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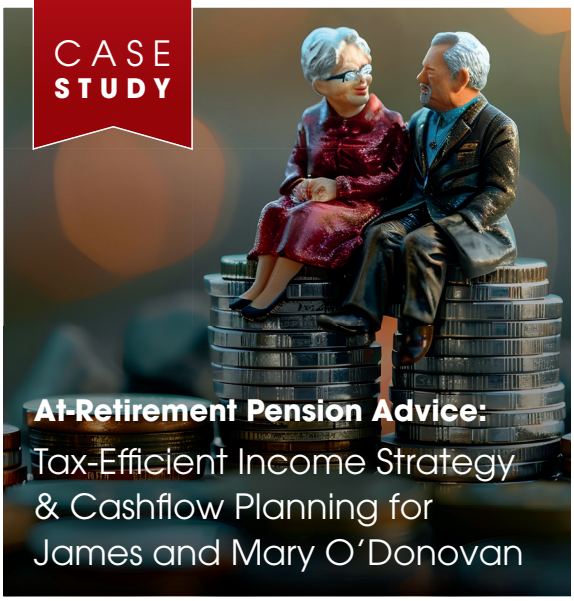

At-Retirement Pension Advice:

Tax-Efficient Income Strategy & Cashflow Planning for James and Mary O'Donovan

Background

James and Mary, a couple in their early 60s, approached Will for advice as they were planning to retire within the next six months. Their main assets were held in a number of personal pensions, with no other significant investments, and they had a limited understanding of how these pensions would work once they moved into retirement. They had spent many years focused on building up their pension savings and had been successful in doing so. However, as retirement approached, they faced uncertainty about how to convert those accumulated savings into a sustainable and reliable retirement income.

Having concentrated on accumulation for most of their working lives, James and Mary now needed guidance on how their pensions could support them throughout retirement. They were conscious that decisions made at this stage would have long-term implications and wanted to ensure they understood their options before committing to any particular course of action.

The Issue

James and Mary's primary concern was whether they could afford to retire when planned without running out of money later in life. They were particularly anxious about the sustainability of their income over what could be a long retirement. In addition, they were unsure how best to take benefits from their pensions, especially given recent changes to pension legislation and the introduction of the new lump sum allowance, which would already limit James' tax-free entitlement from his pensions.

They needed clarity on several key areas. These included how much income could be taken safely from their pensions, how to combine tax-free cash and taxable income in an efficient way, and how to minimise the amount of tax paid over their lifetimes. They were also concerned about how remaining pension funds should be invested during retirement and how to retain sufficient flexibility to adapt as rules and personal circumstances change over time.

What Was Considered

Will worked with James and Mary to build a detailed cashflow forecast to illustrate and test their retirement plans. This modelling allowed them to clearly see how their income, expenditure and pension funds were likely to evolve throughout retirement under a range of different scenarios. By projecting their future finances in this way, James and Mary were able to understand the long-term impact of different retirement decisions before committing to them, rather than relying on assumptions or short-term projections.

A key part of the planning focused on tax efficiency. Will considered how to design a strategy that combined tax-free cash and pension income in a way that kept overall tax rates as low as possible throughout retirement. This included making full use of both individuals' personal income tax allowances, allowing taxable pension income to be drawn tax-free where possible. Withdrawals were also structured so that as much of the remaining pension funds as possible could continue to grow in a tax-efficient environment for the future, taking into account the constraints imposed by the Lump Sum Allowance.

Their existing pension arrangements were compared with options available across the whole of the market to identify suitable product and investment solutions. A critical consideration was ensuring that investments were aligned to the level of return James and Mary needed to sustain their desired income for the rest of their lives, while keeping investment risk at a level they were comfortable with and that would not adversely affect their retirement plans.

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Alongside the investment strategy, an appropriate balance of accessible cash savings was maintained. This provided additional flexibility and peace of mind and reduced the need to draw from invested pension funds to cover unforeseen expenditure at times when market conditions might be unfavourable.

What Was Recommended

Based on this analysis, Will advised a structured approach to drawing retirement income that balanced tax efficiency, sustainability and flexibility. The recommendations focused on combining tax-free cash and taxable pension income in a coordinated way, using both personal allowances effectively and managing withdrawals to minimise tax over the course of retirement. This approach was designed to support their planned retirement date while reducing the risk of unnecessary tax erosion of their pension funds.

Will also recommended an investment strategy for their remaining pension funds that reflected both their income requirements and their views on investment risk and return. This ensured that their pensions continued to work effectively for them throughout retirement, while retaining the flexibility to adapt as circumstances and legislation evolve. Maintaining a suitable level of accessible cash formed part of the overall strategy, helping to manage short-term spending needs without disrupting the long-term investment plan.

Outcome

Working with Will, James and Mary gained the confidence they needed to make the decision to retire, knowing that they could do so when they wanted and with a clear understanding of what to expect. They now benefit from a structured and tax-efficient retirement income plan and have a clear understanding of how their pensions support their long-term spending needs.

Their investments are aligned to both their objectives and their views on investment risk and return, and they retain the flexibility to adapt their income as their needs change over time. In addition, they have ongoing financial planning support to respond to future legislative changes, including evolving rules around pensions and inheritance tax. This ongoing relationship allows their plan to remain on track, not only to support their own retirement but also to help formulate a strategy for eventually passing on any surplus wealth to the next generation in a beneficial and tax-efficient way.

As our clients typically demand the utmost confidentiality, some of the information in this case study has been changed.

To find out more about how we could help you please contact us

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