EARLY RETIREMENT CASE STUDY

Many people are reluctant to spend money on financial advice, preferring to take a DIY approach or rely on the free guidance services that are available. But, here's how our retirement expert Steve Monckton, helped one client to turn a potentially tricky situation into a positive one.

KEY ISSUES

A professional financial adviser will be able to assess the most effective options for meeting your retirement income needs.

Your circumstances and those of your partner, if you have one, can all be taken into account to provide a tax-efficient solution.

Even situations such as redundancy, which may seem difficult to manage, can sometimes be turned to your advantage by someone with the right knowledge.

Background

- Client was being made redundant from his employer.
- Client had a total of £125,000 in existing pension funds.
- State Pension would not start for 2 years.
- Required £10,000 immediately to replace car.

Having looked into the state pension entitlement for the client and partner, it was established that the combined amount would be sufficient to meet all their essential and non-essential expenditure. This left a two year period with an income gap of £14,600.

The solution

After looking at the client's individual circumstances and objectives, and considering the available options, the following course of action was recommended:

1. Have the last 2 months salary paid as contributions into the employer's Group Personal Pension plan. This saved the client around £1,000 in tax, and boosted the pension fund by around £4,000.
2. Invest £20,000 of the £22,000 redundancy payment in a new flexi-access drawdown plan. This payment would attract tax relief of £5,000 meaning a total of £25,000 is invested in the plan.
3. The existing pension fund would be added to the £25,000 in the drawdown plan, a couple of months later, by which time the fund was expected to be worth around almost £154,000.
4. Take £13,650 tax free cash immediately from the flexi-access drawdown plan (of which £10,000 is to be used for the new car, leaving £3,650) plus £11,000 in income. This adequately deals with the income shortfall, providing a total tax free income of £14,650 (since there is a personal allowance of £11,000 in the 2016/17 tax year).
5. Repeating this withdrawal of £11,000 plus £3,650 tax free cash meets the second year income shortfall, again with no income tax payable.

It's important to note that, for this client, accessing £14,650 of income for two years did not have an impact on their long-term retirement income position. In addition, this solution meets income very tax efficiently, something which is unlikely to be achieved without personalised advice.

FLEXI-ACCESS DRAWDOWN

Unlike a capped drawdown policy, with flexible drawdown there is no limit on the amount you can withdraw.

Where withdrawals from flexi-access drawdown are not entirely made up of tax free cash, there may be a tax liability.

Caution required

The solutions outlined in this case study will not be suitable for everyone. You should research your options and seek professional advice or guidance before taking any action.

The Financial Conduct Authority does not regulate tax advice.
For more information on drawdown and retirement search our website: www.aspirafp.co.uk
For information about the government's free retirement guidance service visit: www.pensionwise.gov.uk

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