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Case Study

Generating tax efficient retirement income

Meeting Mr C annually and reviewing his Lifetime Financial Plan helped generate tax efficient income in retirement.

Richard Porter, Independent Financial Adviser & Director, St Albans, Hertfordshire

Current situation

Richard Porter, has provided financial planning advice to Mr C, aged fifty five, for nine years. When Mr C took early retirement from full-time employment he wanted a financial plan for the future.

Mr C has a final salary pension scheme worth £24,800 per annum and a state pension worth £7,000 per annum, and has modelled his future expenditure using cash-flow modelling. Mr C's Lifetime Financial Plan recommends he needs £43,000 per annum to fund his desired lifestyle in retirement.

For a free initial consultation contact Richard Porter on 01727 845 500 or email rporter@lonsdaleservices.co.uk

Integrity, reliability and value

How Richard added value with his independent financial advice

- ### Educated Mr C about the long-term implications of holding cash

  When Richard Porter first met Mr C nine years ago all his savings were in cash. Richard spent their first meeting educating the client about the risk/return implications of holding cash and not investing in equities over the long term.

- ### Recommended a 'low risk' investments

  Richard Porter assessed Mr C's attitude to risk by speaking to him and asking him to complete a risk assessment questionnaire. By using the results of the research, Richard Porter recommended a 'low-risk' investment portfolio across a wide range of carefully researched investments to manage investment volatility and achieve a relatively consistent investment return over the nine year period.

- ### Recommended tax-efficient investing at every annual review

  At each review meeting Mr C was encouraged to invest in Individual Savings Accounts (ISA's) and invest the maximum in his pension scheme to take advantage of tax benefits. He also opened an investment bond as some investment gains could be withdrawn tax free.

- ### Generated retirement income tax efficiently

  In the 2016/17 tax year, income over £43,000 is taxed at 40%. Assuming Mr C received his pensions he could use cash savings to generate the additional £11,200 he required, and pay tax at the lower rate.

  However, as he had invested the maximum in equity ISAs and an investment bond, he is able to generate tax-deferred additional income from these investments and only needs to withdraw £11,200 per annum.

Key considerations for an individual looking to generate retirement income tax efficiently

- Invest the maximum in tax- efficient investments each year pre-retirement
- Consider investing in equities rather than cash if you are a long way from retirement
- In retirement, supplement pension income with tax-efficient savings
- Minimise the amount you withdraw from your pension for efficient inheritance tax planning as it is not normally included in your estate when you die

Summary

Mr C is grateful for Richard Porter's independent financial advice. He invested in a 'low risk' investment portfolio knowing that he had at least nine years until he took early retirement and could manage equity market volatility. Meeting Richard Porter annually and reviewing his Lifetime Financial Plan gives Mr C the confidence that he can generate enough income in retirement to supplement his pension income.

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