For financial advisers only | Retirement Control

# Do you have clients like these?

We've put together the following example case studies to help you identify the kind of clients Retirement Control from AEGON (a brand name of Scottish Equitable plc) could be suitable for, and how it could help them.

This is for professional financial advisers only. It isn't for private customers and shouldn't be given out to, or relied on by, them.

## Case study 1 – Making the most of pension tax benefits

Alan is 59 and a higher-rate taxpayer. He wants to talk to you about releasing some money from his pension fund, although he's still employed – earning a salary of £80,000 – and doesn't need any regular income.

### Solution

If Alan invested in a Retirement Control plan, he'd be able to make a single contribution into the Retirement Funding Account within the plan. He could take tax-free cash when he needs it and move his remaining fund into the Income Account (unsecured pension or USP) part of the plan.

For example, Alan makes a single contribution of £48,000 net into his Retirement Funding Account and we add the basic 20% tax relief of £12,000, which makes his total gross contribution into his plan £60,000.

As he is a higher-rate taxpayer and his total relevant income is less than £130,000 a year, Alan may also be able to claim another 20% tax relief on his single contribution direct from HM Revenue & Customs.

| | |
|---|---|
| £48,000 | Alan's net single contribution |
| + £12,000 | 20% tax relief |
| **= £60,000** | Total invested into Retirement Funding Account |
| - £15,000 | Alan takes this out as tax-free cash |
| = £45,000 | Total invested in Income Account* |

*Please remember that the value of this fund may go down as well as up.

## Case study 2 – Estate planning

Chris is 55 and thinking about his retirement. He's built up a pension fund of £300,000 in his personal pension plan. This is one of his biggest assets and he wants to talk to you about death benefits and how his dependants can benefit from his pension fund when he dies. Chris has recently remarried, has two children from his first marriage and two stepchildren, who are all under 23.

If he dies, he wants to make sure his new wife is looked after. However, if she dies first, he'd like his assets to pass to his children from his first marriage, as his stepchildren are catered for by a trust from their own father.

### Solution

Chris could transfer his pension fund into a Retirement Control plan, immediately take his tax-free cash entitlement and move the remaining fund into the Income Account. With the fund in the Income Account, he could nominate his new wife as a survivor. This means, on his death, she can choose between:

- taking a lump sum (less 35% tax)
- continuing income as USP in her own Income Account if she's under age 75
- buying an annuity
- a combination of annuity, USP and lump sum, depending on her age

Chris can also name his children on the *Expression of wish* form. If his wife survives him, she can choose how to take benefits from his remaining fund. If she dies before him and there are no other nominated survivors, the fund will be paid as a lump sum less 35% tax on his death.

As scheme administrator we'll use our discretionary powers under the scheme rules to choose who should receive the lump sum death benefit, taking into account the expression of wish made by Chris.

The fund value on death won't normally form part of his estate for inheritance tax purposes, although it would still be liable for a 35% tax charge where it's paid as a lump sum death benefit.

If Chris had bought an annuity including a spouse's pension, and his wife had died before him, then nothing would be paid out on his death, unless he had chosen a guarantee period with his annuity.

## Case study 3 – Flexibility and control in retirement

John and James are neighbours, both aged 62 and both nearing retirement. They each have a pension fund worth £600,000, which would have bought them a single life, level annuity from AEGON of £34,208 in June 2010.

John wants to start his own business and needs some capital to do this. He needs some income now, but isn't sure how much he'll need in the long term, as this will depend on the success of the business.

James is also looking for a varying income, as he too will have other sources of income once he retires. However, he's more concerned about his income tax position. He doesn't need any income now.

Although they're both looking for flexibility, their other needs will determine which is the most suitable income-planning vehicle.

Key issues:

- John needs capital and the ability to control income levels.
- James needs to control his income tax position, as taking a traditional annuity would make him a higher-rate taxpayer.

### Solution

The Retirement Funding Account and Income Account in a Retirement Control plan both offer flexibility, but each client's individual circumstances will determine which is more suitable. The following solutions could help John and James meet their different needs.

### John

John will need to use his tax-free cash, so he could transfer to a Retirement Control plan where he can take all of his tax-free cash of £150,000 straight away from the Retirement Funding Account.

The balance of £450,000 could then be transferred to his Income Account. Based on a gilt yield of 4.20% as at June 2010, the maximum yearly income, as set by the government using Government Actuary's Department (GAD) rates, he can take is £34,020.

John can vary the income he takes from his plan each year to meet his changing needs and circumstances.

### James

James could transfer his pension fund to a Retirement Control plan and keep his money invested in his Retirement Funding Account. This allows him the potential for his fund to grow while remaining invested in a tax-efficient environment. When he needs some income, he can control his tax liability by only transferring enough money from his Retirement Funding Account to his Income Account to provide a required level of income for the year, made up of tax-free cash and/or a regular income.

## Case study 4 – Retiring in ill health

Paul is 65 and in ill health. He plans to stop working in a couple of months and has a private pension fund worth £200,000. He's married but has no children or other dependants, so his main concern is to protect his wife financially should he die before her, which is likely due to his state of health.

Key issues:

- He needs a total net income of around £20,000 in his first year of retirement.
- He wants to make sure his wife is financially secure if he dies.

### Solution

Buying a pension using a traditional annuity isn't always suitable, particularly for clients who are in ill health and want to make sure their dependants benefit from their pension fund when they die. By choosing to invest in a Retirement Control plan, Paul could use a combination of money from his Retirement Funding Account and his Income Account.

He could invest £200,000 in his Retirement Funding Account, take £16,724.64 tax-free cash and move £50,173.94 to his income account. His maximum income would be £3,275.63**, to meet his income needs for his first year of retirement. If he needs any more income, he can move money from his Retirement Funding Account to his Income Account as required.

If he dies and still has money invested in his Retirement Funding Account, the remaining funds in this pot could be paid as a lump sum to his wife.

As a named survivor, his wife will have the option of receiving any money left in the Income Account as a lump sum less 35% tax, continuing income as USP (if she's under age 75 when Paul dies), buying an annuity or possibly a combination of all three.

**Calculated on a gilt yield of 4.20% as at June 2010

## Case study 5 – Flexible income in retirement

Jane is 58 years old and she's decided to change to part-time working hours to help look after her first grandchild. Her pension fund is worth £150,000. Her modest mortgage won't be paid off until she's 60 so she needs a small income from her pension fund to make up the shortfall in her income when her working hours change. Her income needs will also change when she receives her state pension. She's married with two children and one grandchild.

Key issues:

- Jane's income levels are likely to change over the next couple of years.
- She needs some capital to pay for a new car and she'd like to put some money in a savings account for her grandchild.
- She estimates she'll need a lump sum of £10,000.

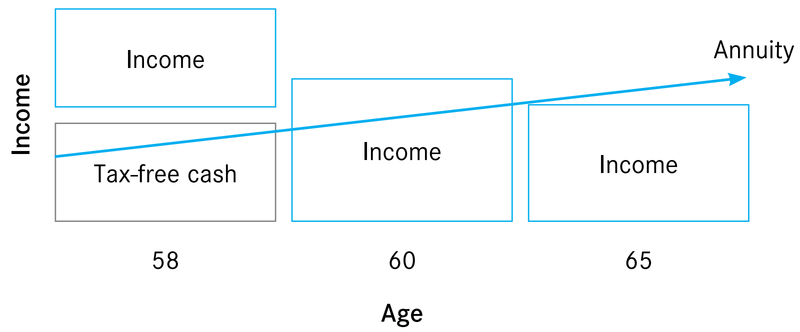
### Solution

Many people today are finding that their retirement is no longer at a fixed date, and they may not want a fixed level of retirement income that won't meet their ever-changing needs. A Retirement Control plan can give maximum flexibility for their income needs.

The Retirement Control plan will let Jane:

- take the tax-free cash of £10,000 to pay for a new car and put some money in a savings account for her grandchild (she could put this money into a stakeholder pension so her grandchild would benefit from basic rate tax relief)
- transfer the balance of £30,000 into her income account to pay her a small income of £1,980 (gross) (based on gilt yields of 4.20% as at June 2010) to cover her mortgage payments until she's 60
- change the income level when her mortgage is paid off and then again when her state pension starts

The graph below shows how a Retirement Control plan is flexible enough to meet the changing income needs of clients like Jane. In comparison, the only change that a traditional annuity offers is escalating income.




This information is based on our understanding of current taxation law and HM Revenue & Customs practice as at November 2010, which may change. We're currently waiting on clarification from HM Revenue & Customs on new rules for USP following the government's emergency Budget on 22 June 2010.

## Next steps

If you want to know more about how these examples of using Retirement Control could work for your clients please get in touch with us.