Quilter

The value of advice

How can you ensure the best outcome for your client and business?

For financial advisers only.

Quilter
Where families prosper
The home of the family office

Say hello to Quinn

Name:

Quinn

Age:

67

Defined contribution pension value:

£500,000

Background

Quinn has paid off his mortgage and has emergency instant access savings of £30,000. He is married to Ursula, age 69, who is a non-earner and has no pension savings.

They have two grown up children (Leanne, 37 and Thomas, 34). Quinn has begun to receive a state pension of £9,600 a year. Ursula receives a state pension of £7,200 a year as she doesn't have a full National Insurance record.

He is looking for an annual income of £30,000.

How can Quinn ensure his pension fund lasts as long as possible and he doesn't pay too much tax?

The behavioural risks of Quinn taking a DIY approach

Clients often have inherent behavioural risks that can lead them to make the wrong decisions, for example through a lack of confidence, inertia, or the need for immediate gratification (for example by withdrawing tax-free cash immediately when it would be more beneficial leaving it invested in the long run).

By understanding and addressing these behavioural risks, you can provide professional expertise when it's needed most and demonstrate the value of your advice.

- Quinn risks not shopping around for the flexi-access drawdown pension that provides the best value.
- Quinn risks withdrawing his tax-free cash (TFC) when he doesn't really need to.

As a result:

– His TFC would be in his estate for IHT purposes – a potential tax liability of £50,000.

– If he invested his TFC into an instant access savings account, Quinn's money would be at risk of being eroded by inflation.

- The funds chosen by Quinn for his flexi-access drawdown pension could be exposed to large fluctuations in value and the ongoing effect of this may mean he receives lower investment returns.
- Should Quinn remain in his current pensions, these arrangements do not give him the full death benefit flexibility that is available under the law and so there is no option to pass his pension on to his children on his death.
- Quinn risks outliving his pension savings and would be exacerbated by the need to pay income tax on his pension withdrawals.
- He gets annual statements which he files without looking at and doesn't know if his pension still meets his needs.

How Quinn’s adviser can help

By understanding Quinn’s circumstances and behaviour, his adviser can help him overcome the risks that Quinn is exposed to by taking a DIY approach.

- ✓ Quinn’s adviser tells him he doesn’t need to take a one-off tax-free cash payment if he doesn’t need it.
- ✓ Quinn is presented with a list of flexi-access drawdown pensions that offer automated phased income withdrawals and full death benefit flexibility.
- ✓ Quinn discusses his current circumstances and how much investment risk he wants to take with his adviser. His adviser recommends a portfolio of investments to match his needs.
- ✓ As Ursula is a non-earner, Quinn is advised to claim £1,260 (around 10%) of Ursula’s personal allowance under the marriage allowance rules.

The value of advice compared with DIY

£18,971

After 5 years Quinn’s pension savings are worth more

£24,669

He has saved in income tax

£137,969

He has protected from inheritance tax

The value Quinn’s adviser adds

1. Shopping around for the best deal
2. No loss of tax efficiency
3. Appropriate investment based on Quinn’s attitude to risk
4. Maintains flexibility if his circumstances change
5. Regular reviews ensure his needs continue to be met

Which approach gave Quinn the best pension outcome?

Over five years	On his own	With an adviser
Uncrystallised fund value+	£0	£237,572
Crystallised fund value+	£320,948	£240,316
Instant access savings	£137,969	–
Total	**£458,917**	**£477,888**
Total income after tax	£106,162	£106,162
Income tax paid	£24,669	£0
In his estate for inheritance tax purposes	£137,969	£0

Assumptions and glossary+ overleaf*

How can you ensure the best outcome for your client and your business?

How can you ensure the best outcome for your client?

In our Quinn case study, we demonstrated that his DIY approach needlessly exposed his pension to tax. The value of advice to Quinn compared to his DIY approach was:

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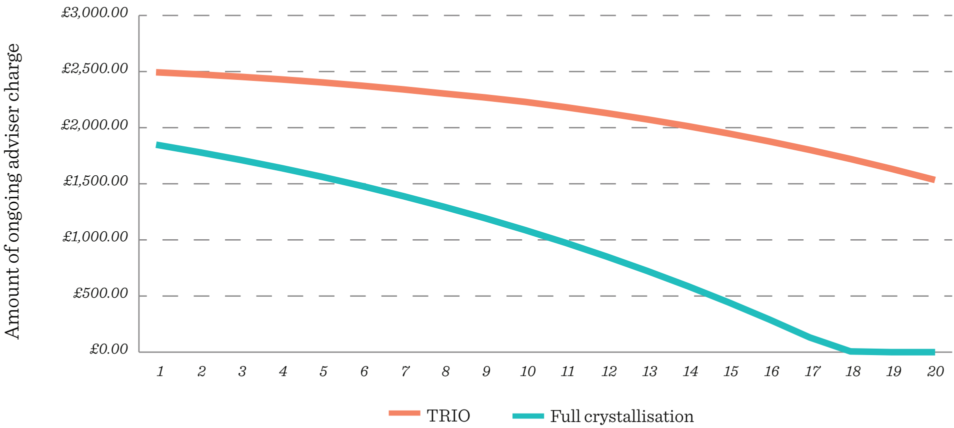
How can an adviser ensure the best outcome for their business?

As well as the value of advice to Quinn, there is also the value of advice to the adviser's business to consider. Opposite we look at the difference in ongoing adviser charges paid when expressed as a fixed percentage of assets under advice.

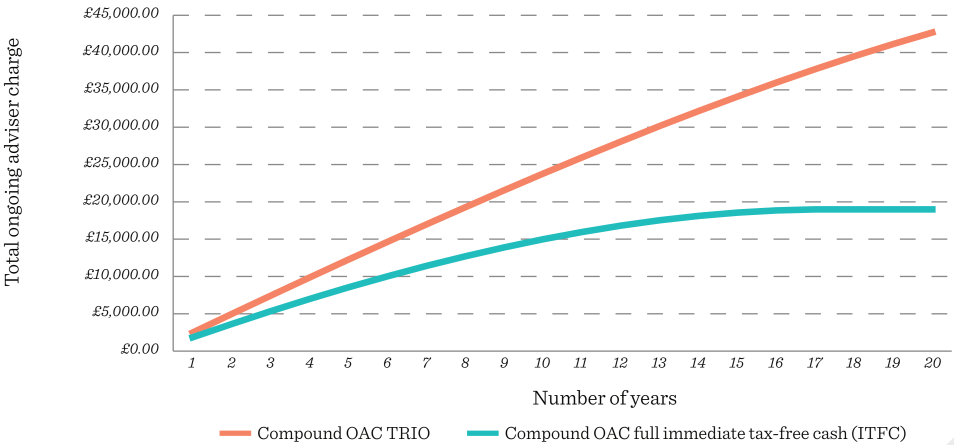
The comparison looks at where the full pension commencement lump sum (PCLS) is paid at the beginning of retirement (also known as immediate tax-free cash), and where PCLS is phased over time on an automated monthly basis (also known as Quilter's tax-efficient retirement income options - or 'TRIO').

Therefore, not only is the value of advice beneficial for Quinn, the value of the advice is beneficial for the adviser's business too.

Ongoing adviser charge per year comparison



Total ongoing adviser charge (OAC) comparison



Assumption: 0.50% a year ongoing adviser charge

***Assumptions:** Fund values within the pension grow at 4% a year net of charges. Quinn takes the full amount of tax-free cash available when he does it himself. When using a financial adviser they advise Quinn to only take the amount of tax-free cash that is need to achieve the income required. The charges when Quinn does it himself are assumed to be 0.75% a year for the pension with a 'total cost of ownership' (or 'TCO' – the running costs of his investment funds) of 0.75% a year. The charges when Quinn involves a financial adviser are assumed to be 0.30% a year for the pension with a TCO of 0.70% a year for his investment funds and 0.50% a year ongoing adviser charge. The net income required by Quinn is assumed to grow at 2% a year (equivalent to the Bank of England long term inflation target). Quinn's personal allowance is assumed to grow at 2% a year and his personal savings allowance remains at £1,000 for each tax year. The instant access savings accounts is a 'best buy' easy access savings account paying 2.30% AER interest annually in arrears (source:*moneysupermarket.com – 26.10.2022*)

+Glossary

Crystallised: When you use your pension to make withdrawals (usually in the proportions: 25% tax-free cash and 75% taxable income), the part of your pension being used to provide the withdrawals is referred to as 'crystallised'. So for every £100 you take as tax-free cash, £400 of your pension is 'crystallised'. The remaining £300 (75% of the crystallised amount), will be treated as taxable income when you withdraw it. When any of your pension savings are crystallised, this is known as a Benefit Crystallisation Event (BCE).

Uncrystallised: When you use your pension to make withdrawals (usually in the proportions: 25% tax-free cash and 75% taxable income), the part of your pension being used to provide the withdrawals is referred to as 'crystallised'. Any other pension savings remain 'uncrystallised'.

Please remember that past performance is not a guide to future performance.

The value of your client's investments may fall as well as rise and they may not get back what they put in.

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