Not all pension income options are equal

The value of flexible pension income options

Philip

Age: 55
Gross pension pot: £500,000

Philip is aged 55. He's single and in the process of retiring. He's recently paid off his mortgage which has left him with £30,000 in a cash ISA and £27,000 in a savings account that only pays 1.25% interest. He has a defined contribution pension pot of £500,000 and will start to receive his full state pension when he reaches age 67.

He wants a good lifestyle in his retirement and is looking for a net annual income of £35,000 to achieve that.

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

He speaks to his financial adviser to find out if his current investment platform can provide the solution.

For financial advisers only

Retirement with Philip's current platform

- Philip's current platform has a limited range of income options at retirement.
- He's therefore limited to taking his full pension commencement lump sum (PCLS) of £125,000, which he invests in a savings account paying 3% interest.
- The remaining £375,000 is designated to drawdown and grows at 4% gross real each year accounting for 2% inflation.

The 10 year outlook

To achieve his annual net income of £35,000, Philip must take a gross income of £40,608. The full year's gross drawdown is taken at the start of each year from the crystallised account only.

Age	Fund Value			Income		
	Crystalised Pension fund	Savings account	Total	Annual gross drawdown	Annual tax	Net Income
55	£375,000	£125,000	£500,000	£40,608	£5,608	£35,000
56	£344,424	£128,750	£473,174	£40,608	£5,608	£35,000
57	£312,931	£132,613	£445,544	£40,608	£5,608	£35,000
58	£280,493	£136,591	£417,084	£40,608	£5,608	£35,000
59	£247,083	£140,689	£387,771	£40,608	£5,608	£35,000
60	£212,669	£144,909	£357,579	£40,608	£5,608	£35,000
61	£177,224	£149,257	£326,480	£40,608	£5,608	£35,000
62	£140,715	£153,734	£294,449	£40,608	£5,608	£35,000
63	£103,110	£158,346	£261,457	£40,608	£5,608	£35,000
64	£64,378	£163,097	£227,475	£40,608	£5,608	£35,000
65	£24,484	£167,990	**£192,473**		**£56,080**	

Looking 10 years ahead, Philip's total remaining wealth across his pension and savings account is £192,473. He will have paid £56,080 in tax.

Retirement with Quilter

- Using Quilter's platform would give Philip access to a range of income options including TRIO – Quilter's tax-efficient retirement income options.
- His adviser chooses to use TRIO, specifically the option to pay his income through a combination of 25% PCLS and 75% income.
- Only the amount required to pay Philip's desired annual income is moved into drawdown each year, while the rest of his fund remains invested in his pension, growing at 4% each year.

The 10 year outlook

To achieve his annual net income of £35,000, Philip must take a gross income of £28,664, plus PCLS of £9,555 each year. The full year's gross drawdown is taken at the start of each year from the crystallised account only. The Quilter TRIO income split is 25% tax-free cash, 75% income.

Age	Fund Value			Income	
	Pension fund	PCLS	Annual gross drawdown	Annual tax	Net Income
55	£500,000	£9,555	£28,664	£3,219	£35,000
56	£475,635	£9,555	£28,664	£3,219	£35,000
57	£450,538	£9,555	£28,664	£3,219	£35,000
58	£424,689	£9,555	£28,664	£3,219	£35,000
59	£398,064	£9,555	£28,664	£3,219	£35,000
60	£370,641	£9,555	£28,664	£3,219	£35,000
61	£342,395	£9,555	£28,664	£3,219	£ 35,000
62	£313,301	£9,555	£28,664	£3,219	£35,000
63	£283,335	£9,555	£28,664	£3,219	£35,000
64	£252,469	£9,555	£28,664	£3,219	£35,000
65	**£220,678**			**£32,190**	

Looking 10 years ahead, Philip's total remaining wealth across his pension and savings account is £220,678. He will have paid £32,190 in tax.

The difference TRIO can make

By recommending Quilter's platform and by using TRIO:

- only the amount required to pay Philip's desired annual income is moved into drawdown each year
- the policy is worth more as more remains invested over the long term
- less income tax must be paid as less is withdrawn as income
- more remains invested in his pension, a tax-free environment.

The value of advice was:

Investment worth more
£28,205

Income tax saved
£23,887

Delta per annum
76bps*

** The first strategy creates a return on investment of 1.29% p.a. after inflation. The more optimal strategy using Quilter TRIO creates an equivalent return on investment of 2.05% p.a.- the difference between the two being 76bps.*

Case study assumptions: fund values within the pension grow at 4% gross. Philip takes the full amount of tax-free cash and invests in a savings account at 3% net real growth each year.

Pension income payments - as easy as 1, 2, 3

TRIO offers three income options:

1 Pension commencement lump sum only

OR

2 Pension commencement lump sum plus some income

OR

3 Pension commencement lump sum plus full income

- Income can be taken on a monthly, quarterly, or annual basis.
- Income can be taken from specific assets or proportionally across all assets.
- Completing a request online takes just five minutes. Once completed, the process is completely automatic, meaning you don't need to send us a form every time your client needs income.

We successfully deliver almost 100% of pension income payments

Over a three-month period*, our platform delivered approximately 180,000 pension income payments. Almost all were delivered successfully.

**From 1 November 2023 to 31 January 2024, we paid 99.2% of 33,749 dripfeed drawdown ('TRIO') payments and 99.85% of 145,986 regular income payments successfully.*

This is because our platform not only allows you to set up **automatic income payments** for your drawdown clients, it also **manages their cash accounts for you**. It **automatically disinvests** to ensure there is always **enough cash to pay their pension income**. Saving you both time and hassle.

You can find more information on TRIO, including further case studies and a client-facing flyer ***here***.

Or by opening your phone camera and scanning this QR code:

Your clients' investments may fall or rise in value and they may not get back what they put in. This document is based on Quilter's interpretation of the law and HM Revenue and Customs practice as at August 2024. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change. The value of any tax relief will depend on the investor's individual circumstances.

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