Retirement planning

An introduction…

Friday, 14 May 2021

1. Why should you save into a pension?

Tax efficiency

For most, pensions represent the most tax efficient form of saving and investment…

- Tax relief on contribution (at your marginal rate of income tax) – it costs a basic rate taxpayer £800 to contribute £1,000 to a pension, a higher rate taxpayer £600.
- Tax-free income and gains within the pension.
- 25% funds tax-free on withdrawal.
- Outside the estate for IHT purposes.

In many ways, pensions represent the perfect estate planning tool:

- Outside the estate for IHT but available throughout
- Many now use pensions as a form of Family Trust, available to cascade down to future generations in a highly tax efficient manner

The value of investments can fall and you may get back less than you invested. Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

2. Cashflow modelling

Cashflow modelling

Cashflow provides clarity and helps avoid inertia…

- Cashflow provides a projection of your future financial position.
- It therefore provides **clarity** in terms of how things look now and how they're likely [illegible] future. Where we have clarity, we can plan with confidence.
- Cashflow plots money coming in, money going out and ho[illegible] change over your lifetime.
- This helps gauge whether you are [illegible] needs to be done.
- We then use scenari[illegible] of certain actions and/or a change in a[illegible]
- [illegible] most common scenarios are:
  - [illegible],
  - [illegible] I afford to spend in retirement?

What's your number?

The power of cashflow

Used correctly, cashflow can change lives…

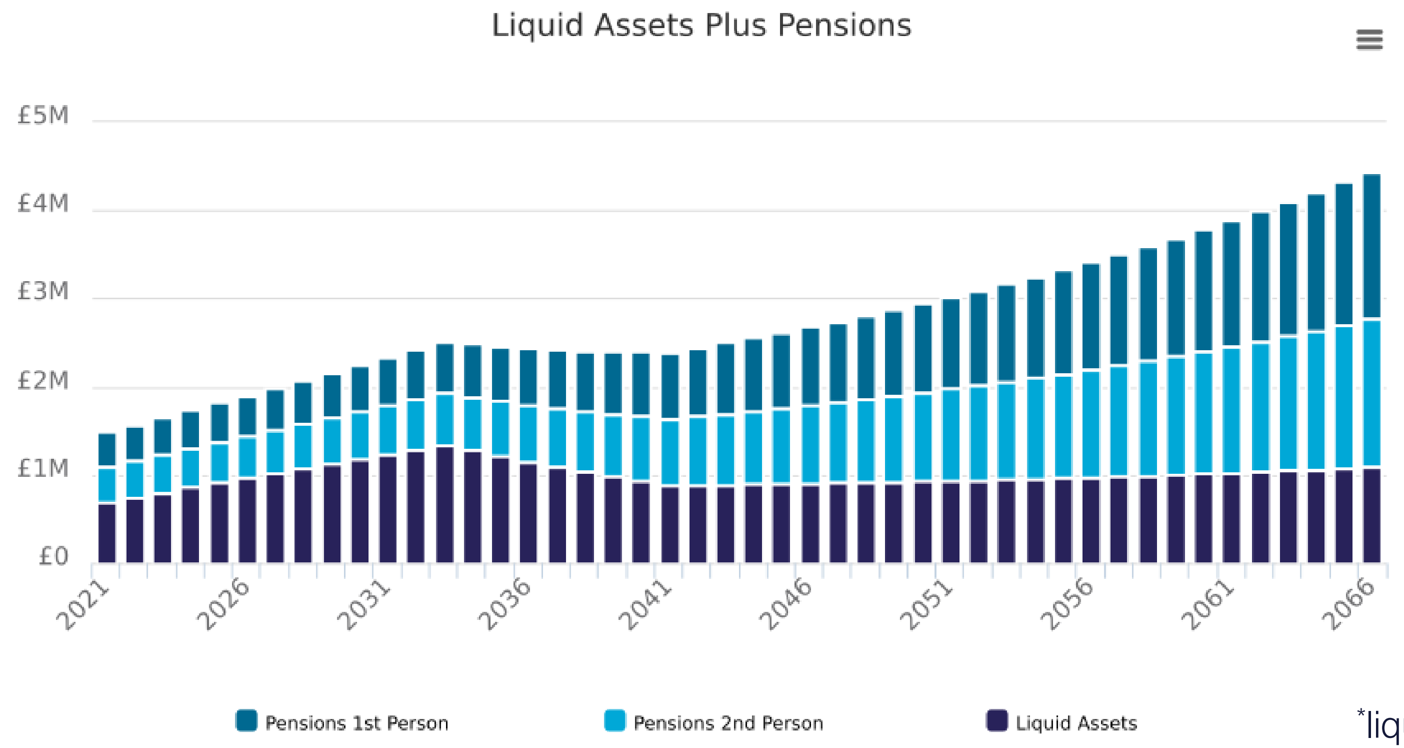
Case study

- David & Victoria are 55 and thinking about retirement
- Their assets total £3m, consisting of property (£1.5m), investments (£0.5m), pensions (£0.8m) and cash (£0.2m)
- They're currently earning £75k each
- And spending £60k per annum
- They plan to increase spending to £100k between retirement and age 75 ('active retirement'), before it falls back to an assumed £40k thereafter ('passive retirement')
- Their only guaranteed income in retirement will be 2x State Pensions (£9,400 each)
- They're planning on retiring at 67, once their State Pensions commence
- That represents 8 years 'active retirement'

Information is provided only as an example and is not a recommendation to pursue a particular strategy

The power of cashflow

Baseline scenario: liquid assets



*liquid assets include cash, investments and pensions (not property)
†all charts are adjusted for inflation

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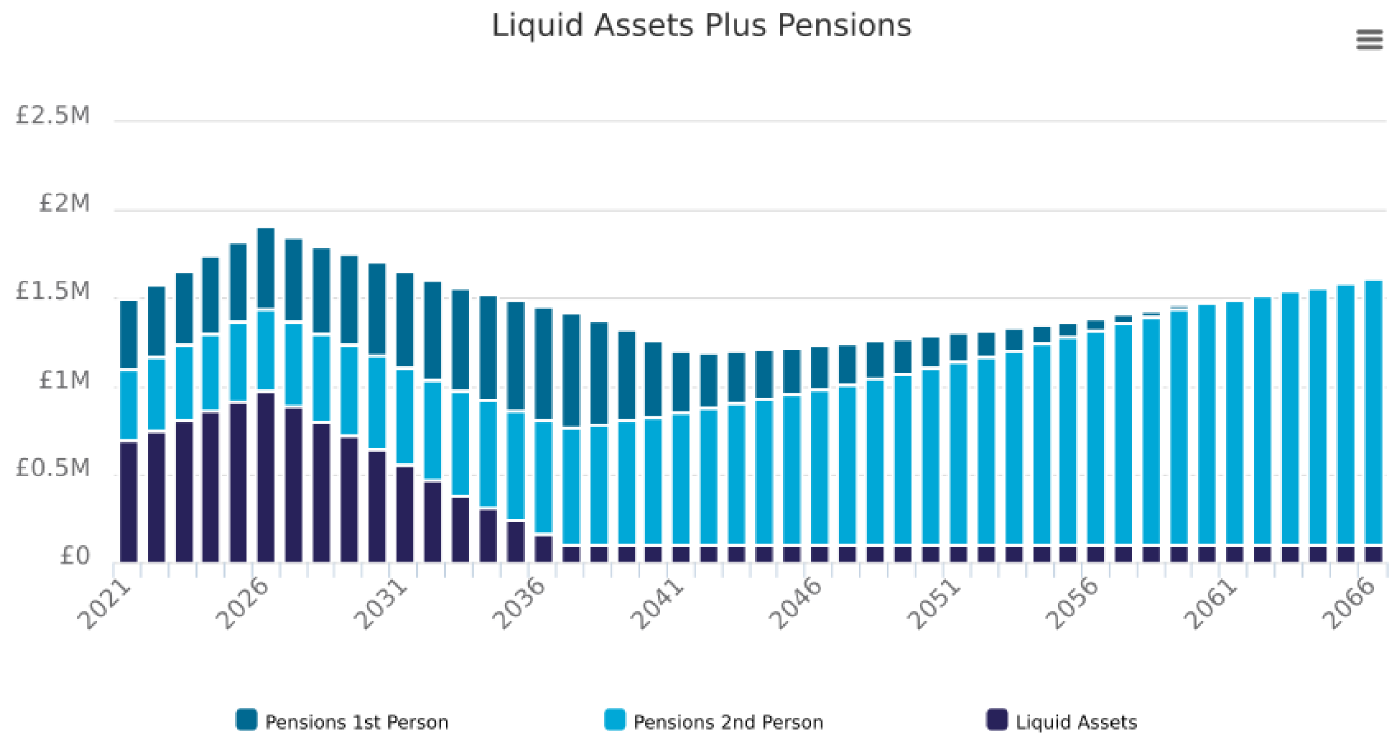
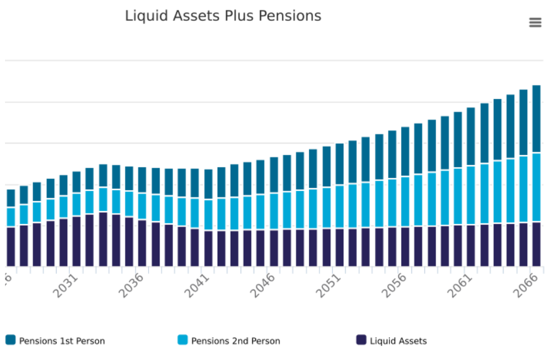
The power of cashflow

What if (retire @ 60) scenario: liquid assets





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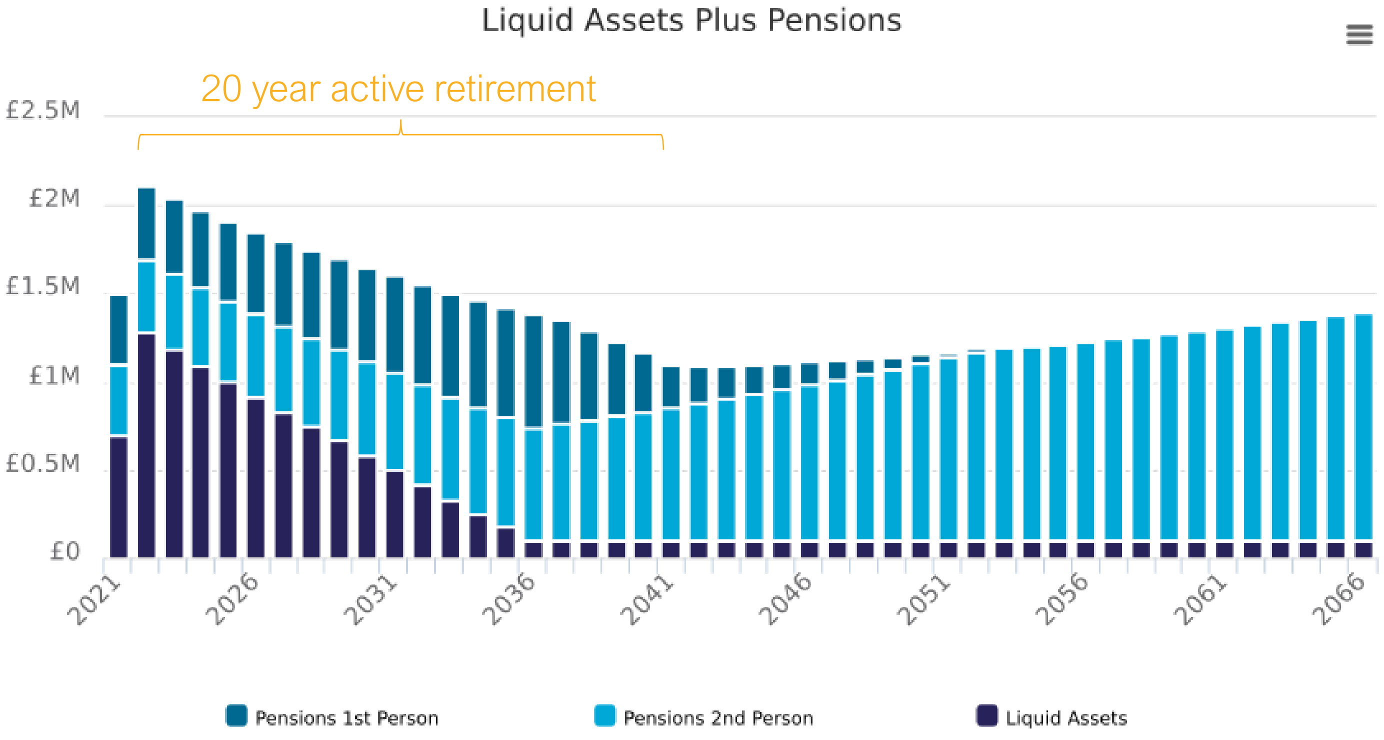
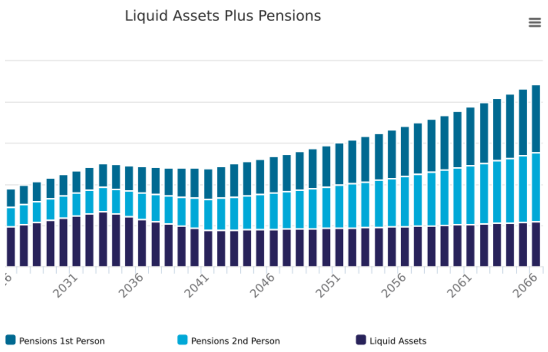
The power of cashflow

What if (downsize house & retire now) scenario: liquid assets





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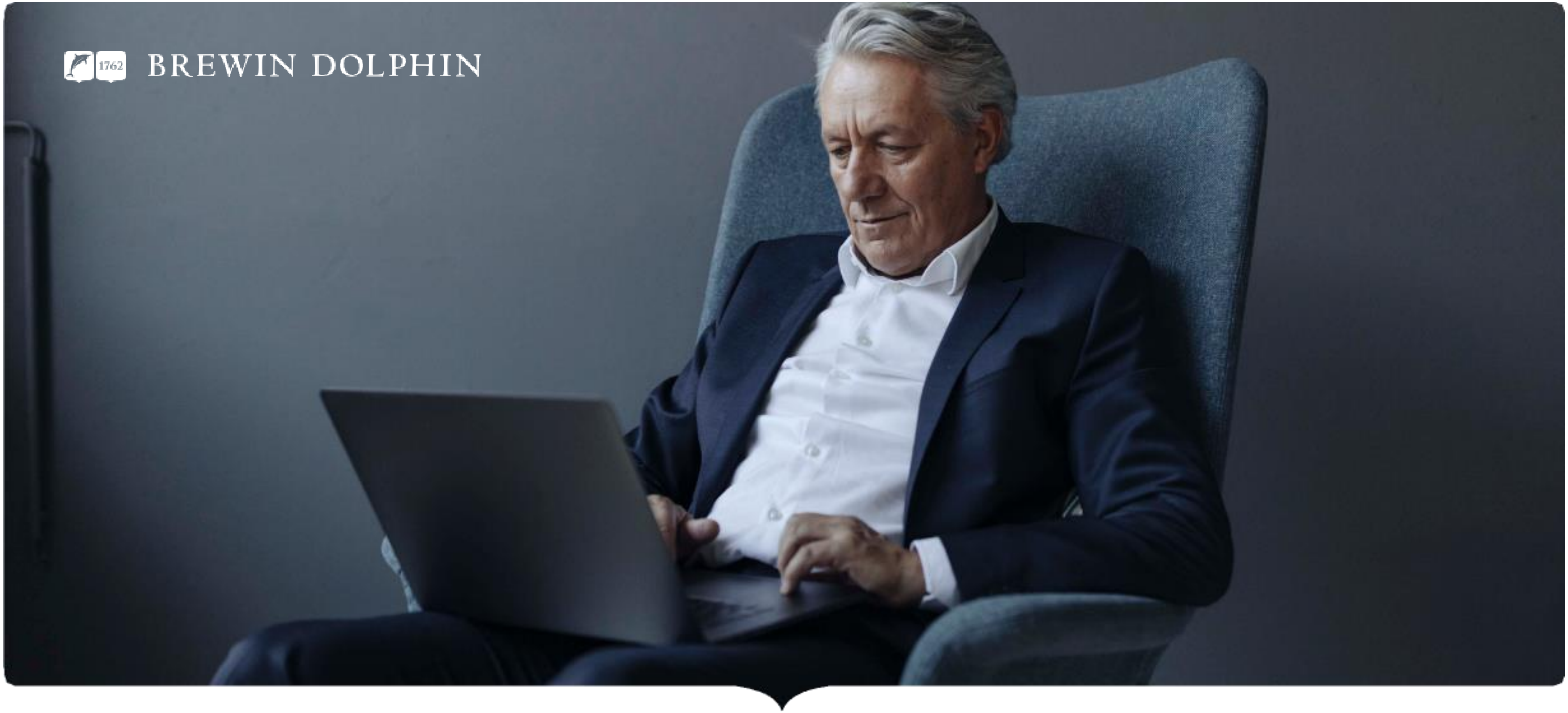

3. Business cash extraction

Employer pension contributions

Employer pension contributions offer a highly tax efficient means of extracting cash

- Contributions are not confined to 100% relevant earnings as with personal contributions
- The only limit is therefore company profits (generally speaking, pension contribution can't push you into losses)
- And your available Annual Allowance (up to £160,000 including carry forward)

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Employer pension contributions

Example

Case study

- GT Ltd has had a stellar year and is now generating profits of £500k and sitting on cash of £2m
- Neither Mr or Mrs have made any contributions to their pensions during the past 3 years
- They therefore have their current year's Annual Allowance (£40k) and 3x carry forward (£120k) available to set against pension contribution
- They can therefore each contribute £160k to their pensions, by way of employer pension contribution (£320k total)
- This is a deductible business expense and therefore reduces their corporation tax bill
- A highly tax efficient way of extracting £320k cash from the business

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Pension webinar

What can you expect

- Pensions: how they work and the benefits of pension saving
- How much should you be saving for retirement and the power of cashflow modelling
- Retirement income options
- How to invest your pension
- Pension planning for business owners