinvested whilst still within the SIPP so it has not actually been withdrawn and then reinvested as a new contribution. Therefore, using this approach does not count towards the use of the MPAA and David could still contribute up to £4,000 per year into the SIPP in addition to the SLI reinvestment within it should he wish.

Key client benefits

- Tax efficiency
- Reinvestment opportunities within a SIPP

Case Study based on an individual age 65 when purchasing SLI with £200,000 who is in reasonable health. In our example, reasonable health means they are slightly underweight, an ex-smoker, and they suffer from high blood pressure and cholesterol, for which they take one medication for each condition daily. All numbers are illustrative only to show how Secure Lifetime Income could be used. This is not intended to provide any form of advice or recommendation. Indicative Secure Lifetime Income rates provided by Just as at 26 April 2019.

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DEATH BENEFITS

As well as offering potential income tax benefits, the Secure Lifetime Income (SLI) death benefit also offers an element of tax planning within the flexi-access drawdown rules.

Keith's story

Keith, 65, buys SLI and receives the income directly into his SIPP. Unfortunately, he dies four years after buying SLI. The death benefit from his SLI plan is paid directly into his SIPP as a lump sum.

Funds

Keith's current drawdown funds are £400,000.

Aim

Keith wants to secure an income with the majority of his SIPP funds. To do this he invests £300,000 in SLI. It provides a death benefit during a set period that will give Keith the peace of mind of knowing that, if he dies unexpectedly early, his pension fund won't die with him.

How our SLI can help Keith

Keith's adviser arranges an SLI for him that secures an annual gross lifetime income of £15,570. His initial death benefit is £225,000 – this is in addition to the other assets within his SIPP. Keith's adviser makes sure he completes an 'expression of wish' form for his SIPP.

Keith receives his SLI income for four years before he dies. The death benefit in his SLI plan runs off at twice the monthly income payments due. This means that the death benefit from his SLI is £100,440. This death benefit and any other assets held within his SIPP can be passed on to his beneficiaries. Keith's beneficiaries can choose to take this benefit as a lump sum or as income.

As Keith was under age 75 when he died, any lump sum or income taken by his beneficiaries would be tax free. Had he died over age 75 then his beneficiaries would have paid tax at their marginal rate of income tax on any lump sum or income taken.

Note

The death benefit reduces monthly by twice the monthly income due and will last in this case for just over seven years.

Key client benefits

- Provides beneficiaries with more flexibility on how they take any benefits compared to a traditional pension annuity as benefits are paid under FAD rules. This allows them to potentially manage any tax liability.
- Death benefit and cash-in option available in the early years

Case Study based on an individual age 65 when purchasing SLI with £300,000 who is in reasonable health. In our example, reasonable health means they are slightly underweight, an ex-smoker, and they suffer from high blood pressure and cholesterol, for which they take one medication for each condition daily. All numbers are illustrative only to show how SLI could be used. This is not intended to provide any form of advice or recommendation. Indicative SLI rates provided by Just as at 26 April 2019.

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TAX PLANNING

Your client can manage their income to make sure they're not paying unnecessary tax. This could be helpful in a number of situations. For example, where they've received an inheritance and no longer require their Secure Lifetime Income (SLI).

Christine's story

Christine, 68, gets her state pension of £8,767 and also receives a £10,000 yearly income from her SLI.

She recently inherited £30,000 and wants to know the best course of action to manage her tax position.

Funds

Christine's current drawdown funds are £180,000.
Her current ISA funds are £40,000.

Aim

To manage Christine's income tax efficiently and make sure she's not paying any unnecessary tax.

How our SLI can help Christine

Christine's income from her SLI is paid into her SIPP. This means she can stop withdrawals and leave the income accumulating in her SIPP account. She can then reinvest the accumulated income within her SIPP as she sees fit (SIPP charges may apply to reinvested income).

This allows Christine to supplement her state pension with lump sums from her inheritance. The advantage of this is that her SLI can remain untaxed until she decides to withdraw the money from her SIPP in the future.

In this scenario, her only potential taxable income is the state pension. As this is below her personal allowance, she won't pay tax on this.

Before the inheritance, Christine would have paid income tax on the amount she received that was above her personal allowance of £12,500. Christine received £18,767 so the amount she would have paid basic-rate tax on was £6,267. The tax on this amount is £1,253. This means that,while she keeps her SLI in her SIPP, Christine can save this amount in income tax every year

She may also choose to take a small amount of income from her SIPP each year to use her personal allowance in full. Christine would still be saving the tax and could perhaps use the extra income as a contribution to her ISA.

Key client benefits

- Tax planning opportunities
- Enhanced retirement income offering on platform within a SIPP

Case Study based on an individual age 68 when purchasing SLI who is in reasonable health. In our example, reasonable health means they are slightly underweight, an ex-smoker, and they suffer from high blood pressure and cholesterol, for which they take one medication for each condition daily. All numbers are illustrative only to show how SLI could be used. This is not intended to provide any form of advice or recommendation. Indicative SLI rates provided by Just as at 26 April 2019.

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INDIVIDUAL DEFINED BENEFIT (DB) TRANSFERS

Your client may be considering transferring the benefits from their defined benefit scheme into their SIPP. If your client doesn't need their DB scheme – for example, if it offers a spouse's pension and they are actually single – they may want to take the option to transfer these funds into their SIPP. Your client could use some or all of these funds to buy Secure Lifetime Income (SLI), to provide guaranteed income for the rest of their life.

Jeremy's story

Jeremy is 60. He is looking to transfer his Defined Benefit (DB) Scheme into his SIPP. Jeremy's scheme offers a number of benefits, including a spouse's pension, but as he's single he doesn't need this benefit.

Jeremy could take his cash equivalent transfer value and set up a Flexi-Access Drawdown (FAD) account. This would allow him to take some of the funds out of his SIPP. He could also buy SLI with the remaining funds, which would provide him with a guaranteed income for the rest of his life.

Jeremy's DB scheme offers him a transfer value of £500,000. The yearly income he was offered from the scheme for this sum was £15,000 (a multiple of 33.33).

By transferring the offered transfer value into his SIPP, Jeremy can secure the £15,000 by buying SLI for a purchase price of £334,500. This means he has £165,500 left over in his SIPP.

Jeremy can use this remaining fund value to cover inflation increases to his £15,000 guaranteed income. He can also use this money for additional discretionary spending needs by taking ad-hoc flexi-access drawdown payments from his SIPP. These would be subject to his marginal rate income tax.

For simplicity, this case study has assumed the client does not take any Pension Commencement Lump Sum (PCLS).

Key client benefits

- Solution to individual DB transfers in certain circumstances
- More control over assets
- De-risking option as client's attitude to risk changes

Case Study based on an individual age 60 when purchasing SLI with £334,500 who is in reasonable health. In our example, reasonable health means they are slightly underweight, an ex-smoker, and they suffer from high blood pressure and cholesterol, for which they take one medication for each condition daily. All numbers are illustrative only to show how SLI could be used. This is not intended to provide any form of advice or recommendation. Indicative SLI rates provided by Just as at 26 April 2019.

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VULNERABLE CLIENTS

One issue clients should consider when they think about retirement is their health in older age. This could affect their ability to make decisions as well as their capacity for loss as they get older. All of this points to a need for some level of guaranteed income. This is easily satisfied by our Secure Lifetime Income (SLI).

Joan's story

Joan, 75, has a history of dementia in the family and is worried that if she was diagnosed with dementia she'd be unable to manage or understand her SIPP. Her adviser recommends that she uses some of her SIPP assets to buy SLI so she can receive a guaranteed income with no risk or worry. When Joan dies, her assets can be passed to her family, under Flexi-Access Drawdown (FAD) rules – in other words, her beneficiaries will simply be taxed at their own marginal income tax rate on any assets they inherit from her once they withdraw them from the SIPP.

Funds

Joan's current drawdown funds are £250,000.

Aim

To stop Joan worrying about drawdown investments running out, provide her with some secure income and to leave some funds for Joan to pass on to her family.

How our SLI can help Joan

Joan's family suggests she uses a large proportion of her money to buy SLI to secure an income alongside her state pension. Joan can draw on any remaining funds in future, if she needs them. She can also pass these on to her family when she dies. Joan uses £200,000 to buy SLI from her SIPP that pays her £13,400 a year in guaranteed income.

Note

If Joan dies in the early years after buying her SLI, when the death benefit still applies, this benefit is payable into her SIPP and treated in the same way as her remaining funds – under Flexi-Access Drawdown (FAD) rules. This will be taxed at Joan's beneficiary's marginal rate of income tax when taken from the SIPP.

Key client benefits

- Fully underwritten retirement income offering on platform within a SIPP
- De-risking option as client's attitude to risk changes
- New and easier blending option
- Death benefit and cash-in option available for a set period in the early years

Case Study based on an individual age 75 when purchasing SLI with £200,000 who is in reasonable health. In our example, reasonable health means they are slightly underweight, an ex-smoker, and they suffer from high blood pressure and cholesterol, for which they take one medication for each condition daily. All numbers are illustrative only to show how SLI could be used. This is not intended to provide any form of advice or recommendation. Indicative SLI rates provided by Just as at 26 April 2019.