Unit 4 The Stables • Lynx Park Business Centre • Colliers Green • Cranbrook • Kent TN17 2LR
**T**: 01580 213 400 • **F**: 01580 23 00 16 • **E**: info@hdclimited.com • **W:** www.hdclimited.com

HDIFA Pension Transfer Specialists

# RETIREMENT PLANNING REPORT

## PREPARED FOR

## Client

## A CLIENT OF

## IFA

## FROM

## IFA Firm

## ON

## 10th December 2014


Heather Dunne trading as HDIFA No. 524600 is an Appointed Representative of Financial Solutions Midhurst Limited,
Authorised & Regulated by the Financial Conduct Authority No. 459575

©HDC 8th December 2014

# Executive Summary

This document, which is termed a Suitability Report, and the associated enclosures draw together the information gathered regarding you and your existing pension benefits. This Retirement Planning Report provides a full and detailed explanation of the recommendation which is being made. This advice is subject to guidelines imposed by our regulator, the Financial Conduct Authority (FCA). This Executive Summary is an outline of the recommendation for your convenience.

This report reviews your benefits in the Scheme, which we shall refer to as the Scheme. These are the only benefits we will consider in this report.

As you know, we are working in conjunction with IFA of IFA Firm. We understand you also have funds amounting to around £20,000 in a Skandia (now Old Mutual) Personal Pension which cannot be used for Drawdown. The intention is to move those monies into the new Collective Retirement Account with Old Mutual once this transfer has been completed.

The benefits available from your current plans and any alternative plans are restricted by legislation, which is monitored by Her Majesty's Revenue and Customs (HMRC).

***This section is purely intended to summarise our recommendation for your ease***

## Recommended Action

We recommend that you transfer the funds relating to your benefits in the Scheme to a Self-Invested Personal Pension (SIPP) with Old Mutual, in order to access the Drawdown facility. This will allow you to draw Tax Free Cash, as well as any pension income that you may require.

A detailed explanation of this proposal is included in this report. Adding the funds from the Scheme to the SIPP with Old Mutual will enable you to consolidate your retirement benefits.

In relation to the underlying investment advice, we understand that you may have decided on your intended strategy, following your discussions with IFA of IFA Firm. You have not sought any advice from HDIFA in relation to those investments and we have not provided any guidance in that respect. The Transfer Value will be placed into a Cash Fund. When you and Garry meet to change over the agency of the new plan with Old Mutual, you will also discuss the long term investments and servicing arrangements.

## Reasons for this Recommendation

As explained in the Initial Suitability Assessment Report (ISAR) prepared by Heather Dunne Consulting Limited (HDC) previously, we understand that your main aim is to access the Drawdown facility and improve Death Benefits. We believe that this transfer will achieve those objectives and is therefore suitable for your needs.

Our reasons for this recommendation are:

- **Draw some or all of your benefits immediately**

  The proposed SIPP with Old Mutual will allow you to access the Drawdown facility. This allows you to take some or all of the allowable Tax Free Cash and decide whether or not you wish to draw any pension income i.e. a maximum level of control. This will enable you to vary the income being drawn if the need arises.

  This option will significantly improve your personal control over the choices you make as to when and how you do draw your income.

- **Increase the allowable Tax Free Cash**

  As we will explain in more detail later in this report, the transfer will increase the Tax Free Cash available immediately by £12,707.37, from £35,099.80 to £47,807.17.

  This meets your stated requirement for the maximum Tax Free Cash. We understand that you intend to use the lump sum to supplement your income and pay to develop your garage as a leisure centre.

- **Control future investments and potentially improve the final retirement benefits**

  The investments within the Scheme are controlled by the Trustees. This is because the funds are used to provide the benefits promised, which are not directly affected by the underlying investments. You do not therefore have any involvement in investments or any method of affecting your final retirement benefits.

  Within the alternative SIPP with Old Mutual, you will have full control over investment choices. This gives you the ability to affect the final fund and therefore your resulting retirement benefits.

  We will, of course, be assisting and advising you in this respect.

- **Increase the potential lump sum Death Benefits**

  As explained in the previous Initial Suitability Assessment Report, the transfer will increase the lump sum Death Benefits available. The immediate increase is £191,228.66.

  Additionally, it will be possible to pay much larger lump sum Death Benefits even after you have taken the Tax Free Cash. This option would be very restricted within the Scheme.

  You have indicated that the provision of Death Benefits is desirable, if it does not reduce your own benefits. The transfer meets this objective.

- **Consolidation**

  You have indicated that you wish to consolidate your Scheme benefits with those you already hold in the Old Mutual Personal Pension. We understand that Garry will arrange for those funds to be added to the new SIPP once this transfer has been completed.

  Combining all of your benefits gives you maximum control and flexibility in retirement.

***This is purely for reference & should not be accepted without a full perusal & understanding of this report, together with the attached documentation***

## Contents


| Section | Page(s) |
|---|---|
| 1. Introduction | 5 - 6 |
| 2. Current Circumstances & Requirements | 7 - 12 |
| 3. Your Options | 13 - 15 |
| 4. Your Current Benefits | 16 - 20 |
| 5. The Effects of Transfer | 21 - 24 |
| 6. Purchasing an Annuity | 25 - 29 |
| 7. Phased Retirement | 30 - 33 |
| 8. Drawdown | 34 - 41 |
| 9. Phased Drawdown | 42 - 43 |
| 10. Our Recommendation | 44 - 51 |
| 11. Conclusion | 52 |
| Appendix One – Risk Warnings<br>Appendix Two – Transfer Analysis Report<br>Appendix Three – Validation Sheet | |

# 1. Introduction

Further to your recent meetings with IFA of IFA Firm, at which you discussed your preserved benefits in detail, we are writing to confirm the reasons for our recommendations.

This Retirement Planning Report is designed to confirm those consultations and the reasons for our recommendation. This report and the associated enclosures consider your pension benefits in the Scheme in detail.

We appreciate that this report is quite lengthy, but it does contain important information and explanations for you with regard to these pension benefits and the options available. Please take your time to review it thoroughly and raise any further questions with IFA, before making your final decision.

At your initial meeting with IFA, he explained the need to refer this case to us. Garry would have also explained that we will all be remunerated for our advice by Adviser Remuneration received on the product we recommend. You kindly signed our Terms of Business confirming your desire to proceed with the review of your pension benefits on 10th October 2014.

When we received the paperwork regarding your benefits, we sent you a detailed explanation of how the process would work. That letter included confirmation that we are regulated by the FCA and was issued to you on 21st October 2014. That letter forms our Client Agreement, confirming how the Adviser Remuneration will be paid in your personal case. You have subsequently returned a signed copy (dated 16th November 2014) as requested – thank you for this.

We only work in association with authorised Financial Advisers like IFA. We are purely organising this transfer to the plan with Nucleus, in accordance with our arrangements with IFA Firm. Once that transfer has been finalised and the monies are within the new plan, Garry will be in touch to discuss investments. You will agree and arrange a suitable portfolio, which may or may not include any specific investment, which you have expressed a particular interest in. In summary, the advice with regard to investments is a separate issue and will be undertaken by Garry of IFA Firm in due course.

We must point out to you that we at HDIFA are not in any way endorsing any particular investment or assessing whether an asset may or may not be suitable for your needs.

## Technical Terms

This Retirement Planning Report is based on our understanding of current Her Majesty's Revenue & Customs (HMRC) rules and associated pension legislation. This legislation is subject to constant change and so any future decisions will require a full review. Additional amendments are required due to European Directives and other interpretations of legislation, based on cases tried by the European Court of Justice.

There a few important terms which we mention in this report, some of which are highlighted below:

- **Crystallisation** – this means drawing benefits; it is not essential to retire in order to draw benefits.
- **Designated Funds** – these are the plans or segments chosen by an individual from which to draw or crystallise benefits.
- **Drawdown** – means drawing benefits directly from the fund.
- **Flexible Drawdown** – this enables an individual to draw the entire fund as taxable income, subject to an existing £12,000 per annum guaranteed pension income. This option will only be relevant in specific situations. The original Drawdown was therefore re-named "Capped Drawdown". We have continued to refer to that as Drawdown throughout this report.
- **Pension Commencement Lump Sum** – this is another name for the Tax Free Cash which can be drawn when an individual retires, or takes benefits. As it is not actually necessary to draw a pension when you take Tax Free Cash, we feel this is a bit of a misnomer and so have retained the term Tax Free Cash within the report.
- **Pension Credit** – this is a means tested state benefit for pensioners. If you have little or no other retirement provision, the pension from this plan could reduce the benefit you receive from the Pension Credit. The exact effect will depend on the rules in place when you retire.
- **Retail Prices Index -** this is generally abbreviated to RPI. In many cases it has now been replaced by **Consumer Prices Index**, which is generally referred to as CPI and is statistically around ½% per annum lower.

## Comments

This document is intended to assist you in understanding the benefits you have and the options available to you. This is designed to help you make an informed choice about which alternative is best for you. If there is any aspect which you do not comprehend, please ask for assistance. If you disagree with any of the contents of this report or wish to discuss any matter further, please let IFA.

The advice that we give to individuals is overseen by our regulator, the FCA, which monitors much of what we do and prescribes certain requirements we have to consider in our role.

We have gathered together various illustrations and used these for the basis of comparative figures, to help you evaluate the options. These have all been obtained on the basis you retire immediately. These may not reflect the true situation, but the relationship between the alternatives should be amply demonstrated and the final figures should not be too significantly different.

The tax benefits referred to within this report are those which apply currently and their value depends on the individual circumstances of the taxpayer. This report and the enclosed information are based on our understanding of the current legislation governing pensions. This legislation is subject to constant change and so any future decisions will require a full review.

***Our advice is based on our understanding of your position, your needs and current legislation; changes to any of these will require a full review***

# 2. Current Circumstances & Requirements

One aspect which is paramount in this decision process is your personal situation, needs and desires. You kindly completed our Pension Review Questionnaire (PRQ), which provided us with information regarding your intentions in retirement and the role this particular fund is to play over the coming years.

## Personal Circumstances

We have set out below your current situation and aims for the future, as we understand them from the information entered on that form and our discussions over recent months in this respect.

- You are UK Domiciled and Resident for HMRC i.e. tax purposes.
- You are 58 years old and your husband, Alan, is 8 years older than you.
- You consider your own and Alan's state of health to be, and likely to remain, good.
- You and Alan are both non-smokers.
- You have confirmed that you have no other financial dependants.
- You made a will in 2012, which ensures your estate will pass to Alan in the event of your death. We would recommend that this will is reviewed every few years to ensure it still meets your requirements and allows for changes in legislation.
- In response to our question regarding prospective inheritances you have stated none, by which we understand that you do not expect any at this stage.
- You are presently employed with Optegra Yorkshire Eye Hospital and earn a basic salary of £7,500-10,000 per annum. You do not expect to change employment in the near future nor to receive promotions or even make career moves to enhance your salary and or bonuses. You expect your earnings to increase in line with inflation with your current employer.
- Alan is retired and in receipt of a pension income of £18,000 per annum.
- Your current joint net monthly income is £2,350 and expenditure is approximately £1,150, leaving a spare income of £1,200 per month, of which £800 is truly disposable. You do not expect these figures to change significantly in the near future. The recommended change in these pension benefits will enable you to more easily draw on the funds to supplement your income needs, if you so desire.
- We understand that you have an Emergency Fund of £136,000, held in Cash and ISA's. We would normally recommend that the fund is equivalent to at least three times (preferably six times) your essential monthly expenditure. Your fund therefore seems more than sufficient.

## Retirement Planning

Within our PRQ, we asked some questions about your intentions in relation to retirement. This section confirms our understanding in this respect. If there are any other factors you wish us to take into account, please let us know.

- We understand that you are semi-retired and wish to fully retire now. You appreciate that drawing the benefits early i.e. before the Scheme Normal Retirement Age of 65, will result in lower benefits.
- You would like to draw a Tax Free Cash lump sum immediately. You have indicated that you will consider your income needs further once the new rules due to become effective in April 2015 are clarified.
- You have indicated that you intend to use the lump sum released from your pension to convert your garage for leisure use and supplement your income.
- You have indicated that your employer does not provide a pension scheme. The Auto Enrolment Regulations are introducing the need for employers to arrange and contribute to a scheme for employees. Those requirements are already in place for larger firms and are being rolled out over the next few years to smaller companies. If your employer has not already been affected by this and so offered you a scheme, you should make your own provision at the earliest possible opportunity.
- The benefits in the Scheme and your existing Old Mutual Personal Pension, which are considered in this report, are your only current source of pension.
- Your Scheme benefits relate to your employment there between 29th March 1999 and 18th January 2011. Although we have asked, the Scheme administrators have refused to provide us with details of your pensionable salary. You have also confirmed that you do not know what your actual earnings were. Though it does not actually prevent us from undertaking a full review, we like to have this information to check the benefits being offered appear correct and ascertain maximum Tax Free Cash. This has not been possible in your case.

## Retirement Benefits

Again, within the PRQ we asked for you to indicate what you require from your pension plans in retirement. This considered the benefits you currently have and how you wish them to be used both between now and retirement, as well as once you cease working.

- You believe that the pension benefits under review are a major proportion of your final retirement benefits. However, you have other pensions and savings to be taken into account. In view of this, it is likely these funds will not represent a major contribution to your long term wealth.
- In the event of your death before retirement you have indicated that you would prefer to provide a pension income for your dependants. You have added that Alan could continue to draw an income from the funds.
    - We would recommend as a general rule that provision is made as a lump sum, which is tax free, as against a taxable income, which may only be paid to dependants.
    - Additionally this option will give your beneficiaries more choice, as the benefits may be passed to those who are not deemed financially dependent upon you. This allows you to pass benefits down the generations and avoid Inheritance Tax.

   - Furthermore, you can leave the benefits to Alan either directly or via a Pension Death Benefits Trust. Where you leave the benefits directly to Alan this will sit in his estate for Inheritance Tax purposes. It will also be part of his estate should he remarry in the future, or be financially assessed for the cost of long term care. Using a Pension Death Benefits Trust enables Alan to control and access the funds to support him during the remainder of his life, but protects the value from Inheritance Tax, care costs and from passing to any new wife on his death (often to the detriment of your children). Either of these options will give Alan more choice and control. More information can be provided on request.

  We have therefore based our recommendations on the expectation that you will be persuaded it is more tax efficient to provide lump sum Death Benefits for your nominated beneficiaries.

- You have indicated that you wish to increase Death Benefits if this does not reduce your own potential retirement benefits.
- In relation to a spouse's and dependant children's pensions, you have confirmed that you would like the flexibility at retirement to control the way benefits are paid. This will allow you to make that decision based on your circumstances at that time.
- You advised that you would like to take the maximum possible Tax Free Cash sum on retirement.
- You have indicated that you may wish to draw on part of your funds at an early date i.e. before you formally retire. You have confirmed that you like the idea of flexibility in this respect.
- With regard to your income needs in retirement, you have confirmed that you would like the opportunity to vary your income from these funds if the need arises.
- In relation to the security of your pension fund, you have stated that you wish to take action to ensure that your pension currently within the Defined Benefit scheme under review is removed from the control of your previous employer.
- At this point, we asked how you view the security offered by the Pension Protection Fund (PPF) in relation to your Defined Benefit scheme. You have confirmed that having control over your benefits is more important to you than the PPF aspect.

## Drawing Benefits

Within this section of the PRQ, we asked additional questions with regards to drawing benefits. As you have indicated that you wish to take benefits in the next 12 months, we wanted to find out more about your intentions. We have summarised your responses below:

- You intend to draw Tax Free Cash within the next 12 months.
- We then asked for your comments in relation to Tax Free Cash. You have confirmed the following:
   - You require the maximum Tax Free Cash available.
   - You would like to draw this lump sum as soon as possible.
   - You intend to use the cash to develop your garage and generally supplement your income.
   - With the remaining Tax Free Cash, you will invest in deposit accounts and low risk ISA's.
   - You have confirmed that you will not require any further Tax Free Cash in the future.
   - You have stated that you will not require a pension income until after April 2015.

- Initially, you will require a highly flexible income.

- With regards to your imminent retirement, you confirmed that you have already partially retired and understand that drawing benefits early will result in a lower income.
- When asked whether you'd prefer a level or increasing pension income, you simply stated that you need a highly flexible income. As you are on a zero hours contract, you may need pension income to cover your monthly expenses.
- You have stated that it is essential that you have a flexible pension income that you can control and alter.

### Transfer Motivation

With regard to your reasons for considering a transfer, you have indicated the following:

- You would like to improve your overall retirement and death benefits.
- You are over age 55 and wish to draw a Tax Free Cash lump sum immediately, without a pension income – you therefore require access to the Drawdown facility.
- You would like to consolidate your pension benefits.
- You would like to have your pension benefits under your personal control.
- You wish to break all ties with your former employer.
- You want more flexibility with regards to as and when you draw an income.
- You wish to avoid purchasing an annuity.

Gary has pointed out that you have in the past been a financial adviser and therefore have a level of understanding and comprehension of the risks of such a transfer alongside the potential benefits, which exceeds the norm.

## Attitude to Risk

Your Attitude to Risk is extremely important in considering the suitability of any changes to your existing pension planning. To that end, we asked you to consider various questions and identify the most suitable response to assess your overall attitude in this respect.

- We asked you to pick the most appropriate description of yourself in respect of your knowledge of investments and you indicated that you have a fair degree of understanding and knowledge.
- We asked which of a series of statements most closely reflected your current financial situation and you indicated the following was most appropriate: You are completely debt free.
- You have indicated that your main savings and investment goals are to create income from these funds immediately.
- We then asked how you would compare yourself to others in relation to your willingness to take financial risks. You confirmed that in your view you considered yourself to be confident.
- You stated that you are willing to take a moderate degree of risk in your financial affairs.

- In relation to your *past* financial decisions, you believe you have taken a moderate amount of risk.
- With regards to your *future* financial decisions, you intend to take a moderate amount of risk with a moderate potential return.
- When asked which is more important to you – risk or potential return – you indicated that you focus equally on the risk and the potential return.
- We also asked what level of volatility you were willing to accept. We explained that by volatility we meant the variation in rises and falls in investment values. Furthermore, we indicated that it is generally accepted that higher volatility does offer the potential for higher returns in the longer term and vice versa. You confirmed that you are prepared to accept average volatility in your quest for good long term gains.
- When asked to consider the following statement you indicated that you strongly agree: "I am more concerned that my investments grow faster than inflation, than I am about returns over any one year period".
- We asked you to do the same for this statement: "I am prepared to forego potentially large gains if it means that the value of my investment is secure" You indicated that you agree.
- The final statement that we asked you to consider was: "I can tolerate the risk of large losses in my investments in order to increase the potential returns" Your response was that you disagree.
- We then enquired what you would do if you were advised that your current fund and future savings were not sufficient to meet your retirement goals. You indicated that you would take more risk with half of the money and increase your savings.
- We asked what level of fall in value over one year would concern you, bearing in mind that investment in shares requires a longer term view. You indicated that a fall of more than 15% would cause you concern.
- We then asked you to state how you'd feel if you invested £100,000 into a portfolio and, after a year, the value had dropped to £87,000. You believe that you'd be patient and sit tight, as you would expect the portfolio to recover.
- We asked you to consider the following statement and confirm your views: "I am not concerned about falls in value as I expect to recover any capital loss over the longer term" You indicated that you strongly agree with this.
- The next question asked you to consider a portfolio valued at £100,000 at the start of the investment year. We provided a graph setting out the possible parameters of investment return for four differing portfolios and asked which you felt would suit you best. You indicated that you preferred Portfolio B which could be worth between £85,000 and £125,000.
- Finally, we asked you to pick one of the statements which most accurately reflected your views in relation to investment risk. On our questionnaire, you have indicated the following definition most closely reflects your views:

  You are a balanced investor who is not averse to some exposure to the equity markets. You are willing to accept the possibility of short term falls in the value of your investments but would wish to be reasonably confident of longer term growth. You hope to enhance longer term returns by

investing in mature equity based funds. You will be aiming for pension growth to at least outperform inflation.

Overall, having considered your responses to our individual questions we agree this appears a reasonable summary of your attitude to risk.

***If this is not a fair reflection of your investment views, please let us know as soon as possible***

## Summary

To summarise all of this information with regard to your requirements and needs, we asked you to prioritise your desires and you indicated the following order:

1. To improve the flexibility and control you have over your income in retirement
2. To increase the possibility you can afford to retire early
3. To enable you to draw Tax Free Cash immediately, without a pension income
4. To increase the lump sum Death Benefits available after retirement
5. To maximise the Tax Free Cash lump sum available at retirement
6. To defer or even avoid purchasing an annuity
7. To obtain more investment control
8. To increase your pension
9. To improve the security of your pension fund
10. To create larger lump sum Death Benefits before retirement

Please review these statements carefully and ensure that they accurately reflect your personal financial situation and desires for the future. If you feel any of the points noted, especially those in relation to your Attitude to Risk, are inaccurate or incomplete, or if there are any additional factors or matters which you feel should be taken into consideration, please let us know as soon as possible.

Our recommendation is based on these facts and the information obtained from the Scheme administrators. The advice may need to be reviewed or adjusted, if these details do not accurately reflect your current circumstances and needs. Please therefore check the accuracy of this information and let us know immediately if there are any errors or inconsistencies.

***If you feel any of the statements are inaccurate or incomplete, please let us know immediately***

# 3. Your Options

As explained at outset, the aim is to consider the options of transferring the benefits you have accrued to date. The intention is to assess which option will offer you the most Tax Free Cash and subsequent pension income, as well as flexibility and control. This also involves ensuring the monies are in the correct plan to offer you reasonable charges and good fund performance with the aim of improving your overall retirement pot.

It may be possible to consider drawing benefits from the Scheme, and so this option is investigated further in Section 4.

## Key Facts to Consider

There are several important decisions you now have to make, including:

- Whether to take benefits from your existing pension funds:
  - This will mean taking Tax Free Cash and a pension income, as allowed under the Scheme rules.
  - Section 4 will detail the possible benefits available.
- Whether transferring the fund to a Personal Pension will be more suitable for you:
  - A Personal Pension is a contract with a provider, which is able to accept all types of transfers and further contributions if you so wish.
  - This plan would be owned by you and you would have control over the decisions made.
  - A Personal Pension would open up other options, which are considered in sections 6, 7, 8 and 9.
- Following a transfer, you can choose whether to take any or all (utilise Phased Retirement) of your allowable:
  - Tax Free Cash, and
  - Pension Income.
- If you decide to take a pension income, you can choose whether to:
  - Buy an annuity, or
  - Draw benefits from the fund (utilise Drawdown) and delay buying an annuity.
- If you decide to buy an annuity, you can choose:
  - Where to buy it from: you need not buy it from your current provider – you can shop around for a better deal.
  - What sort of annuity to buy: one just for you, one to include a pension for your spouse or partner when you die, one which is level or one which increases in payment.

In the next section, we shall undertake a review of all your existing benefits, setting out the pension and Tax Free Cash available if you took the benefits from the Scheme. This includes an assessment of the sums available, both at the original Normal Retirement Age under the plan and if you drew benefits immediately.

## Personal Pension

To access the options available, you need to undertake a transfer, as explained in Section 5. On transfer, the funds have to be placed in a Personal Pension.

Personal Pensions are HMRC approved investment contracts where the funds accumulated to retirement from the investment of contributions are used to purchase Retirement Benefits. A Personal Pension must be used to provide Retirement Benefits and cannot be surrendered for cash prior to retirement, except in exceptional circumstances.

Personal Pensions are highly tax efficient:

- Contributions are offset against taxed income, thus giving you tax relief at your highest marginal rate in the majority of circumstances.
- All contributions accumulate in funds free of Capital Gains Tax, and mainly free of Income Tax (this excludes withholding tax on equity dividends, which is not reclaimable).
- We would therefore generally recommend that individuals contribute as much as they can afford.
- There is an overall limit of funds for retirement planning of £1,250,000, which is termed the Lifetime Allowance and any excess is subject to tax at 55%.

### Types of Personal Pension

There are actually several variations of the generic Personal Pension, which we now have to consider. The main alternatives are a Personal Pension, Stakeholder Pension, Wrap Platform, SIPP and GPP.

- The generic Personal Pension is subject to the rules outlined above. The SIPP with Old Mutual, which we are recommending, is a specific type of Personal Pension. The differential between the Scheme and that SIPP with Old Mutual will be considered within this Suitability Report.
- The comparisons included in this Suitability Report also allow for the charges and facilities available in the SIPP with Old Mutual, as against those available in the Scheme under consideration. The key points are reviewed within the recommendation at the end of this Suitability Report.
- A Stakeholder plan is very similar to a Personal Pension, except that the provider's charges are capped under legislation. When they were initially introduced, this limit was set at 1% per annum. With effect from April 2005, it was possible to increase the charge imposed in the first five years of the policy to 1.5% per annum. The restriction on charges mean that these plans tend to have more limited investment options, or offer the facility to pay extra to access certain funds. Though a cheaper plan may reduce costs you may then need to move your funds again at retirement to access the facilities you require, which can incur further charges.

- The Wrap Platform is using the same Personal Pension wrapper and so gaining from the various tax efficiencies. The main benefit is the diversity of investment available. These therefore tend to impose marginally higher charges than a standard Personal Pension in view of this additional investment flexibility. It should be noted this does not generally offer access to direct investments and will generally invest in unit trusts and OEICs, which incur their own internal charges. One advantage of the Wrap Platform is that all investments can be held in one place, which simplifies administration and allows for a cross wrapper investment portfolio. Additionally, this means the charges are applied based on the full portfolio i.e. as the Annual Management Charges are dependent on funds under management placing all assets on the platform will result in a lower percentile cost.
- The term SIPP stands for Self Invested Personal Pension. This is a similar contract with much the same format as a Personal Pension, except the options in respect of investments are wider. The differential is relevant when we consider the investment of the funds. These plans can be seen as expensive, in view of the fact that the charges are generally fixed amounts. This does mean that for small funds they are proportionately expensive. Our calculations based on the charges generally imposed by SIPP providers indicate that a fund in excess of £100,000 will result in a lower proportionate charge. However, the FCA have raised concerns where funds are less than £250,000. In summary then the SIPP offers:
    - Flat rate fees, which may be a smaller proportion of larger funds than standard percentage based fees but also may be disproportionately high for small funds.
    - Extensive investment options allowing you to invest directly in the stock market, commercial property etc. These may be accessed at an extra cost, but can be seen as beneficial if you desire that level of investment control.
- A Group Personal Pension (GPP) is simply a series of Personal Pensions arranged in relation to one employment. Frequently the provider will offer better terms i.e. reduced costs on the basis the employer will collect contributions from staff salaries and so reduce their administrative burden. In all other ways a GPP is identical to a Personal Pension and it is the terms of the individual contract which will determine its suitability for an individual.

As outlined in the Executive Summary, our recommendation is to transfer the benefits from the Scheme to a SIPP with Old Mutual. Later in this report we will explain why we feel that is the most suitable variation to meet your needs.

***If you require more information about any of the options before making a final decision, please contact us***

# 4. Your Current Benefits

This section purely considers the funds that you have already accrued and what benefits can be taken if you decided to draw them from the Scheme.

***You should not take any benefits from your current schemes or plans – if pension payments commence, you cannot opt for any of the alternatives.***

### Maximum Benefit Rules

The maximum allowable benefits from any occupational scheme were determined by salary and service until 5th April 2006, at which stage the rules altered and the benefits limits were adjusted, following the introduction of Simplification with effect from 6th April 2006. Personal Pensions were always limited to 25% of the fund available. It is this differential in limits which is significant on transfer.

The Simplification Legislation now limits benefits via the total fund or value of promised pension benefits when benefits are taken. The current limit, termed the Lifetime Allowance, is £1.25 million. That also results in the associated limit of £312,500 for Tax Free Cash.

## The Scheme

Based on the literature we have seen, we know that the Scheme is a “Defined Benefits” scheme (sometimes called “Final Salary”). This means that you are guaranteed a certain level of pension when you retire. The level of pension is calculated by the pension scheme according to the length of your employment and your final Pensionable Salary.

The benefit figures are all stated as at the date you left service (18th January 2011). The Scheme is required to revalue these benefits in deferment i.e. from then until you retire at the lower of the Consumer Prices Index and 2.5% per annum.

### Contracting Out

The Scheme is Contracted Out of the State Earnings Related Pension Scheme (SERPS) and its replacement the State Second Pension (S2P). These are the second tier pensions paid in respect of employed earnings in addition to the Basic State Pension.

In relation to benefits accrued after April 1997, the Scheme is Contracted Out on the Reference Scheme basis. This means that the scheme as a whole had to provide sufficient benefits to match the Reference Scheme. The Reference Scheme is an artificial scheme, but roughly approximates to the SERPS and S2P which the scheme replaces by Contracting Out.

The fact that your current scheme is Contracted Out does impose certain restrictions on the Scheme, but is of little relevance in the alternative Personal Pension plan. In the past benefits relating to Contracting Out were termed Protected Rights and subject to additional restrictions. Now there is no differential and so any reference to Protected Rights may be ignored.

## Transfer Value

In your case, the Transfer Value which the Scheme is offering to an alternative plan is £191,228.66. This Transfer Value figure is guaranteed until 18th December 2014. If the Scheme receives all the required documentation by that date they are obliged to pay that sum.

However, if the paperwork is submitted late, the Scheme have the right to recalculate the Transfer Value and the result may be lower (or higher) than the current figure. In recent months we have noticed that schemes are charging an Actuarial Fee for recalculation of the Transfer Value. Each scheme will set their own fee for this work and recent figures have ranged from £250 - £600 plus VAT. As a general rule, they require payment of this fee prior to the calculation. Once the revised figure has been provided, you will be asked to confirm whether you still wish to proceed. If you require, on request, we will provide you with a revised Transfer Analysis, to enable you to reconsider your decision to transfer.

## Retirement Benefits

The following summary of benefits is based on figures provided by the Scheme, together with supplemental calculations undertaken within the Transfer Analysis System to provide you with a complete picture. The previous ISAR prepared by HDC included a report from that system, as well as a detailed explanation and assessment of the results. That has not therefore been repeated here. An updated Transfer Analysis Report is attached at Appendix 2, together with the associated Validation Sheet at Appendix 3.

### Normal Retirement Age (65)

- In your case, the estimated pension available assuming you draw benefits at the scheme Normal Retirement Age of 65 is £8,797 gross per annum. This allows for any Revaluation i.e. inflation proofing, between now and retirement and should give you an idea of the sums available. This assumes RPI up until January 2011 and 2% per annum thereafter, reflecting the move to CPI and the FCA prescribed assumption.
- If you drew the projected Tax Free Cash sum of £41,341 when you reached the Normal Retirement Age (65), the residual pension is estimated as £6,201 gross per annum. This is guaranteed, except that the Revaluation applied between now and retirement may be more or less than the figure we have anticipated for RPI and CPI. In accordance with the FCA requirements, we have assumed future RPI and CPI are 2.5% and 2% per annum respectively.
- Under the Simplification Legislation, the Tax Free Cash sum is 25% of the cost of producing the promised pension at retirement. This is no longer restricted in relation to your salary and service. The assessment of the cost of providing the pension used for this calculation is prescribed by HMRC based on the commutation factors. These are the conversion from pension to cash factors which the Scheme uses.

- The Tax Free Cash figure of £41,341 quoted is based on this calculation method, and the current commutation factor of 15.97, which can be changed at any time.
- The assumptions used to arrive at these various figures are detailed within the Transfer Analysis Report, and were discussed at length in the previous ISAR prepared by HDC.

### Immediate Retirement

- We have also ascertained from the Scheme the benefits you could take if you drew benefits immediately, as at 1st November 2014.
- This would have produced a pension of £7,165.92 gross per annum. You would be retiring early from the scheme and your pension will be reduced because it is being paid for longer. These figures take that into account.
- If you did decide to draw the benefits from the scheme immediately and take the Tax Free Cash, the sum available would be £35,099.80. If you take the lump sum, as you are converting pension benefits, the residual income would be an estimated £5,265 gross per annum, if you retired immediately.
- These figures have been provided by the Scheme, who have confirmed that you could draw benefits directly from the scheme at this time.

### Death Benefits

- It is unusual for this type of scheme to provide a lump sum on death.
- No lump sum is paid on death after retirement, though the guarantee means that, if you die in the first five years after drawing benefits, payments will continue at the full rate for the remainder of that period. The scheme can opt to commute that for a lump sum, which is frequently discounted for early payment. That benefit is now tax free in the event of death before age 75. If an individual dies after reaching age 75, any death benefits will be subject to tax which is deducted at source. The current tax rate is 45%, though that will be replaced by the beneficiary's highest marginal income tax rate in the event payment is made after 6th April 2016. That lump sum can be paid to any Nominated Beneficiary, who need not be financially dependent on you.
- The Scheme pays a spouse's or dependant's pension which amounts to two thirds (66.67%) of your pension. That would be paid in the event you were to die before or after retirement. As you and Alan are married, that will be paid automatically.
- Your pension, once in payment, may also be inflation protected. Details of the indexation applied to your pension are included in the Transfer Analysis Report.

## Aspects to Bear in Mind

There are various points that you should bear in mind when evaluating these benefits, which we have summarised below:

- Though your benefits may increase between now and when you finally draw them from the scheme, it is important to appreciate that all this Revaluation does is retain the Current Value of the benefits. You need to consider the current figures, to assess the value of the benefits in today's terms.

- If you take your benefits directly from the scheme, the benefits are guaranteed by the employer and it is the employer who has financial responsibility (enforced by law) for ensuring its ability to maintain pension payments.
- We need to consider the underlying guarantee within the Scheme. The ability of the scheme to actually pay the benefits promised depends on the funding position of the scheme. The Scheme Actuary undertakes an assessment of the Technical Provisions, which is basically the money required to provide all members with their promised benefits, every three years. At that stage, the Scheme Actuary will inform the Scheme Trustees whether or not the monies held combined with expected investment returns, contributions and the like will be sufficient to meet those liabilities.
- If, when undertaking this Triennial Actuarial Report, the Scheme Actuary calculates there is a deficit or shortfall in funding, the Scheme Trustees have to create a Recovery Plan. This generally means agreeing with the company to increase future contributions to cover the deficit. It can also result in changes in the Scheme benefits and or availability to new members. This Recovery Plan is usually designed to aim to resolve the deficit within ten years. As a further Actuarial Report is undertaken after three years, the Recovery Plan will then be adjusted to suit the results of that investigation and the ten year period restarts.
- We understand that the Scheme is currently in deficit. The latest formal Actuarial Valuation was undertaken as at 31st of March 2010. That indicated that the liabilities i.e. the benefits payable, were £890 million and the assets were valued at £717 million, meaning there was a shortfall of £173 million. This means that the scheme assets covered 81% of its liabilities. An interim review as at 31st March 2012 indicated a marginal improvement to 84% funded. The next full report is due as at 31st March 2013. The Scheme Administrators have been unable to provide us with details of the results of that report, which should have been available, some 15 months later i.e. this summer.
- The current deficit and the associated Recovery Plan or the current economic climate or indeed many other factors may affect the ability of the company to continue trading profitably. It is possible that the company could be placed in liquidation. If the company suffers such an Insolvency Event, the assets and liabilities of the scheme may be passed to the Pension Protection Fund (PPF).
- The PPF is a self-funding organisation which uses the monies from schemes it accepts and levies imposed on other Defined Benefits schemes to provide the benefits due to members. Clearly, as the PPF only receives such schemes where there are difficulties they have to restrict benefits to ensure all members receive something. The PPF therefore only pays benefits in accordance with various statutory maximums. This basically means that most members will see a reduction in their promised benefits in this event.
- The PPF undertakes an assessment to decide whether to accept such schemes which is generally expected to take up to two years. In this interim period benefits are adjusted in line with the PPF. This does mean that for those who are close to retirement at the time of the company liquidation there may be a delay in obtaining their benefits.
- For the majority of people i.e. deferred members who have not reached the scheme Normal Retirement Age, the PPF will generally pay a 90% level of compensation.
- For individuals who have reached the scheme Normal Retirement Age, the compensation due increases to 100%. However, this does not mean that you would be unaffected by the scheme falling into the PPF.

- This generally means 90% of the pension accrued (including revaluation) immediately before the assessment date and revaluation in line with the increase in the inflation rate between the assessment date and the start of the compensation payments. Please note that revaluation is capped at 2.5% compound per annum. This is lower than the statutory requirements applied to schemes, which require revaluation relating to pensionable service prior to 6 April 2009 being capped at 5%, and the remainder capped at 2.5% compound per annum. This can significantly reduce the actual pension due at Normal Retirement Age.
- This compensation is subject to an overall annual cap, which, for the year commencing 1st April 2014, equates to £32,761.07 at age 65 after the 90% has been applied. The cap is actuarially adjusted according to the age at which compensation is due to come into payment.
- Once compensation is in payment, the part that relates to pensionable service before 5th April 1997 will be level in payment and that accrued on or after 6th April 1997 will be increased each year in line with inflation, capped at 2.5%. Again, this could result in a lower rate of increase than the Scheme would have provided.
- In summary the guaranteed benefits available from the Scheme are only as secure as the scheme and the sponsoring employer. The PPF is a last resort and may result in a reduced benefit and is not underpinned by any statutory guarantee.
- However, these schemes are very inflexible and you have no option to re-arrange your benefits if the package does not suit your needs.
- You should also be aware that, just as the employer guarantees your position, if you die young you may not use the full value allocated to you. If that happens, any surplus is retained by the scheme for the benefit of other members.

***If you have any queries about the existing benefits, please let IFA know***

# 5. The Effects of Transfer

Having reviewed the option of drawing the benefits from the Scheme, we need to consider the effects that transferring the funds would have.

There are various aspects to consider:

- The sum available for transfer and the costs of arranging a new plan.
- Whether the existing plan offers the flexibility of retirement options available under the Personal Pension. In other words, whether your requirements could be met by drawing the benefits from the existing plan.
- The differences in the rules applying to your current plan and those which govern the new Personal Pension plan and how these affect the benefits. In view of the fact that we are only considering the situation if you took benefits immediately, the only aspects affected are the potential Death Benefits and the possible Tax Free Cash sum.

We shall consider the costs of transfer first and then comment on the differential between the existing plans and the Personal Pension alternative. We will then summarise the alternatives you have after transfer, which are examined in more detail in the subsequent sections.

## Transfer Value

As explained earlier the existing scheme offers Defined Benefits only. We shall consider the funds available for transfer first and then comment on the differential between the existing plan and the Personal Pension alternative.

| Scheme | Transfer Value | Guarantee Date |
|---|---|---|
| Scheme | £191,228.66 | 18th December 2014 |

As noted previously, the Scheme is a Final Salary or Defined Benefit scheme. In these schemes, your income in retirement is provided by your pension scheme and you do not need to buy an annuity yourself.

- You could opt to take the benefits promised by the scheme, which will include a Tax Free Cash sum, taxable pension and continuing pension to Alan in the event of your death.
- Legislation does not allow Defined Benefit schemes such as the Scheme to offer the Drawdown option.
- Alternatively, you could opt to take a Transfer Value, which is the scheme's actuarial assessment of the fund required to provide those benefits. You could place that value into an alternative plan over which you would have direct control and from which you could draw the benefits in the format you require (subject to HMRC limits).

In your case the Transfer Value was £191,228.66. This figure is guaranteed until 18th December 2014. If the monies are transferred after that date, the Transfer Value will be re-calculated and may be higher or lower than this.

## The Personal Pension Alternative

Prior to all the Pensions Simplification legislative changes effective on 6th April 2006, there were two main types of benefit: those governed by Occupational Scheme Rules and those restricted under Personal Pension Rules.

As your current benefits are held within an Occupational Scheme, there are legislative differences between the current plan and the Personal Pension alternative. These mainly affect two aspects: the Death Benefits both in the approach to retirement and after retirement, as well as the Tax Free Cash available on immediate retirement.

Broadly, Occupational Scheme Rules used service and earnings to restrict the benefits available at retirement and indeed on death. Personal Pension Rules limited death, cash and pension benefits via the contributions and so the final fund size available at retirement. There were numerous variations within each group and additional rules specific to certain plan types.

Simplification introduced the Lifetime Allowance, which limited benefits based on the total fund value i.e. on a similar basis to that previously imposed on Personal Pension benefits. The overall limit is £1.25 million, with an associated Tax Free Cash limit of £312,500, as explained earlier.

## Tax Free Cash

The Tax Free Cash available from the Scheme on immediate retirement is £35,099.80 as detailed in Section 4.

On transfer to a Personal Pension, the maximum Tax Free Cash is limited to 25% of the fund value. So, based on the Transfer Value of £191,228.66, the Tax Free Cash allowable would be £47,807.17.

The transfer will therefore increase the Tax Free Cash available immediately, based on these estimates, by £12,707.37.

## Lump Sum Death Benefits

The maximum Lump Sum payable tax free in the event of death is the Lifetime Allowance, which is £1.25 million currently. That lump sum can be paid to a nominated beneficiary, who need not be dependant. Any income payable to spouse or dependants taxed as income in the hands of the recipient. If the funds available exceed the overall lump sum Death Benefit limit, any excess will usually be used to provide dependants' pensions.

### Pre-Retirement

During our investigations, we have ascertained that there is no lump sum Death Benefit payable under the Scheme.  Pension's legislation limits the amount schemes like the Scheme can pay as lump sum benefit payments on death after drawing benefits. However, the Scheme will provide a spouse's pension of 50% of your pension revalued to the date of your death to Alan.

Under a Personal Pension, the full fund value (£191,228.66) is payable as a lump sum to Alan or your nominated beneficiary.  That is tax free unless it exceeds the Lifetime Allowance.

This means that the transfer to a Personal Pension will increase the lump sum Death Benefit by £191,228.66.

### Post-Retirement

The Scheme includes a five year guarantee, which means the pension payable to you will continue for the first five years after retirement even if you die in the period.  HMRC have confirmed that the ongoing instalments relating to the guarantee can be commuted, no tax charge will apply in the event of death before age 75.   However, if benefits are drawn and death occurs after age 75 any lump sum payment will then be subject to a tax charge (currently 45%). That payment will not be tested against the Lifetime Allowance and is not subject to Inheritance Tax.  The lump sum, net of tax, may be paid to a nominated beneficiary who need not be dependent upon you.

The scheme can also pay a spouse's or dependant's pension, which can only be paid to an individual who is deemed financially dependent and will be taxable as income in the hands of the recipient.

The Scheme pays a spouse's pension on death in retirement, amounting to 66.67% of the indexed pension due to you, assuming you had not taken any Tax Free Cash.  That will be paid to Alan automatically and is allowed for in the Transfer Analysis.

Under HMRC Rules, any lump sum Death Benefit payments once benefits have been drawn from the Scheme are taxable in the event of your death after age 75.  The tax will be deducted by the Scheme Administrator before payment is made.  The current rate of tax is 45%, though that is expected to be adjusted to match the rate of Income Tax paid by the receiving beneficiary with effect from April 2016. No tax applies to any lump sum payable even after taking benefits, if you die before age 75.

Under a Personal Pension, the remaining fund value is payable as a lump sum to Alan or your nominated beneficiary.  Again, that is tax free in the event of your death before age 75, unless the benefits adjusted with those already drawn exceed the Lifetime Allowance.

## Overall Summary

Based on the total Transfer Values of £191,228.66 the benefits available from the Personal Pension before drawing benefits would be:

- A lump sum Death Benefit of £191,228.66, which would be payable to Alan or your nominated beneficiaries, or
- A Tax Free Cash sum of £47,807.17 and a fund to provide pension or death benefits of £143,421.50

## Options after Transfer

We have now considered the effect of the potential transfer from the existing plan to a Personal Pension in terms of the how such a transfer would affect your potential Tax Free Cash and Death Benefits under each plan. In Section 3, we summarised the variations of a Personal Pension generally available. We are now going to examine the various options available following a transfer.

Following the transfer you may opt to:

- Purchase an annuity – see section 6
- Use Phased Retirement – see section 7
- Use Drawdown – see section 8

It is possible to combine any two or more of the options. For example, you could purchase a conventional annuity with part of your fund and an investment linked one with the remainder. The most complex combination is Phased Drawdown which is considered separately in Section 9.

The option of drawing benefits from the current scheme or plan may be the simplest and easiest to understand, but might not suit your personal needs and desires as set out previously. The other alternatives can be combined and adjusted, both to meet your current needs and allow for alterations in circumstances in the future.

Each of these options has merits, but also each has disadvantages, as compared with the other alternatives. The options available are considered in turn In Sections 6, 7, 8 & 9 respectively. We will then set out our recommendation in Section 10.

It has been assumed throughout the remainder of the report that the Personal Pension plan will be placed in trust; either the central trust of the provider or an individual trust for your plan. This is significant in relation to the benefits in the event of your death. Under the trust, you will be able to nominate a beneficiary, which will allow you to express the desire that those individual(s) receive the fund value on your death. Those beneficiaries need not be financially dependent on you. This structure allows you to pass assets to your children or grandchildren. This is extremely important in terms of mitigating Inheritance Tax.

***If you require any further information or explanation regarding the existing benefits and the alternatives to enable you to make your final decision, do please contact IFA***

# 6. Purchasing an Annuity

In simple terms, an annuity is nothing more than an insurer's promise to pay an income on agreed terms for a certain purchase price.

A Lifetime Annuity converts your pension fund into pension income and will be paid to you for the rest of your life. Your pension income is subject to Income Tax (but not National Insurance) and is usually taxed at source like a salary.

You can buy an annuity with virtually all types of pension, except a Final salary or defined benefit scheme, which will provide an income payable from the fund in accordance with the scheme rules.

The actual type of annuity will also affect the level of income you receive. Those with poor health, or who smoke or have undertaken certain occupations or live in specific post codes may obtain better rates. It is also possible to use an annuity with an element of investment or with a return at the end of a certain fixed term.

***It is important to appreciate that an annuity cannot be changed in any way once it has been purchased***

Annuities have three advantages:-

- They are simple – there is no need to understand too much complex terminology
- They are secure – Annuities are not defaulted on, they continue to be paid irrespective of company take-overs, poor investment returns etc.
- They are guaranteed – The amount agreed will be paid and will not fluctuate.

There are several types of annuity. The annuity option described in detail within this section of the report is the Conventional Annuity. There are other variations, of which you should be aware:

- **Investment Linked Annuity** – including unit linked and with profit – this includes a guaranteed income with the potential for increase via investment performance within certain parameters
- **Specialised Annuity** – including Impaired Life, Enhanced and Market Segmentation annuities
- **Short Term Annuity** – for a fixed period e.g. five years
- **Capital Protected Annuity** – lump sum payable on death equates to cost less deductions for charges and income paid
- **Variable Annuity** – one where the income can be adjusted between certain parameters

***If you feel that you need more details regarding any of these annuity types in order to make an informed decision, please let us know***

The factor which is most relevant with annuities is the annuity rates. These are basically the exchange rates i.e. the level of income the provider will offer in return for the lump sum purchase price. These are affected by various economic factors including investment returns. Notably interest rates and gilt yields will significantly affect annuity rates.

Shopping around for a better annuity is not an option with Defined Benefits Schemes like the Scheme. This is because the benefits are determined by the scheme rules and not by the fund available to purchase the pension income.

It is important to appreciate that the Cash Equivalent Transfer Value (CETV) is not a reflection of the cost of purchasing equivalent benefits with an insurer. The annuity costs will typically be much higher than the CETV for several reasons, including the following:

- Insurance Companies are required by law to take a very cautious approach to taking on additional liabilities. They are commercial ventures and so must ensure that not only can they make a profit, but also the product has to be self-financing over many years.
- Trustees of pension schemes like the Scheme are required to arrange for the Scheme Actuary to calculate the CETV on a "Best Estimate" of the cost to the scheme basis.
- The Insurance Companies will be allowing for people to live longer and assuming lower investment returns as compared with a scheme.

These factors combine to ensure that the cost of an annuity to provide an identical level of income with the same dependant's pensions and indexation in payment will be higher than the effective cost to a scheme of providing those benefits. This means a transfer from a Defined Benefits Scheme is only suitable for an individual who requires a different benefits format or other facilities not available from the ceding scheme.

Theoretically, annuities should become cheaper as you grow older. However, it is a strange factor of mortality tables that as you live longer, your life expectancy increases, so this is not strictly the case. This combined with the investment factors and market forces, means that annuity rates fluctuate and can indeed worsen whilst in the period in which you defer purchasing an annuity. It is our opinion that in the longer run annuity rates should improve. At present the underlying gilts are exceedingly expensive and so offering lower income for the capital cost. The reduction in gilt capital costs increasing income forms part of the Treasury's aims for financial markets. This may be hastened by an increase in underlying interest rates, but that will at the behest of the Bank of England as against a politically controlled decision. You should therefore probably expect little change in the short term i.e. next five years. You must consider this aspect when making your decision.

Your pension income will be affected by the size of the fund and the annuity rates available when you purchase the annuity. The Annuity Rates used by Insurance Companies for men and women have now been equalised. This requirement for identical treatment does not extend to the costs calculated by Defined Benefits Schemes like the Scheme.

One other term we need to mention is mortality gain. To explain this simply, imagine that when providers offer annuities, they place the capital cost in a pool. If the individual in question survives longer than predicted i.e. allowed for within the annuity rate, the subsequent pension instalments are met from that pool. Correspondingly, if the client dies earlier than expected, the pool has excess funds. This is the concept which creates Mortality Gain for the provider.

Irrespective of which option you decide to take, it is likely that at some stage, you will purchase an annuity, though this is no longer a legal requirement, many people will prefer to opt for the secure fixed income that option provides as they get older. We will offer guidance on an ongoing basis and advice depending on your needs and wishes at that time.

## Options Available

You may choose various options to include within the annuity. These can be summarised as follows:

- **Single Life** – an annuity just for you, if you do not have a spouse or partner, or if they have sufficient provision
- **Joint Life** – an annuity that will continue to your spouse or partner at a fixed proportion of your income.
- **Level annuity** – one which will remain the same i.e. not increase in payment
- **An escalating annuity** – one which does increase in payment. This will start at a lower rate and build up. This could be a fixed increase e.g. 3% per annum or say in line with Retail Prices Index. Either way, it could take 20 years or more for you to receive the same income as you would have from a level annuity.
- **Guaranteed Annuity** – this mean the annuity will be paid at the full rate for a certain period, even if you die. The maximum period is ten years from when the income falls due.
- **Annuity Protection** – this means the original purchase price less the income paid and a tax charge is payable to your beneficiaries. This may incur an inheritance tax charge.
- **Enhanced annuity** – this may offer a higher income if you are a smoker or are overweight, worked in certain occupations or live in specific parts of the country.
- **Impaired Health Annuity** – this will be underwritten and so base the extra income on our personal state of health

The Scheme will provide benefits in accordance with their rules, as described earlier. By transferring and purchasing an annuity, you have the choice within the restrictions applied by legislation regarding the format i.e. whether to include a spouse's or dependants' pension and indexation. You can mould the annuity to fit you, but retain the security, guarantees and certainty.

The total fund available is £191,228.66, based on the total Transfer Value as detailed previously. We would recommend that you draw the maximum Tax Free Cash, which we calculated earlier as £47,807.17. That leaves a fund of £143,421.50, with which to purchase the annuity.

## Income Available

To enable you to evaluate the conventional annuity option, we have provided comparative illustrations in the table below. These illustrations allow you to see the difference when specific benefits are included or excluded from the annuity and are based on payments being made monthly in advance.

| Company | Guarantee | Widow's Pension | Escalation | Annual Income |
|---|---|---|---|---|
| Aviva | 5 year | Nil | Nil | £7,221.84 |
| Aviva | 5 year | Nil | 3% | £4,603.92 |
| Aviva | 5 year | 50% | Nil | £6,987.96 |
| Aviva | 5 year | 50% | 3% | £4,419.84 |

These illustrations were obtained from the Money Advice Service's Annuity Comparative Tables and we have included the main options available and the highest possible income provider. In order to retrieve the above quoted figures, we were asked a series of questions regarding your weight, height and health. We answered these questions with average statistics for a person of your age. If you decide to go ahead with a full review, further, more detailed comparisons about the annuity option will be provided.

## Why Seek an Alternative?

The very thing which makes annuities secure, prevents them from being flexible and adjustable. Once purchased, there is no way that any of the alternative options may be considered. Whereas, if another of the alternatives are chosen, and circumstances change, an annuity may be purchased.

The annuity option remains available throughout the remainder of your life and may indeed be taken up by any of your dependants.

The other reasons an annuity may not be the most suitable choice for you now are:

- **Income must be taken** – with annuity purchase, you may draw the maximum Tax Free Cash, but the remainder of the fund is used to purchase an annuity, which provides a taxable income. Other options allow you to take some or all of the cash, and no income.
- **Current annuity rates** – These are perceived as being poor, i.e. the income available with the same fund now is significantly lower than it was ten or even five years ago. This reflects many factors, not least of which is the current market conditions.
- **Income Tax Planning** – Once the annuity has been purchased, as with the income from the current scheme, it cannot be stopped or altered. This may not suit your circumstances or needs.
- **Inheritance Tax Planning** – When the annuity is purchased, either by you or the scheme, the fund is spent. The annuity can only pay an ongoing taxable income in the event of your death

- **Investment control** – There is none with a conventional annuity – the insurance company invests the money as they see fit to meet the guaranteed payments.
- **Lump sum Death Benefits** – Lump sum Death Benefits are very restricted. They relate to the commuted value of any guarantee. The only long term option is to include an ongoing pension for dependants.

## Our View

Overall, having reviewed your personal circumstances, the annuity option does not seem suitable for you at this time, because:

- You wish to draw the maximum Tax Free Cash, which is available without purchasing an annuity.
- You require a flexible and controllable income, which can be adjusted to minimise tax liability and maximise income. This is not possible with an annuity, which provides a fixed guaranteed income for life.
    - You require no taxable income initially, as you are continuing to work.
    - You have indicated that because you have a zero hours contract, you may need to draw on excess Tax Free Cash to supplement income.
    - You do already hold a reasonably large emergency fund. It is therefore unlikely that you will need to draw on the pension for income, but would like the flexibility to do so if required.
    - You expect to be receiving funds from other sources in the future, including your State Pension, at which point you may require a lower income from these funds. It is not possible to reduce the income being drawn from an annuity.
- You would prefer to provide lump sum Death Benefits for your dependants, which are not available from an annuity.
    - You are in good health but would prefer to preserve the fund available to provide for your dependants.
    - The annuity route means relinquishing the fund and so the provision for your dependants would be limited to an ongoing taxable pension.
- You would prefer to retain investment control over your pension funds, which is not possible via an annuity. An Investment Linked Annuity would offer some investment options, but these are usually restricted to the choice of one underlying fund.

***If you feel that you need more information about the annuity option in order to make a final decision, please contact us as soon as possible***

# 7. Phased Retirement

This option involves placing the Transfer Value into a plan which is segmented into, usually, 1,000 policies. The funds and the Tax Free Cash allowance are split equally across the plans.

The fund (£191,228.66), will be invested in the 1,000 policies i.e. £191.23 each. Each segment can offer a maximum of 25% of the fund as Tax Free Cash (£47.81 each). If investment returns are good, this figure should increase in proportion to the fund value until the benefit is drawn. Please be aware that the value of investments can fall as well as rise.

The concept is that when you require an income, you designate say 200 of the 1,000 segments, which crystallises a fund of £38,246. You would take the Tax Free Cash allowance (£9,561.50) and use the remainder (£28,684.50) to purchase an annuity. The following year, you could designate a further 200 of the 1,000 segments, draw the Tax Free Cash and purchase another annuity. Depending on the intervening investment growth this may produce more or less Tax Free Cash. The annuity purchased may be higher or lower, again depending on investment growth and also any variation in annuity rates. Each year, you can designate as many or as few of the segments as you like. The format of the annuity purchased e.g. including a spouse's pension or indexation may vary on each occasion. The annuity bought in the previous year(s) will continue.

From this example, we hope that you will appreciate that the income requirement is met for this year and future years, by designating or crystallising segments.

In practice, you will decide how much income you need and IFA will advise the number of segments to encash to provide that level of income. The Tax Free Cash figure available will be used to supplement the income, so reducing your Income Tax liability.

The other information which is relevant is the estimated value of the plan at each anniversary, after the income has been drawn. That will be the fund value available for the subsequent year's income production i.e. Tax Free Cash and associated annuity purchase. It will also be the figure available for Death Benefit provision.

Each time an annuity is purchased, you can decide whether it should include a guarantee, indexation and spouse's pension as appropriate to your circumstances. You will also have access to any future developments in the annuity market. Garry will offer you advice in this respect in future years.

It is usual to purchase single life, level annuities in the early years. These offer the highest income for the capital sum made available by the encashment of the segments. This leaves the largest portion of the plan invested for future capital appreciation and provision of Death Benefits.

## Death Benefits

In relation to the benefits in the event of your death, there are two parts to consider:

- **Annuities** – the funds invested in annuities will pay benefits on death determined by the format of those annuities. The guarantee and ongoing widow's pension will depend on the annuity purchased. In our example of drawing benefits from 200 segments, this would only involve the fund after cash of

£28,684.50. If as suggested, no dependant's pension has been included to maximise the income available to you, this aspect will provide no benefit for Alan.

- **Uncrystallised Funds** – those segments of the plan which have not as yet been touched will offer a full return of fund value on death, as a lump sum payable to Alan or your nominated beneficiaries. If the plan is in trust, this will pass free of inheritance tax to those individuals. If 200 segments have been opened, this will leave 800 available to provide this benefit. As each segment was valued at £191.23, this would amount to a lump sum of £152,984.

As time passes and the number of segments from which benefits have been drawn increases, the remaining lump sum Death Benefit will decrease. However, the fund will remain invested and so the value per segment may increase. The above figures assume there is no change in value between transfer and death. This is assumed for simplicity, and is not likely in practice.

In the early years, the number of segments which have not been touched will form a major part of the plan and the associated fund value. This plan therefore offers you Inheritance Tax planning. These funds may be paid to any nominated beneficiary; they need not be financially dependent on you. This offers scope to include your children or grandchildren.

If you die within two years of making the transfer, irrespective of whether you have drawn any income, HMRC (previously the Capital Taxes Office) may suspect that the transaction has been undertaken in an attempt to avoid Inheritance Tax. HMRC reserves the right to tax your beneficiaries on the additional benefits received from the Personal Pension as against those previously available. This is more likely to be imposed if you were aware of the likelihood of dying.

## The Advantages

Phased Retirement can be a very useful financial planning tool, for example, if you want to ease back gradually on work and start to replace your earnings with pension income.

To summarise, the concepts are:

- This pure version of the arrangement retains access to the security of an annuity. Once purchased, you know the income will be paid at the agreed level, for however long you live. It is important to appreciate that the annuity rates may be worse in future years rather than better, meaning that annuities purchased later may offer a lower income for the same capital outlay.
- This option allows you some investment control – the segments which have been retained must remain invested, much as they did in the run up to retirement. We will consider investment in more detail later in this report. Once the annuity is purchased, this investment control is passed to the annuity provider.
- This option allows for Income Tax planning – you decide the income you require to meet your liabilities and do not draw excess income. The appropriate number of segments will be encashed to achieve this. You will also draw the Tax Free Cash from those segments, reducing the tax liability on the gross income, thereby increasing the proportionate net income.

- With this arrangement the annuities previously purchased will continue to pay an income at the same level irrespective of requirements. It is not possible to reduce the income stream from the annuities once it has started. If the annuities purchased include escalation, it will not be possible to refuse the increments of income either. The income in the second year will be marginally lower, as in the first year, the Tax Free Cash was used to supplement the income taken. This may mean that in a year of high earnings from other sources additional tax will be payable.

## The Disadvantages

Phased Retirement is generally only suitable if you have a fairly large pension fund, or have other assets or income to live on. This is because the bulk of your pension savings remain invested, which may be more risky than buying an annuity straight away.

To summarise the aspects you will need to consider are:

- Phased Retirement is complicated and requires thought, planning and management. You will need specialist financial advice, which Garry will provide.
- Under this type of scheme, the Tax Free Cash is used to supplement the income and is not available as one large lump sum at the commencement of the plan. If you need those funds for a specific purpose, this may not then suit you.
- If you believe that Annuity Rates will remain at the same level or worsen, there is little point deferring the annuity purchase, because this might reduce the income you eventually receive.
- If you require a high income now, this option will not suit, as it works on the basis of a low current income need, increasing over future years.
- This option does not let you reduce income because the existing annuities will continue to pay income even if you do not designate or crystallise any additional segments. If you expect income from other sources to increase over future years and so may wish to draw less from this plan in the future, this format will not suit, as once the annuity is purchased, the income cannot be stopped. Once the tap has been turned on, it must remain on and at the same rate.
- If you do not believe the investment returns required to maintain the capital value of the plan are achievable, or that this is only possible by accepting a higher level of risk than you are comfortable with, you should not opt for Phased Retirement.

## Our View

Overall, having reviewed your personal circumstances, the Phased Retirement option does not seem suitable for you at this time, because:

- With Phased Retirement, the Tax Free Cash is used to supplement income and is not available as one large lump sum.
  - Phased Retirement does not enable you to draw the maximum Tax Free Cash at outset.
  - Phased Retirement also requires you to draw a minimum income which is provided via an annuity.

- You would prefer to retain investment control over your pension funds, which would be possible in relation to the funds which have not been designated. However, that is not possible via an annuity
- You require a flexible and controllable income, which can be adjusted to minimise tax liability and maximise income. The Phased Retirement option provides a fixed minimum level of income from the annuities already purchased. This income can only really remain static or be increased, it cannot be reduced.
    - You wish to draw the maximum Tax Free Cash and require no taxable income initially.
    - Your income requirement from this fund will reduce when you start to draw your State Pension.
    - It is not possible to reduce or stop the income being provided under Phased Retirement. The income is being provided via an annuity and thus can only be increased.
- You would prefer to provide lump sum Death Benefits for your dependants.
    - Lump sum Death Benefits are available from the funds which have not been crystallised,
    - No lump sum Death Benefits are available from the annuities, which will provide taxable income.

You require the maximum Tax Free Cash and no income; hence Phased Retirement does not suit your needs.

***We have not incorporated an illustration for this type of plan, because it simply does not seem suitable based on your circumstances***

***If you feel that you need more information about the Phased Retirement option, please contact us as soon as possible***

# 8. Drawdown

This option has had several names since its introduction. It has been called Deferred Annuity Purchase and Unsecured Pension, but is more regularly termed Drawdown. More recently the term Capped Drawdown was coined to distinguish it from the Flexible Drawdown option.

## Flexible Drawdown

Flexible Drawdown does not include a maximum income limit. In that situation, the individual is allowed to draw whatever fund they have remaining after cash, as income. When this facility was introduced a Minimum Income Requirement was imposed. That required that and individual must have other secured pension income amounting to £12,000 per annum. This option is therefore only suitable in very specific circumstances. We have not therefore examined it in significant detail within this report. However if you require further information prior to making a decision, do please let us know.

It was announced in the budget that this option may be extended further from April 2015; allowing individuals to draw the entire fund without having met this Minimum Income Requirement. At this stage, this is a proposal and is subject to consultation.

Please note that any income drawn from the Drawdown fund will be added to existing income from all sources and taxed at the individual's highest marginal rate.

We have used the term Drawdown in the remainder of this section to mean Capped Drawdown as against Flexible Drawdown.

## What is Drawdown?

The concept of Drawdown is to defer purchasing an annuity by taking an income direct from the fund. The fund remains invested and the level of income can be varied, within certain limits.

The Drawdown option is, generally considered, the most risky of the various retirement alternatives considered. This is because the income can be affected by both investments and annuity rates. The fund remains invested and annuity rates can alter significantly in deferral. This is compounded by the potential for legislative changes, many of which have been made since the introduction of the Drawdown facility.

Drawdown is also the most complex and potentially expensive retirement option, as it requires ongoing advice and support, which will be provided by IFA.

The Drawdown alternative is more suitable if the individual has other sources of income, which can be relied upon if the investment performance or annuity rates worsen. In addition, a larger fund has the advantage of diversity, which can reduce the investment risk. Finally a larger fund can more easily cover the additional costs inherent in this complex alternative.

In your case the total fund is £191,228.66. The Drawdown option allows you to take the maximum Tax Free Cash and not take any income. As with all the alternatives, the Tax Free Cash must be drawn at outset, before starting to take the pension income, if any, which is taxable. The Tax Free Cash is limited to 25% of the total fund i.e. £47,807.17.

## Income Available

The income which can be drawn under Capped Drawdown may be varied between nil and a maximum limit, which is currently 150%. This is 150% of the annual annuity which could have been purchased in accordance with tables issued by the Government Actuary's Department (GAD). These are generally referred to as GAD Rates.

For each individual the appropriate GAD rate is applied to the fund available to assess a maximum income figure. Once you have drawn the Tax Free Cash of £47,807.17, the fund available will be £143,421.50. This figure is then the fund value on which the income limit for the first three years is calculated. During our investigations, we have ascertained that based on the fund of £143,421.50 the limit which applies to you now is £10,756.61 gross per annum.

You could therefore draw any amount up to the limit of £10,756.61 in each policy year, until the third anniversary. If the income is not taken in one year, you may not draw extra in subsequent years. This does offer some income flexibility in that you might draw nothing now and then if your circumstances change you could take any amount up to £10,756.61 before the first anniversary. You could potentially draw monies in the same policy year, but different tax years, to enable you to reduce the potential Income Tax liability. IFA will assist you in this respect over future years.

At the third anniversary, the rates are reset, taking into account your age and the GAD rates at that time; the limit may therefore increase or decrease.

Various factors will influence the revised rates:-

- **Mortality** - If there have been changes in life expectancy these will alter Mortality rates, which will affect annuity rates. These will also affect the GAD reviews of their rate tables. Increased life expectancy, which has been the norm over recent reviews, will reduce the rates and the income you may draw. The rates were last overhauled in April 2011; the previous revisions were in April 2006.
- **Gilt Rates** - The GAD rates are tables, which depend on the underlying Gilt rate. So Gilt returns specifically affect the rate to be used. This is to ensure that the rates reflect the market conditions at outset and at subsequent reviews. Gilt returns are subject to the pressures of the market and may increase or decrease, thereby affecting the rates.
- **Performance** - If the fund has performed poorly, i.e. the fund has not grown as much as expected; the value will be lower than predicted. To attempt to retain the fund for long term income provision, the income which can be drawn will reduce. Alternatively, if the investments have out-performed expectations, the plan may offer a higher income for the next three years.
- **Income** - If you have been taking the maximum income this will have increased the investment strain i.e. the additional return required to maintain the purchasing power of the fund. This may have reduced the capital value and when the GAD Rates are applied to the fund could provide a lower limit for the next three years.
    - Drawing a lower income will reduce this strain and it is therefore more likely to be sustainable in the longer term.

- If you have not actually drawn any income, in the three year period, the growth required to maintain the purchasing power of the fund will clearly be less. Drawing nil income will reduce the likelihood of future difficulties.

- **Mortality Drag** - We discussed earlier the term mortality gain. You may recall this is where an individual who has purchased an annuity dies earlier than expected and so supplements the annuity fund and subsidises those who live longer than expected. By drawing the benefits direct from your own fund, you are excluding yourself from this potential benefit. The plan will suffer from this loss, which is therefore termed Mortality Drag. The fund will need to achieve a higher return to cover this cost.
- **Charges** - All plans incorporate charges and these are disclosed on the Key Features Document. In view of the complexity of this style of plan and the ongoing monitoring required, these may be higher than for other plans. This again means the investment return required is marginally higher.

In view of all these aspects, IFA will need to undertake a regular review of your plan, at least once a year. Although at the review point Garry will not know the revised GAD rates and the maximum income limit will not alter, Garry will be able to assess if the investment return has been as required.

The annual review will also give you and Garry an opportunity to discuss the level of income you require for the next year. This of course will not be undertaken on the pension plan in isolation, but will take into account other investments. The overall aim of the advice will be to achieve the income you require in your retirement in the most tax efficient manner.

## Death Benefits

The proposed Personal Pension, including the Drawdown facility, offers your dependants flexible benefits in the event of your death. In the event of your death, after drawing benefits, Alan can opt to:-

- Receive the full fund value (tax free in the event you died before age 75 or with a 45% tax charge if you survived past this age),
- Continue to draw an income from the plan and retain the investments, or
- Purchase an annuity, which would be payable for the remainder of his life.

Alan has as long as he likes to make this decision, but may not draw any income from the plan if he wishes to take it as a lump sum. This means that he has control over the timing to reduce any other tax liability, which might ensue.

In the event of your death before age 75, following recent changes in legislation, no tax would be suffered on the lump sum, irrespective of whether it were paid from the existing scheme or the alternative Personal Pension.

If you survived past age 75, the lump sum would be subject to 45% tax, which is to be replaced by the highest marginal rate of income tax suffered by the beneficiary in the event of death, after 5th April 2016.

Either way, the tax rate suffered is lower than the 55% applicable in recent years.

The option to purchase an annuity may suit Alan's needs for a safe and secure income for the remainder of his life.

There are two supplementary aspects to consider in relation to Death Benefits:

- In the event of your death, after crystallisation (taking the Tax Free Cash or income) the fund value of the plan can pass to Alan tax free in the event you die before age 75. In the event of death after age 75, the current tax rate is 45%. With the phased retirement option you will recall that the Death Benefits from the designated funds was dependant on the annuity format. The better Death Benefits were in respect of the fund which had not yet been crystallised. This option therefore has deficiencies, but it remains more flexible than the annuity option.
- There is one other caveat in relation to Inheritance Tax. This is that if you transfer the funds to the Personal Pension and die within the first two years of the transfer, HMRC may deem that you have taken this route to avoid Inheritance Tax. This is more likely if you were or should have been aware that you were in ill health and highly likely to die in the period. This means that HMRC reserve the right to charge Inheritance Tax on the additional sum retained by the family as against the amount which would have been available if you had drawn benefits from the Scheme.

In relation to Inheritance Tax planning, the Drawdown plan provides the most control to your dependants. The choices and the most optimum course of action will be considered in detail with Alan in the event of your death. Suffice to say that in this way, the funds are retained in your bloodline, rather than lost to the provider in the event of your death.

If an annuity is purchased, it is the benefit format of that annuity, which will govern the benefits available to Alan. Those benefits can only ever be in the form of taxable pension.

We understand that if you die, with no dependants, the fund can be passed tax free to any other person. If no nomination is made, it is likely that the administrators (usually the provider) will make the payment to your estate. It is therefore sensible to arrange for the plan to be placed in trust, under which you will nominate beneficiaries, to receive the fund on your death. If the fund is passed through your estate, Inheritance Tax may become due and the funds will not be released until probate has been completed.

In the event that Alan opts to take his income from the Drawdown pot, and subsequently dies, the fund can then be passed to another dependant. As for the transition between you and him, this will be subject to a review of the maximum benefits and check that these do not exceed the maximum available to you. Similarly, if at that point there are no individuals who were dependant on you, the fund may be passed to any other person. Again, the use of a trust will make this simpler, quicker to administer and avoid any potential Inheritance Tax charge.

## The Advantages

You will appreciate that this type of retirement planning gives you control over the level of income you may draw, but exposes you to risks in the form of investment returns and fluctuating annuity rates. If the investments perform well and the annuity rates improve, you may opt to purchase an annuity, which could be higher than that available now. It is also possible that the eventual income could be lower.

To summarise, the concepts to consider are:

- **Tax Free Cash** – under this type of scheme, the Tax Free Cash is drawn as one large lump sum at the commencement of the plan. If you need those funds for a specific purpose, this may suit you. You can take the Tax Free Cash without drawing any income, or purchasing an annuity.
- **Options** – this arrangement retains the option of the security of an annuity:
    - Once an annuity has been purchased, you know the income will be paid at the agreed level, for the remainder of your life.
    - You can delay that commitment to purchase an annuity to suit your needs. This allows you to avoid being locked into current annuity rates.
    - You can, at any stage, opt to purchase an annuity, of any type, with all or part of the fund. You therefore retain the access to the secure and guaranteed income offered by an annuity.
    - You retain the flexibility to take advantage of fluctuating annuity rates. It is important to appreciate that the annuity rates may be worse in future years rather than better, meaning that annuities purchased later may offer a lower income for the same capital outlay.
- **Investment Control** – this option allows you investment control, because the plan must remain invested, much as it was in the run up to retirement. You control the investment of the accumulated fund whilst drawing an income (if required):
    - You need to be confident that your pension fund can be invested for a better return than that you would have got from an annuity. This almost certainly means investing in equities and you must be comfortable with the stock market risk.
    - IFA of IFA Firm will consider investment in much more detail with you once the transfer has been arranged.
    - If an annuity is purchased, the investment risk is passed to the annuity provider.
- **Income Flexibility** – the plan offers income flexibility, allowing you to decide the amount and timing of the income you draw:
    - This may suit you for many reasons, not least of which is Income Tax planning.
    - You firstly choose whether or not you require an income, as you are under no obligations to do so. You can then decide the level of that income, based on your expenses at that time.
    - With this arrangement, you can increase the income in one year and reduce it in later years.
    - You can also control the timing of the income. This means that you can draw income during one policy year, but spread it over two separate tax years.
    - You can reduce income to suit changes in other sources i.e. if you were to obtain supplementary income from consultancy work or from other investments. This may even include your State Pension benefits.
    - If you expect income from other sources to increase over future years and so may wish to draw less from this plan in the future, the format should suit you. With the alternatives, once the annuity is purchased, the income cannot be stopped.

## The Disadvantages

We have summarised below the areas that you need to consider carefully before making a final decision.

- **Annuity Rates** – if you believe that annuity rates will remain at the same level or worsen, there is little point deferring the annuity purchase, because this might reduce the income you eventually receive.
    - Annuity rates may be at a worse level when annuity purchase takes place.
    - You may purchase an annuity at any time,
    - You can defer the decision to purchase an annuity indefinitely.
- **Income** – if you require a high income now, this option may not suit, as taking high withdrawals may deplete the capital and prevent you from buying an income at the same level in the future.
    - If you feel that you are likely to continue to need that high level of income, you need to be concerned about long term capital depletion.
    - High withdrawals in the early years, combined with poor investment returns and a downturn in annuity rates will result in a much reduced maximum income limit at the first GAD review on the third anniversary.
    - If you are happy to accept a higher income for three years with the knowledge it is likely to be restricted thereafter, it may be possible for the capital value of the fund to recover. Though, this may involve taking a higher level of investment risk.
    - In summary, high income withdrawals may not be sustainable during the deferral period.
- **Investment Risk** – you need to be prepared to accept a certain level of investment risk.
    - The Phased Retirement option may provide the potential for a low initial income with the added security of the underlying annuity having already been purchased and reducing your exposure to investment risk. However, the Tax Free Cash is used to supplement income.
    - To maintain the capital in deferment will require investment returns which cover the charges and the income (if any) you wish to draw. Please note that:
        - The investment returns may be less than those shown in the illustrations.
        - Overall taking withdrawals may erode the capital value of the fund, especially if investment returns are poor and a high level of income is being taken.
        - Lower returns will mean that the capital value may be eroded and your income fall either in the interim or when the annuity is finally purchased.
        - Higher returns could potentially mean that you may be able to draw a higher income from the plan in the intervening period or purchase a higher annuity when the time comes.

***If you wish to know more about Flexible Drawdown before making your final decision, please let us know***

## Our View

Overall, having reviewed your personal circumstances, the Drawdown option does seem suitable for you at this time, because:

- You wish to draw the maximum Tax Free Cash:
  - With Drawdown, the Tax Free Cash is available as one large lump sum and there is no need to draw any income.
  - If you purchase an annuity you may draw the maximum Tax Free Cash, but you must take an income.
  - With Phased Retirement the maximum Tax Free Cash is not available at outset; it is used to supplement the income.
- You would prefer to retain investment control over your pension funds:
  - With Drawdown, the fund remaining after drawing Tax Free Cash remains invested. If income is required, it is drawn from the pot.
  - With the Phased Retirement Option, the funds which have not been crystallised are retained and remain invested.
  - When an annuity is purchased, either within Phased Retirement or with the entire fund, no monies are retained for investment.
  - IFA will work closely with you in relation to investments to suit your income and capital growth requirements.
- You require a flexible and controllable income:
  - Drawdown will enable you to adjust the income drawn from these funds, to minimise tax liability and maximise income.
  - With Drawdown, the Tax Free Cash is available as one large lump sum and there is no need to draw any income.
  - The Drawdown option provides an income which can not only be increased, but also reduced.
  - IFA will assist you in considering the levels of income to draw to ensure you receive benefits in the most tax efficient manner.
- Your income needs will change when you cease work and potentially again when your State Pension commences, at which point you will probably need to adjust drawings from these funds:
  - With Drawdown, it is possible to take a high, little or no income and adjust or even cease drawing income later.
  - With an annuity the income cannot be altered in any way once payments have started.
  - Within Phased Retirement the income is provided via an annuity and so the flexibility is restricted i.e. any annuity already purchased cannot be altered.

- You would prefer to provide lump sum Death Benefits for your dependants.
  - The Drawdown option allows you to pass the crystallised fund to your nominated beneficiaries (not just your dependants), tax free in the event of your death before age 75 and subject to a 45% tax charge, if you survive past age 75.
  - The annuity option can only provide an ongoing taxable pension to dependants.
  - The Phased Drawdown option will offer two type of benefits:
    - The fund which has not been crystallised can be passed to your nominated beneficiaries free of all tax.
    - The annuity purchased may include provision for ongoing taxable pensions for any other dependants.

***We have included an illustration for this type of plan, because we feel it is the most appropriate option, based on your current circumstances***

***If you feel that you need more information about the other options, please contact us as soon as possible***

# 9. Phased Drawdown

Phased Drawdown is the combination of Phased Retirement and Drawdown. We are going to specifically describe this alternative as, when united, these two options inter play offering additional flexibility. Clearly this also combines the associated complexity and risks. Amalgamation of the other alternatives is more easily understood.

In this situation, as with Phased Retirement, the Transfer Value (£191,228.66) is placed into a Personal Pension with 1,000 segments i.e. £191.23 each. Every segment can offer a maximum of 25% of the fund as Tax Free Cash, which equates to an allowance of £47.81 each. If investment returns are good, this figure should increase in proportion to the fund value until the benefit is drawn. Please be aware that the value of investments can fall as well as rise.

## Death Benefits

Once you have crystallised benefits, you will have several types of segment in place. These are treated differently in the event of your death, as follows:

- **Untouched plans** i.e. those not yet crystallised. These are the segments of the plan, which have not as yet been opened. These will offer a full return of fund value on death. That can be paid as a lump sum tax free to your nominated beneficiaries. If the plan is in trust, this will pass free of Inheritance Tax to those individuals.
- **Plans in Drawdown** i.e. those which have been crystallised. As set out in relation to Drawdown, there are three possible options available to Alan, he may:
  - Draw the fund, tax free if you die before age 75 or less a 45% tax charge in the event you died after age 75,
  - Continue Drawdown, or
  - Purchase an Annuity.

  Alan will almost certainly accept the fund value of those plans. Though it does add to his funds for testing against the Lifetime Allowance Charge.
- **Annuity**: If there any segments with which an annuity has been purchased the benefits will depend on the annuity format chosen at outset.

Please note that IFA of IFA Firm would work closely with Alan to ensure the benefits are distributed in the most tax efficient manner to suit their needs.

In relation to the risks and benefits, we hope it is clear that these apply to this combined arrangement as they do to the options individually. Please review the sections regarding Phased Retirement and Drawdown to ensure you are satisfied you comprehend these.

## Our View

Overall, having reviewed your personal circumstances, the Phased Drawdown option does not seem suitable for you. You require the maximum Tax Free Cash. With Phased Drawdown, the Tax Free Cash is available in tranches as portions of the fund are designated. To draw the maximum allowance you need to undertake Drawdown. We have therefore made a recommendation that you undertake Drawdown, in the Recommendation Section, which is section 10.

***If you feel that you need more information about the Phased Drawdown option, please contact us as soon as possible***

# 10. Our Recommendation

Having reviewed your personal circumstances, as well as your existing pension benefits and the options available, we have now reached the point where we are able to combine all that information and set out our recommendations. That recommendation is in three parts:

- The most suitable option which sets out the reasons for transferring away from the Scheme.
- The second part considers the possible types of Personal Pension and sets out why we feel a SIPP is most suitable for you.
- The third part sets out the reasons why we recommend Old Mutual as the provider for your SIPP.

That overall recommendation is based on our investigations of your personal situation, the benefits available from the various alternatives and consideration of the most suitable option to meet your needs.

## The Most Suitable Option

Overall, having reviewed your personal circumstances, we recommend that you take the Drawdown option, because:

- You wish to draw the maximum Tax Free Cash (£47,807.17) immediately. With Drawdown, it is available as one large lump sum and there is no need to draw any income.
- You do not expect to draw any income now. Additionally, when you do, you will need to adjust the monies drawn from these benefits to suit other income sources; though it is possible to increase the income from Phased Retirement, you cannot lower it as the income is provided via an annuity. Annuities cannot be varied once arranged. Increasing and decreasing income is possible with Drawdown and though it is even more flexible with Phased Drawdown you require your entire cash allowance at outset.
- You would prefer to provide lump sum Death Benefits for your dependants. The Drawdown option allows Alan to draw the fund tax free, which amounts to £143,421.50 in the event of your death after taking the Tax Free Cash of £47,807.17.
- You would prefer to retain investment control over your pension funds, which would be possible in relation to the funds which have been crystallised from which income is to be drawn. That amounts to £143,421.50.

## The Most Suitable Plan Type

In Section 3 of this report, we explained that, to undertake the various options outlined, the funds had to be transferred from the Scheme to a Personal Pension. As outlined in that Section, there are actually several variations of the Personal Pension which can facilitate the Drawdown option we have recommended. The main alternatives are the Personal Pension, Stakeholder Pension, Wrap Platform and the Self Invested Personal Pension.

Overall, it is our view that the SIPP which we are recommending is the most suitable in your circumstances.

We would suggest that your Death Benefits are paid to a Death Benefits Trust. There is no impact on you in your lifetime but the distribution of your funds on death will be more tax efficient.

Where you leave the benefits directly to Alan this will sit in his estate for Inheritance Tax purposes. It will also be part of his estate should he remarry in the future, or be financially assessed for the cost of long term care. Using a Pension Death Benefits Trust enables Alan to control and access the funds to support him during the remainder of his life, but protects the value from Inheritance Tax, care costs and from passing to any new Spouse on his death. This option will allow Alan choice and control, whilst reducing the potential tax liability. More information can be provided on request.

## Why Provider – Old Mutual

We recommend the Transfer Value of £191,228.66 from the Scheme is placed in a SIPP with Old Mutual, which is a leading insurance company who specialise in Drawdown business.

We would normally set out here the reasons for recommending this particular provider. However, IFA of IFA Firm would have covered this when the original plan with Skandia was arranged. We have not therefore reiterated that at this stage. If you require further information in this respect, please let us know. Suffice to say, you have confirmed your satisfaction with Skandia to Garry, based on experience to date.

As you know, you already hold a Personal Pension with Skandia (PP515313979) and have done for some years. Old Mutual purchased Skandia back in 2006 and decided in September 2014 to rebrand to Old Mutual. This is not actually a change in structural ownership, simply a change of name.

Initially, it may seem as though transferring your Scheme benefits to that existing plan is the best option. Your existing plan is a PP5, which was the old pension product offered by Skandia. The PP5 plan does not facilitate Drawdown and is closed to new business.

In view of all this we recommend that you transfer your Scheme benefits to the Old Mutual Wealth Collective Retirement Account.

To summarise, you wish to consolidate your pension benefits for future Drawdown. You would also like to benefit from regular fund reviews to achieve top performance, though you are aware of the additional costs involved. Combing your existing Old Mutual plan with your Scheme benefits in the Collective Retirement Account with Old Mutual will achieve these aims.

## Illustrations

To assist you in evaluating this option, especially the aspect of investment risk, we have obtained illustrations from our recommended Provider. Old Mutual is a leading provider in this type of plan. That illustration and the Key Features Document are enclosed.

The following comments should help you with interpreting that. Please note that the figures quoted are not in any way guaranteed. These details are based on the Financial Conduct Authority prescribed investment returns of 2%, 5% and 8% and the provider's own charges. The investment returns may be less than those shown in the illustrations.

The illustrations include Critical Yield figures. These are the investment returns required, allowing for the charges within the plan, to maintain the annuity purchasing power of the capital.

There are two sets of figures, which show the annual rate of return which must be achieved to enable the fund to provide the income in deferral and purchase an annuity providing the same level of income:-

- As you could have obtained by purchase of an immediate annuity.
- As you will initially draw from the plan i.e. if you take no income it will allow for that.

Please note that these may not be the same levels of income as those we have quoted from an immediate annuity. This is because we have obtained illustrations from the market place of the best possible annuity. The enclosed illustration provides more detail with respect to the annuity rates assumed. Please also remember that the annuity rates are not guaranteed and may be better or worse if you do actually decide to purchase an annuity.

The Critical Yield figures are quoted at different ages. They are quoted at five year intervals so that we have a series of figures and can see how the required yield alters over time.

A review of these Critical Yield figures will also form part of IFA's annual reviews of the plan. This will enable him, in conjunction with you, to assess whether the returns achieved each year have been sufficient and also update the future requirements in line with changing income requirements, annuity rates regulations etc.

## Investment

The fund selection needs careful consideration as it is, of course, important that the Drawdown plan performs sufficiently well to avoid the fund being eroded. The performance of the fund is crucial to the stability of your ongoing and future income.

When making this recommendation, there are various aspects which need to be taken into account:

- Appropriate investments should be considered in terms of diversity and benchmarking.
- It is important that the investment recommendations fit the aims and objectives applicable to the monies:
    - For an individual who is drawing high income, the fund needs to aim for income returns to match those drawings and avoid capital depletion.
    - For someone who is taking no income initially a more cautious investment view can be taken, because all that is required is to conserve the capital to purchase an annuity in due course.
    - If some income is to be taken, the strategy will need to be somewhere between these two extremes.
- It is important that you and IFA consider the Critical Yield, which we referred to earlier:
    - You will recall this is the investment return (net of charges) which is required to enable you to purchase the same level of income via an annuity. This is a guideline, as it is based on numerous assumptions and will vary at each annual review.

  - The Critical Yield will help to quantify the growth required, and will vary depending on the level of income assumed.

- Garry will also have to consider your stated your Attitude to Risk:

  You are a balanced investor who is not averse to some exposure to the equity markets. You are willing to accept the possibility of short term falls in the value of your investments but would wish to be reasonably confident of longer term growth. You hope to enhance longer term returns by investing in mature equity based funds. You will be aiming for pension growth to at least outperform inflation.

- Furthermore, we have to take into account that this plan does the form the majority of your pension planning. This would normally suggest you and Garry should be more cautious with these funds to conserve them for future income provision.
- You have confirmed that you will not be drawing income from these funds for the foreseeable future, which means the main investment aim is capital growth. With no immediate income need, you and Garry can potentially be more adventurous with the funds, as we are looking at a longer timeframe. Conversely, this means that, as you are not taking income, you and Garry can be more cautious as there is less danger of depleting the capital.
- Whether you and Garry agree on a more cautious investment stance or a more aggressive one, the overall aim has to be growth. This will increase the fund available from which you can draw an income, or if you decide at some stage to purchase an annuity or to provide lump sum Death Benefits.
- Whichever stance is taken now will need regular reviews and will need to be adjusted to allow for changing circumstances and requirements over the coming years. You and Garry will discuss your requirements in this respect and make appropriate arrangements.

As we set out before, we recommend that the funds are initially invested in cash. This is a safe short term haven for the funds. This is therefore suitable whilst the initial transfer is arranged. Once that has been completed, you and Garry can have a meeting focusing on the investment aspects and agree your initial and longer term requirements.

Please note the following risk warnings:

- Cash is only suitable as a short term holding investment as inflation will erode the capital value over time.
- Past Performance is not necessarily a guide to the future performance of a fund.
- The value of units can go down as well as up.
- If you surrender the contract early either to transfer or retire, you may not get back the full amount invested.

It is very important that the plan and fund performance is monitored and regularly reviewed, at least on an annual basis, which Garry will assist you with.

### Treating Customers Fairly

We are committed to acting in the best interests of our clients at all times. Treating Customers Fairly (TCF) is a core part of the FCA's approach to regulation to ensure that clients receive fair and consistent outcomes when doing business with regulated firms. Our TCF policy is firmly embedded within the company and we endeavour to treat all clients fairly in every aspect of our service. For this reason your feedback is very important to us.

We would advise you not to proceed unless you feel comfortable regarding the recommendation made, and that you feel you have been given the information you require to make an informed choice. If you do see any mistakes or errors in our understanding you should contact us and not proceed until you are happy in your own mind that we have explained the issues to your satisfaction.

## Charges

The comparisons ignore the Adviser Remuneration aspect, which has to be considered separately. We have to examine that in isolation, to enable you to assess whether you wish to pay a fee personally or arrange for it to be met out of the Transfer Value.

Now that we have set out our recommendation that the funds are added to the SIPP with Old Mutual, we can consider the impact of charges on your potential benefits. All of the charges applied by Old Mutual and those deducted to provide our Adviser Remuneration are allowed for in the enclosed personalised illustrations.

Overall, there are three separate portions of charges to consider:

1. Our Adviser Remuneration,
2. The Old Mutual Administration Charges, and
3. The Underlying Investment Charges.

We shall now consider each of these charges in turn. Where relevant, we will detail the percentages and the associated cash sums, so that you can clearly identify the initial and on-going costs for each aspect.

### 1. Our Adviser Remuneration

The costs for our advice have already been discussed and are specified on the enclosed illustration. However, we have reiterated them below for your reference:

| Total Remuneration | HDIFA Share | Lifestyle Share |
|---:|---:|---:|
| £9,561.43 | £3,412.29 | £6,149.14 |

This Adviser Remuneration is based on various percentages of the total Transfer Value, as against the fund remaining after you have drawn Tax Free Cash. We will arrange for the remuneration payment to be made after the Tax Free Cash withdrawal, in order to maximise the lump sum you receive. In view of this, we have included an additional page with the Application Form explaining exactly how this figure was arrived at, which we ask you to sign to ensure that Old Mutual pay us the Adviser Remuneration on the basis we have agreed with you.

As we at HDIFA will not review the suitability of your pension contract, or indeed the investments you have chosen to hold within it, we will not be charging you any on-going fees or commissions.

The longer term advice requires differing expertise. HDIFA will not be undertaking the continuing advice or annual reviews. That role will be taken up by IFA from IFA Firm. They will need to be remunerated for that work and will have already explained to you their on-going service proposition. When they meet with you to arrange taking over the agency of the plan with Old Mutual, they will agree the on-going Adviser Remuneration with you. Your letter to Old Mutual appointing IFA Firm as your adviser on the new SIPP will confirm the amounts payable in this respect.

### 2. The Old Mutual Charges

Please refer to the Old Mutual Key Features Documents and illustrations, which are enclosed. These include details about the basis of the illustrations, together with the charges information.

There will be no Establishment Charge due on the new SIPP, so no initial fee will be deducted by Old Mutual from the Transfer Value.

The plan will be subject to an Annual Management Charge (AMC), which Old Mutual base on the value of your fund. This means the level of charges depends on the fund value and is reduced for larger funds, though the first portion will still suffer the same higher charge.

The charging bands are as follows:

| Fund Value | AMC |
|---|---|
| First £25,000 | 0.50% |
| From £25,000 to £100,000 | 0.35% |
| From £100,000 to £500,000 | 0.30% |
| From £500,000 to £1 million | 0.25% |
| More than £1 million | 0.15% |

As your Transfer Value is £191,228.66, the AMC will be 0.50% on the first £25,000 (£125), 0.35% on the next £75,000 (£262.50) and 0.30% on the remaining £91,228.66 (£273.69) i.e. £661.19 per annum.

### 3. Underlying Investment Charges

There will be an additional annual charge applied to the Cash Fund, where you will be initially investing your monies. This is 0.33% per annum, based on the Transfer Value of £191,228.66 i.e. £631.06.

When you change the investments, that charge will also alter. This will form part of your discussion regarding the longer term financially planning with IFA of IFA Firm.

**Total Initial Charges**

The total Initial charges, which will be applied to your total Transfer Value of £191,228.66, described above have been summarised in the table below:

| Charge Type | Initial Charge |
|---|---|
| Initial Adviser Remuneration | £9,561.43 |
| Old Mutual Establishment Charge | Nil |
| Initial Investment Charge | Nil |
| **Total** | **£9,561.43** |

Please note that all percentage based charges will vary in line with the initial Transfer Value applied and the values available as and when future charges are deducted.

**Total Annual Charges**

The total annual charges described above have been summarised in the table below:

| Charge Type | Annual Charge |
|---|---|
| Ongoing Adviser Remuneration | N/A |
| Old Mutual AMC | £661.19 |
| Underlying Investment Charges | £631.06 |
| **Total** | **£1,292.25** |

The above table indicates there are no ongoing investment charges. This is because HDIFA will not be providing any investment advice. The funds are to be placed in cash i.e. on deposit in a bank account at outset. The banks are not required to disclose their charges in the same way and so the actual costs cannot be easily identified.

Additionally, the annual investment charges will depend on the longer term investments, which will be discussed with IFA after the transfer has been completed. Their discussions in relation to the longer term investments will include details of the charges incurred.

Again the table indicates there will be no Ongoing Adviser Remuneration. As we have made clear from the outset, HDIFA will not be undertaking the continuing advice or annual reviews. That role will be taken up by IFA. IFA Firm will need to be remunerated for that work and they will have already explained their ongoing service proposition to you. When they meet with you to arrange taking over the agency of the plan with Old Mutual, they will agree the future Adviser Remuneration with you. Your letter to Old Mutual appointing IFA as the adviser on the plan will confirm the amounts payable in this respect.

In summary, the longer term investment costs and service charges will be agreed with IFA once he takes over the plan. Those figures are therefore not included in the above.

***Please note any percentage based charges will vary depending on the value which is held in your plan at outset and on each anniversary***

# 11. Conclusion

We hope that this Retirement Planning Report, together with the previous Initial Suitability Assessment Report and your meetings with IFA have provided you with sufficient information on which to base your decision. Please take your time to review the options and ensure you understand the principles of the recommended course of action.

Please also refer to the Old Mutual Key Features Documents and illustrations, which are enclosed. These include much detail about the alternatives and the basis of the illustrations. In addition, the illustration includes information setting out the remuneration due to HDIFA to enable us to provide this advice. As you are aware, part of this will be paid to IFA. The remuneration quoted on the illustrations does not detail that which will be paid out over future years. When you meet with IFA, you will agree what will be paid to IFA Firm. That will be confirmed and the agency of the new plan with Old Mutual will revert to them at your request, once the transfer has been completed. IFA will then undertake the regular reviews so essential to this type of planning.

You have a legal right to cancel your new plan, if you change your mind. Old Mutual will write to you confirming this. If you wish to take up that cancellation option, you must do so by writing to the address supplied, within the time specified by the new provider (Old Mutual) in the Key Features Documents. This right to cancel applies to any investments, but few schemes will actually accept back payments in relation to transfers.

We understand you are happy to proceed with the recommendations, and will complete the required documentation to arrange the transfer together with the new plan application form. Once returned to us, we will submit these to Old Mutual and the administrators of the Scheme. We will then ensure the transfer occurs as swiftly and smoothly as possible. We will keep IFA updated so they can inform you of progress.

***If there is any information with which you do not agree, or on which you require clarification, most especially our understanding of your attitude to risk, please let us or IFA know as soon as possible***

Yours sincerely

**Heather Dunne ACII FPFS**
Chartered Financial Planner

Enclosures:
Key Features Document; Personal Illustrations; Scheme Discharge Forms; Old Mutual Application Form

***Please sign, date and return the attached copy as confirmation that you understand the contents of this letter and have received all the enclosures referred to.***

***Sign:*** ______________________________ ***Date:*** ______________________

# Appendix One

# Risk Warnings

## General

The following Risk warnings have been included in the report at appropriate places and are summarised here for your ease of reference.

- **Unit Linked Contracts:** You should note that in a unit linked contract the value of the units and the income from them may go down as well as up. On terminating the contract you may not get back the amount invested, unless there are specific guarantees within the contract to that effect.
- **With Profits:**
  - If monies are invested in a With Profits contract, you should note that the final value will depend on future bonus rates which are not guaranteed.
  - When investments are made into the provider's With Profits fund, including unitised versions, a Market Value Adjustment may apply when funds are drawn out of this type of investment. In order to protect investors the product provider reserves the right to reflect the effect of short term market conditions on the fund's investments by applying a market value adjustment to any early encashment or transfer from the fund. This would have the effect of reducing the amount payable. This does not apply to payments made in respect of claims by death, payments that form part of an agreed series of regular withdrawals, or at the maturity date.
- **Early Encashment:** You should note that this should be considered a medium to long term investment and if you cash it in early, you may not get back the amount you have invested.
- **Tax Benefits:** The tax benefits referred to are those which apply currently and their value depends on the individual circumstances of the taxpayer. They are based on our understanding of current legislation and revenue practice, which may change in the future.
- **Past Performance:** Past results are not necessarily a guide to future performance.
- **Property Fund Investment:** Investments will be made into the provider's property fund which may also invest in land. With any fund which invests in property the value of the property is determined by the appointed valuer rather than an open market value. The provider may delay the encashment of units, because assets of the fund may not be easily realisable.
- **Contracting Out:** It is no longer possible to Contract Out on a Money Purchase basis. Any reference to Contracting Out except in relation to Final Salary or Defined Benefits Schemes can therefore be ignored.
- **Pension Credit:** Pension Credit is a means tested supplement for pensioners. If you have little retirement provision, the pension from this plan could reduce the benefit you receive from the Pension Credit. The current proposals to streamline the State Pension would remove the possibility you might claim these benefits. The exact effect will depend on the rules in place when you retire**.**

## Drawdown & Phased Drawdown

These warnings are specifically relevant to Drawdown and Phased Drawdown. Again they have been mentioned in the main body of the report, but are grouped together here for your ease of reference.

- **Income Withdrawals:**
  - High income withdrawals may not be sustainable during the deferral period.

  - Taking withdrawals may erode the capital value of the fund, especially if investment returns are poor and a higher level of income is being taken. This could result in a lower income when the annuity is eventually purchased.

- **Investments:** The investment returns may be less than those shown in the illustrations.
- **Annuities:** Annuity rates may be at a worse level when the annuity purchase takes place.
- **Critical Yields:**
  - The "type A" critical yield shown on the illustrations is the growth rate needed by the plan, sufficient to provide and maintain an income equal to that obtainable under an equivalent immediate annuity now. The yield reflects the effect of charges, expenses and mortality.
  - The "type B" critical yield shown is the growth rate necessary to provide and maintain a selected level of income. The yield reflects the effect of charges, expenses and mortality.
- **Mortality Drag:** There are many advantages in taking the Drawdown or Phased Drawdown option although one possible disadvantage is "Mortality Drag". In order to understand mortality drag it is also vital to understand "Mortality Gain":
  - When an insurance company decides to take on annuity clients they have to make certain assumptions as to the life expectancy of those clients. Obviously at outset they do not know which of them will survive for 20 years or which will die after just one month. It is the averaging effect that allows them to produce annuity rates. Those clients who die earlier than expected produce a surplus for the annuity fund. This is the Mortality Gain to the fund.
  - The actuary running the annuity fund will have largely allowed for some Mortality Gain when he produced his annuity rates.
  - Annuity rates generally increase with age (assuming there is no change in interest rates). However, those purchasing an annuity later will have missed the opportunity to participate in the Mortality Gain and this is reflected in relatively less generous annuity rates for purchases at older ages.
  - This loss of Mortality Gain is Mortality Drag.
  - Mortality Drag is at its worst for single annuitants who do not require a spouse's or dependant's pension or an escalating pension.

# Appendix Two

# Transfer Analysis Report

# Appendix Three

# Validation Sheet