

/ Providing for dependents after death

One of the largest concerns in retirement, after providing a sustainable income, is whether or not a client will be able to provide for their family after their death. This can cause a lot of stress for clients, and can easily be avoided with the right products and the right inheritance planning.

Some of the legacy products available on the market have not always had a great inheritability. Take for example the annuity, which may be subject to both Income tax and Inheritance tax depending on the type of the annuity and the age of the client when they died. Inheritance tax would be payable in the case of a lifetime annuity. A lifetime annuity can be purchased with a client's pension and provides a guaranteed income for life. If the client has paid for guaranteed income payments for a fixed period, then the payments and/ or lump sum might fall into the client's estate for inheritance tax purposes.

Current IHT rates (announced up until 2021/22) are as below:

Value of estate	Tax rate
£1 - £325,000 (known as nil rate band)	0%
Over £325,000	40%

/ Income Tax and Inheritance tax

One of the key benefits of the SIPP is that it allows for easy administration of a beneficiary's pension after death. It also makes it easy to manage tax liabilities (if there are any). The tax situation of a client's SIPP will depend on the age they were when they died, and whether or not the SIPP funds are designated to the beneficiaries within two years of death.

Death before age 75

- / If the client dies before the age of 75 and the SIPP death benefits are paid within 2 years of notification of death, then any sums will be paid tax free
- / the tax treatment will be the same regardless of whether the beneficiaries opt to take it as income or as a lump sum

Death after age 75

- / If the client lives beyond their 75th birthday, then the death benefits will be taxed at the beneficiary's marginal rate.

Regardless of whether the client was aged 75 or not when they died the SIPP will not ordinarily be subject to IHT. Therefore, clients can rest assured that if they pass during a period when a death benefit value is payable into the SIPP, then subject to HMRC guidance being met their spouse or beneficiaries will not have to face an IHT bill from the SIPP.

/ Longevity – how long do we need to plan for?

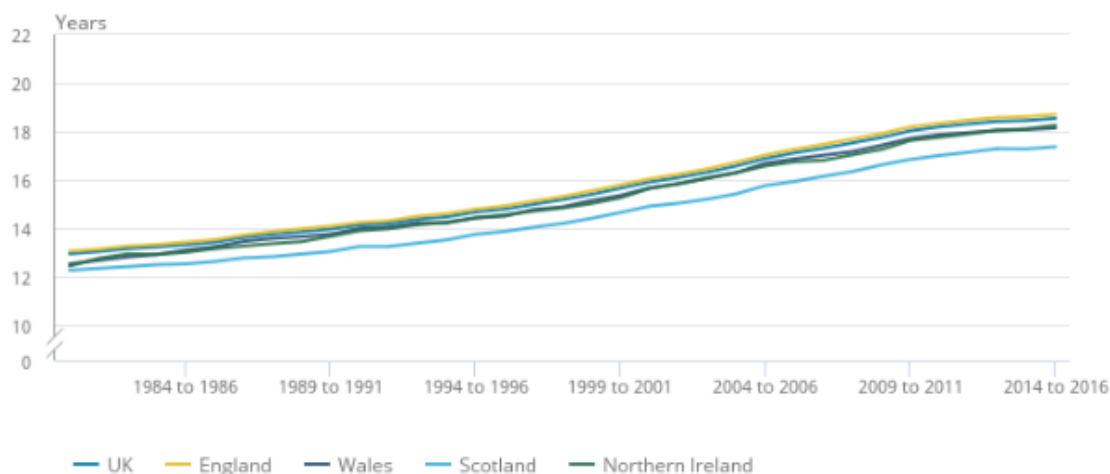
One of the biggest problems in retirement is trying to plan how long we will live for.

According to the Office of National Statistics (ONS) life expectancy is increasing for both men and women from the age of 65. Men can now be expected to live an extra 6 years than they were expected in the 80s.

With life expectancy increasing it is crucial that retirement planning is catered for longer-life and that clients have a sustainable income strategy that can support such living. Many individuals underestimate their life expectancy and this can lead to poor retirement planning.

Figure 5a: Life expectancy at age 65, UK and constituent countries

Males, between 1980 to 1982 and 2014 to 2016



/ Guaranteed Income – an alternative annuity?

Annuities were traditionally popular because of their ability to guarantee income for life. This does come at a cost to the client, but provides the security that they know the income is guaranteed and therefore minimises the possibility of running out of money, a fear that faces many retirees. However, one of the drawbacks of a standard annuity is that it does not provide a death benefit unless a guarantee is purchased at outset, and where it does provide a fixed term guarantee this could be subject to inheritance tax.

The guaranteed income products available on the Novia platform are a true innovation. Offering a guaranteed income for life, cash in value, death benefit and are fully SIPP compatible.

- / **Death Benefit** – The Guaranteed Income option enables inheritance planning for the Investor, and offers a cash death benefit for a fixed period. The benefit and expiry date is set at the time of purchase. The initial death benefit is defined by the provider as a given proportion of the initial premium and reduces over time to zero.
- / **Cash in Value** – There is the additional benefit of an initial 'Cash in Value'. This provides additional flexibility if there is a change in circumstances. At inception, the Cash in Value will be equal to the death benefit. The amount is subsequently dependent on when the Investor wishes to take the lump sum, and market conditions at the time.
- / **Underwriting**: Underwriting is common to annuities, but not been widely offered on platforms before. The addition of underwriting means that both Advisers and Investors can be confident that the income has been secured and correctly calculated based upon their individual circumstances.

The new innovation of the guaranteed income product on the Novia platform is, in our opinion, the sort of thing the FCA have been asking for, addressing and meeting the needs of clients in an ever evolving retirement landscape. This can be seen in both their Investment Platform Market Study (MS17) and the Retirement Outcomes Review paper (MS16). The FCA believes that the market has been adjusting to the pension freedoms, but now needs to innovate to provide better solutions for customers.

/ What does this mean...

In the past, clients approaching decumulation have always had to trade off or compromise on retirement solutions; either have an annuity or have a SIPP, or have both but in separate places. Both the annuity and the SIPP have a lot to offer a retirement client and therefore the opportunity to combine the two and create the best of both worlds is the solution that the market has been waiting for. The ability to hold the Guaranteed Income product within the Novia SIPP allows Investors to draw down all or part of their guaranteed income and invest the rest of their portfolio in line with their investment objectives.



To find out more about Guaranteed Income contact your Novia Sales Manager today

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