

CASE STUDY

# PRE-RETIREMENT PLANNING

NOVEMBER 2024

# BACKGROUND & OBJECTIVES



At age 50, having worked in a senior role for a high street bank for many years, Mrs C had decided to take voluntary redundancy and decided to take a year off work.



Her husband was already retired, receiving a pension of £50,000 per annum, with a yearly increase in line with the rise of the retail price index (RPI)



Mrs C had been a member of various employers' pension schemes, and now had benefits in six different schemes, two of which were defined benefit (DB) and four of which were defined contribution (DC) arrangements



Mr & Mrs C asked clarity to help them understand the various options available to Mrs C with regard to accessing her pension benefits once she reached age 55 (the earliest she can take benefits under current legislation). They were also keen to understand the difference in the level of benefits she might receive if she instead waited until age 60 to draw her benefits.



In addition, Mrs C had shares in her previous employer worth around £500,000, and wanted advice on what she should do with these holdings.

# WHAT WE DID

In line with Mrs C's objectives, our first step was to obtain full details of each of her six pension arrangements, along with projections showing what each could be worth at ages 55 and 60.

We explained that Mrs C now had the following options available to her in respect of her DC benefits:

1. Use her DC pension fund to buy a guaranteed income for life (an annuity)
2. Leave her benefits invested and draw an income directly from the fund, at a rate to suit her (flexi access drawdown)
3. Take a series of cash lump sums directly from her pension fund (for each lump sum, 25% would be tax-free with the remainder taxed as income)
4. Buy a series of fixed-term annuities
5. Any combination of the above

With any of the options, up to 25% of her accumulated fund could be taken as a tax-free cash lump sum, with the remaining 75% taxed as income.

Completion of our attitude to risk assessment showed that **Mr & Mrs C were extremely cautious investors**. In addition to the shares from Mrs C's previous employer, they had **significant capital outside of their pension arrangements** and we discussed the possibility of also investing this capital for growth and or income. However, as they have an extremely cautious attitude to investment risk, Mr & Mrs C confirmed they would rather continue to hold their money in savings accounts, and **continue to overpay their mortgage out of income**.

# OUR RECOMMENDATIONS

As Mr & Mrs C were very cautious investors, **holding a significant sum in shares of a single company was not appropriate** for them. We advised Mrs C to gradually sell her shares and invest the proceeds in a cautious portfolio made up of collective investment funds. By **phasing the disposal of her shares over a number of years**, Mrs C eliminated her potential exposure to a capital gains tax (CGT) charge by **making full use of her annual CGT allowance**.

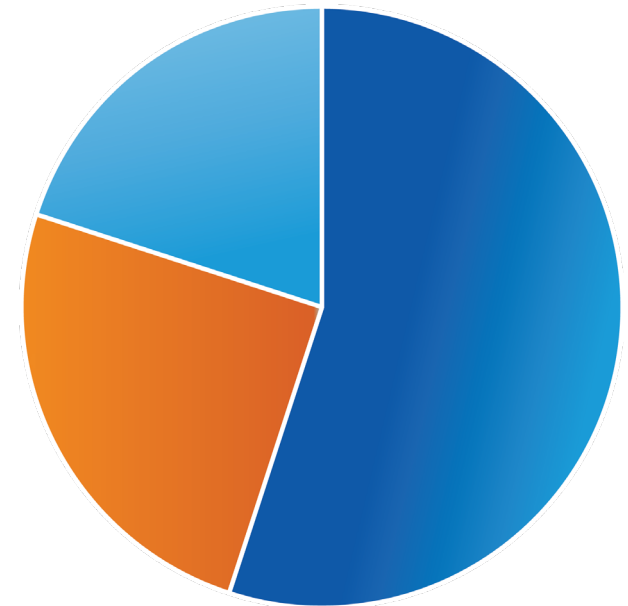
We recommended the use of a platform, which would be used to hold Mrs C's existing shares, as well as the couple's other investments. Through **clarity's virtualWRAP technology**, Mrs C could also **view the value of her various pension schemes**, alongside her other investments.

The asset allocation of the **cautious portfolio** we recommended for Mrs C was **55% fixed interest, 25% equities, 20% commercial property**.

We looked at the possibility of consolidating Mrs C's DC pensions. However, following our thorough review and analysis of her existing schemes, we advised that **consolidation would not be beneficial at this stage**. This is something we agreed to review again when Mrs C reaches the age at which she wants to draw benefits.

Our recommended asset allocation for Mrs C:

**Fixed Interest 55%**  
**Equities (Stocks & Shares) 25%**  
**Commercial Property 20%**



# THE RESULTS



Mr & Mrs C are reassured of their future financial security, understand the retirement options available to them and feel they are able to make educated decisions about the timing of Mrs C's retirement.



Mrs C is now benefiting from an investment approach that matches her attitude to investment risk, and her exposure to a single company's shares is reducing each year, while minimising any CGT liability.



**Important information:** Our views are based upon our understanding of current legislation in England, unless stated otherwise. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. This document is provided for information only and does not constitute advice. You should not act on any of the information without seeking professional advice.

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