Retirement Planning Small Print

Prepared for:
Example client

Prepared on:
11 October 2024

Prepared by:
Verve

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About this report

This report is additional reading for your retirement planning report dated the same day as this report. It provides further detail on the analysis we have undertaken and helps to provide further background on why we have recommended what we have recommended.

ASSESSMENT OF YOUR ABILITY TO TAKE RISK

There is always risk involved in any financial decision and it is our primary aim to ensure that the type and level of risk you take is matched with your goals and needs.

We consider four main things when looking at the risks you should take:

Your need to take risk	This measures the level of risk you need to take to achieve your objectives.
Your capacity for loss	This measures how much loss you can afford to tolerate before your current or future standard of living could be affected.
Your knowledge and experience	This looks at how much relevant knowledge and experience of investing you might have
Your attitude to risk	This measures how much risk you would be emotionally comfortable taking.

These factors may not always align with each other. Some people might have a higher attitude to risk than that which they can tolerate while others may have a very high need to take risk and a low attitude towards risk. Compromise may be needed at times.

Your need to take risk

You require monthly withdrawals from your pension and to sustain these withdrawals throughout retirement, you will need returns on your fund to offset the level of withdrawal.

You wish to take £2,793.33 per month, over the next 6 months, which equates to 7.59% of your Parmenion SIPP (but 1.91% of both your Parmenion and Quilter fund). This represents the level of return you would need to fully sustain your withdrawals. To achieve this return consistently, you would need to invest in stock markets and expose your funds to a degree of risk.

Your capacity for loss

If an individual had a certain amount of money and needed access to this amount in a short period of time, they would have no capacity to withstand loss. This is the principle behind looking at your ability to tolerate loss.

You will be taking money from your Parmenion SIPP for a period of 6 months and beyond this, there are no set plans to continue taking an income. If you took £12,570 each year from your pension funds until the age of 100, you could afford to tolerate an immediate loss of 68.22% without being unable to meet this objective. This is based on you achieving a return of 5% after charges in every other year, and assuming an inflation rate of 2%. In reality you do not need this amount and are only looking to make use of your tax allowances in the short-term. This means you have a strong ability to tolerate loss.

Knowledge and experience

You have some knowledge of investments and how they work. You also have some experience of investing and seeing values fall as well as rise, sometimes over short periods of time.

Your attitude to risk

5 out of 10

We asked you to complete a risk profiling questionnaire. Each answer in the questionnaire is scored and based on the answers you gave, you would be classified as a Low Medium Risk (5 out of 10) investor.

We talked about your attitude to risk result and how the result fits in with our assessment of your need to take risk and your capacity for loss.

Considering everything together, we agreed that this is a suitable level of risk for you to take.

For further detail on this risk score, including the potential returns and losses associated with this level of risk, please refer to your risk profiling report.

Ethical considerations

It is possible to invest with specific ethical preferences (i.e., including or excluding certain industries and sectors, or even specific companies). Investing in this manner can restrict the number of options available to you and can in some circumstances mean compromising on performance potential or reducing costs.

You confirmed you do not have any ethical preferences or restrictions for your investments.

Environmental, Social and Governance (ESG) screening

A number of investments are now screened for their ESG characteristics. This means the fund manager will look at how the underlying business performs in these three areas with an overall score assigned to them. If an investment is below a certain threshold, it is not usually included in the portfolio.

We discussed ESG and you confirmed that you have no preference for investments of this kind. You are happy to invest in the most suitable strategy whether this contains funds with ESG mandates or not.

⟶ The Lump Sum Allowance (LSA)

The lump sum allowance was introduced from 6th April 2024 and determines how much tax-free cash an individual can take from their pension(s) over the course of their lifetime.

The allowance is £268,275 for those who have not taken benefits before (and for those who do not have any lifetime allowance protections).

Individuals can take tax-free lump sums from multiple pensions at multiple periods of time as long as the total amount taken stays within the overall allowance.

You have not taken benefits prior to now and have the full allowance available to you.

⟶ The Lump Sum and Death Benefit Allowance (LSDBA)

The lump sum and death benefit allowance was also introduced from 6th April 2024 and combines with the lump sum allowance above to determine entitlement to tax free lump sum death benefits for those dying before the age of 75.

This allowance is set at £1,073,100 (which is also four times the lump sum allowance).

Any lump sums taken as part of the LSA entitlement will reduce the lump sum and death benefit allowance.

The LSDBA does not distinguish between uncrystallised and crystallised pension benefits, and is only tested against pension benefits left as a lump sum on death. It is not tested against benefits left in the form of drawdown or an annuity.

The LSDBA only applies up until the age of 75. After 75, no test applies and all pension benefits (lump sum and drawdown) are taxable at the recipient's marginal income tax rate.

⟶ Pension Income

Under Flexi Access Drawdown rules there is no limit to the amount of income that can be taken from your pension each year. However, any income taken will be added to your other taxable income this year and income tax charged accordingly.

<u>UFPLS</u>

A UFPLS is an ad hoc withdrawal of capital in a pension and by doing this on a monthly basis; the features of a regular income can be replicated. Each withdrawal will have 25% payable tax-free and 75% taxable at your marginal income rate of tax.

I am recommending UFPLS withdrawals commence of £2,793.33 per month for the next six months. £698,33 per month will be paid tax-free and the remaining £2,095 per month taken as a taxable income. This will fall within your personal allowance of £12,570 and as such no income tax will apply.

UFPLS provides the flexibility to withdraw an income in a tax-efficient and convenient manner.

Money Purchase Annual Allowance

The Money Purchase Annual Allowance (MPAA) is a restriction applied to individuals who have flexibly accessed pension benefits. The restriction is on the annual amount that can be contributed to a pension and reduces the allowance from £60,000 to £10,000.

As you are now in the 'decumulation' phase of your life, you will not be looking to make any future pension contributions and the restriction in allowance from £60,000 to £10,000 will not therefore have an impact on your future plans.

Death Benefit Nomination

You should ensure your death benefit nomination is kept up to date and in line with what you wish to happen with your pension fund on your death. To update or change your wishes, you can complete a Nomination of Beneficiaries form. This provides instructions to the trustees as to who to pay any remaining pension benefits to on your death. By nominating beneficiaries, the value of the pension fund should not form part of your estate for inheritance tax purposes.

Options considered

<u>Annuity Purchase</u>

An annuity would provide an income payable for the rest of your life, no matter how long you live. This can offer security.

We have obtained annuity quotes showing you could purchase the following incomes:

PCLS	Amount for annuity	Spouse Pension	Increases	Guarantee	Income each year
£219,188.09	£657,564.26	None	Level	5 years	£45,415

I have ruled out this option at this time for the following reasons:

- An annuity cannot normally be changed once in payment. Drawdown is more flexible in that income can be decreased, increased or stopped at different points in your life.
- This suits your objectives because you feel you have enough secure/fixed income coming up and you would like to benefit from the flexibility that drawdown offers.
- Death benefits are more flexible under Drawdown as any unused funds can pass to various beneficiaries if instructed. With an annuity you typically outline the one potential beneficiary at the outset.

Investment Pathways

It is possible via a number of pension providers to access a range of "investment pathways". These are default investment strategies aimed at Drawdown investors to reflect one of four typical objectives the investor might have.

The aim of these pathways is to offer a simplified investment option for individuals to use when moving into drawdown. These are based on four scenarios:

1. I have no plans to touch my money for at least five years
2. I plan to take my pension as a guaranteed income (annuity) within the next five years
3. I plan to take my pension as a long-term income (drawdown) within the next five years
4. I plan to take all my pension within the next five years

The recommended provider does not offer investment pathways and I have instead recommended a suitable investment strategy based on the level of risk you can tolerate and your objectives.

Critical Yield

You could purchase an annuity with your funds immediately now and your personalised illustration will show the amount of income (based on their own rates) you could potentially receive.

By not purchasing an annuity at this time, your plan will need to achieve a certain level of growth between now and an age in the future to allow you to potentially purchase an annuity equivalent in value to that you could have received now. This level of growth requirement is known as the type A critical yield.

You can find this in the personalised illustration provided alongside this report.

This will also quote the Type B critical yield. This additional yield is the growth rate needed to buy an annuity equivalent to the level of regular income you will be withdrawing.

INVESTMENT STRATEGY

Investment Strategy

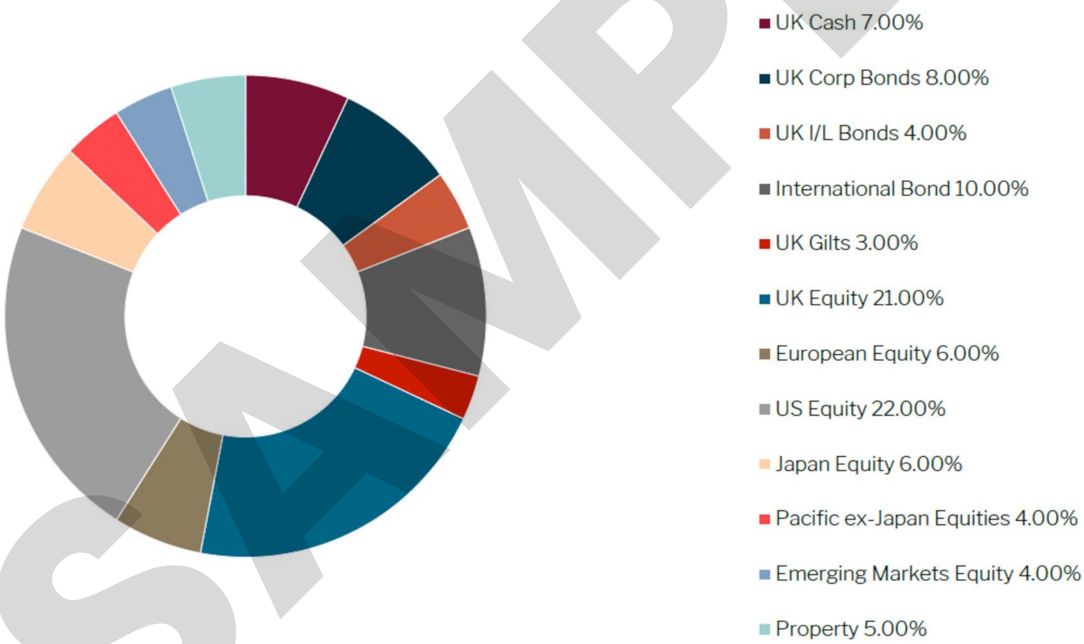
Based on your objectives, ability to take risk and our centralised research process, I am not recommending any changes to your investment strategy. You will continue to be invested as follows:

Fund	Fund OCF	Transactional	DFM
Distribution Technology Passive Risk 5	0.10%	0.06%	0.12%

OCF – Ongoing Charges Figure, DFM – Discretionary Fund Management

Asset allocation

The current asset allocation on this portfolio can be summarised as:

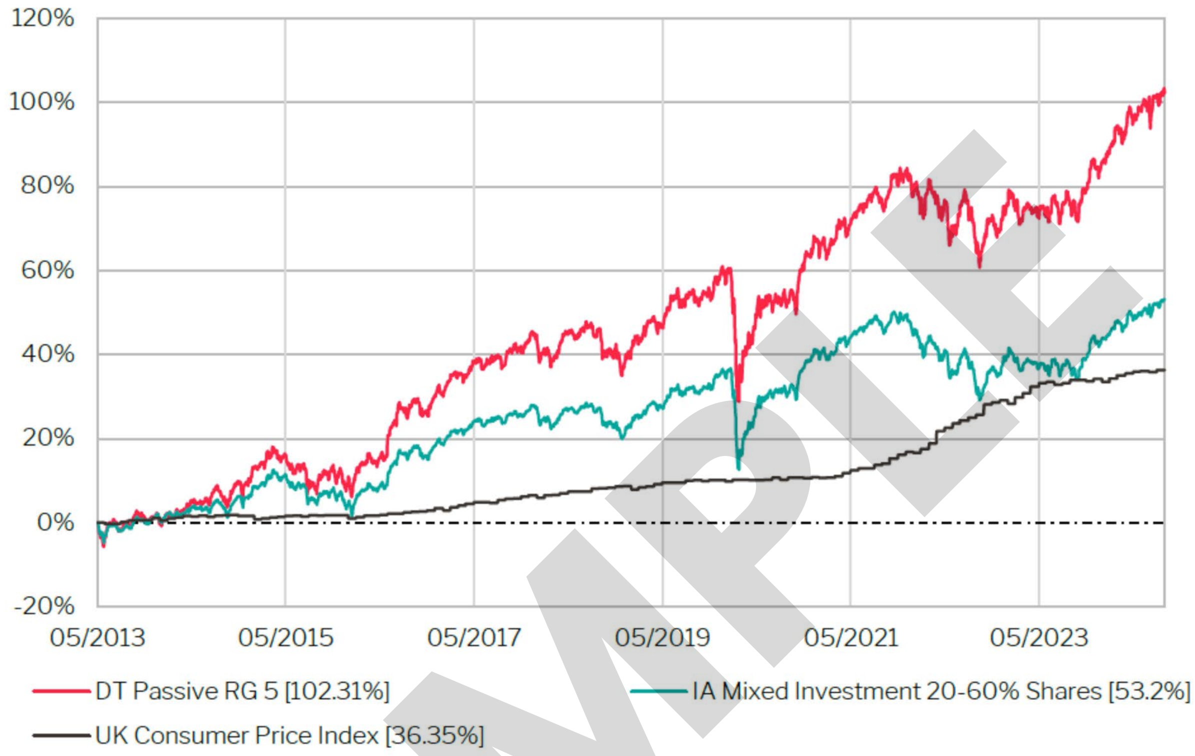


The current strategy holds more in asset types (equity and property) that are considered higher risk and more likely to deliver long-term growth. There is allocation to asset types that are typically lower risk (cash, gilts and corporate bonds) with the aim of these to reduce the overall risk of the portfolio.

We established this investment strategy with you in anticipation of using drawdown and there is no need to consider an alternative strategy now that you will be accessing your pension for a regular income.

Performance

The following graph shows the performance of your portfolio against an IA Mixed Investment 20-60% Shares benchmark and the Consumer Price Index (CPI):



The recommended portfolio has achieved a higher return compared to the independent benchmark and CPI over the timeframe.

Please remember that past performance is no guarantee of future returns.