

October 2008

Colin Jelley highlights the importance of combining wrappers for a holistic retirement income solution.



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all wrapped up

Retirement planning can mean many things to many people. A registered pension is probably the most tax-efficient way of planning for an income in retirement due to the generous tax relief offered. The price of that tax relief is restrictions on the shape of benefits received and a limitation on the investment amount. It is important, however, to acknowledge that retirement planning is more than just registered pensions. Utilising other investment vehicles is likely to form a key part of any medium- to long-term strategy.

Each wrapper will offer its own additional benefits which may well complement the traditional pension provision – for example, the ability to use the capital gains tax annual exemption from a collective and 5% tax deferred from a

UK or offshore bond. The table below takes a high level view of the benefits different vehicles offer and the different combinations of net and gross tax positions. This allows us, for illustrative purposes, to draw a number of conclusions for a UK domiciled and resident individual.

holistic tax planning

There could be many clients whose pension is the most significant asset they own after their home. These clients may be wondering where to invest tax-free cash once it has been released from the registered pension scheme. As previously stated in this column, tax is not the sole driver of wrapper choice but understanding the tax issues alongside wrapper flexibility is a key element of the retirement planning process.

Releasing a cash sum each year from an investment may well look like ‘income’ but could actually be capital. For instance, a strategy of holding growth stocks inside a collective then drawing down an amount each year inside the annual exemption would provide a ‘tax free income’ stream to supplement true pension income. Alternatively, holding interest-bearing assets inside a non-UK bond will mean interest received will grow gross and, if withdrawals are taken within the 5% cumulative allowance available, again be a tax deferred efficient ‘income’.

Retirement planning has for a long time been about more than just registered pensions. Taking a holistic view toward retirement planning requires access to, and knowledge of, the many complementary wrappers and tools which can be used to meet client goals. Being able to manage and advise in this area through a single platform with transparent charging structures may add the required simplicity and control you have been demanding for your clients for some time.

tax planning by wrapper type

	Entry	Investment return	Exit	Access to capital
Pension	Gross	Gross	Gross/Net	25% tax free cash only at retirement or qualifying age
ISA	Net	Gross	Gross	No restrictions
Collective	Net	Net	Net	No restrictions
UK bond	Net	Net	Net	No restrictions
Offshore bond	Net	Gross	Net	No restrictions

This table provides a simplistic view of the tax treatment of investments inside different wrappers and is designed for use by financial advisers only.

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