Financial wellbeing – managing the key risks

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Close Brothers

Driving financial wellbeing

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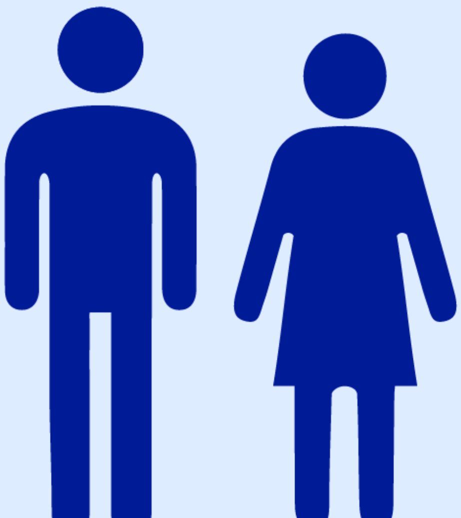
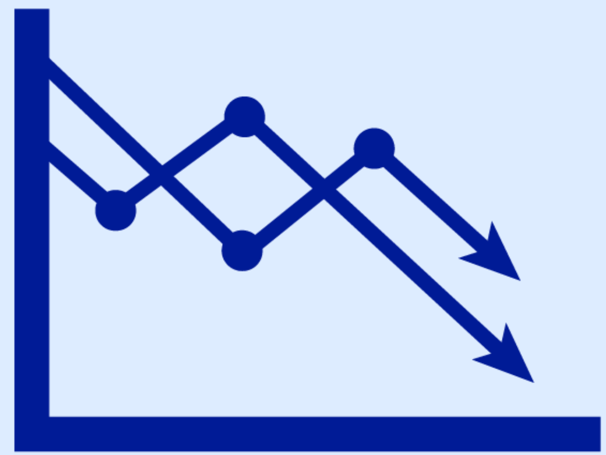
Poor financial wellbeing is not just ……….

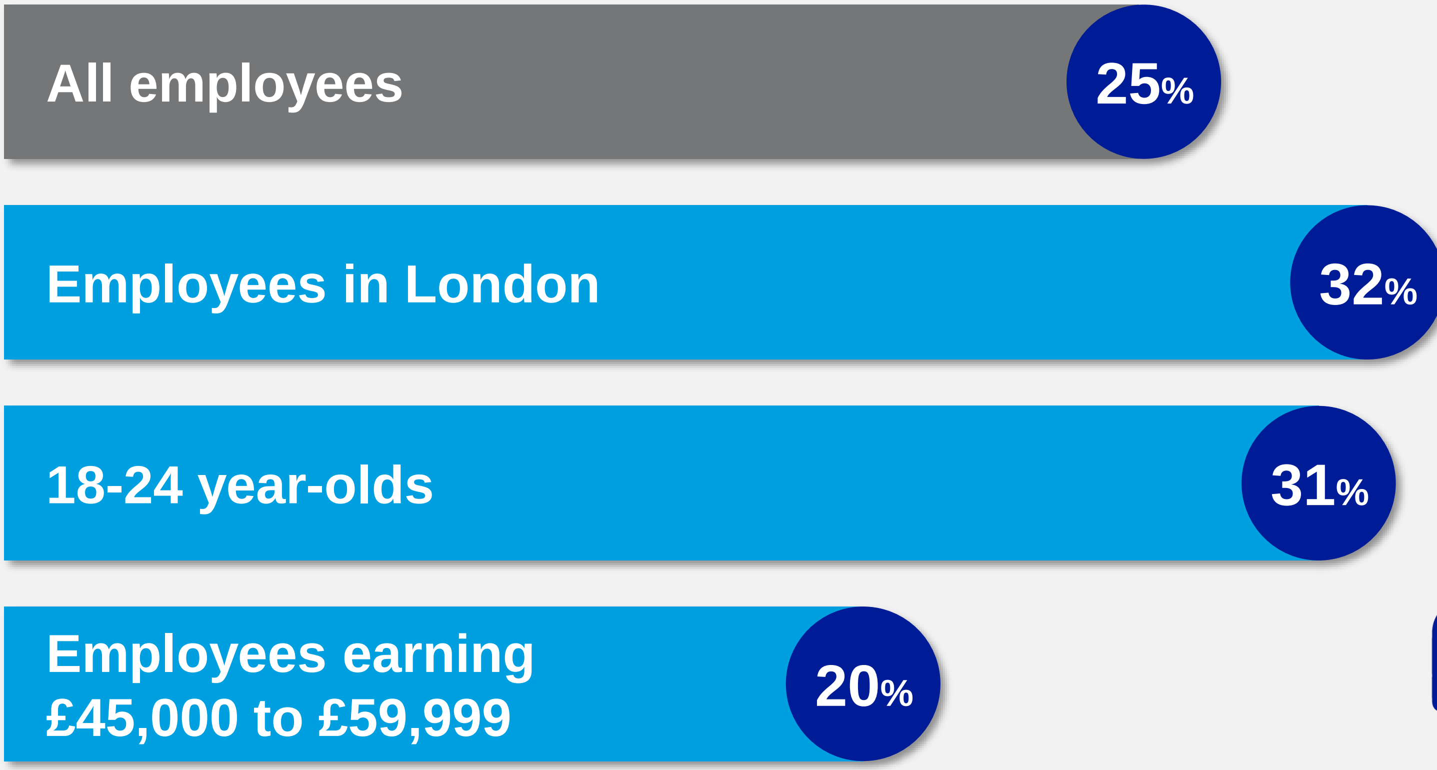




Bad for them

It’s bad for business

CIPD research shows……….



Source: CIPD/ Close Brothers research Financial wellbeing in the Workplace January 2017

Who needs help?

Approaching retirement

Divorce

Dealing with relatives in care/ their estate

Debt

Choosing investments

Protecting family

Pension savings plan

Mortgages

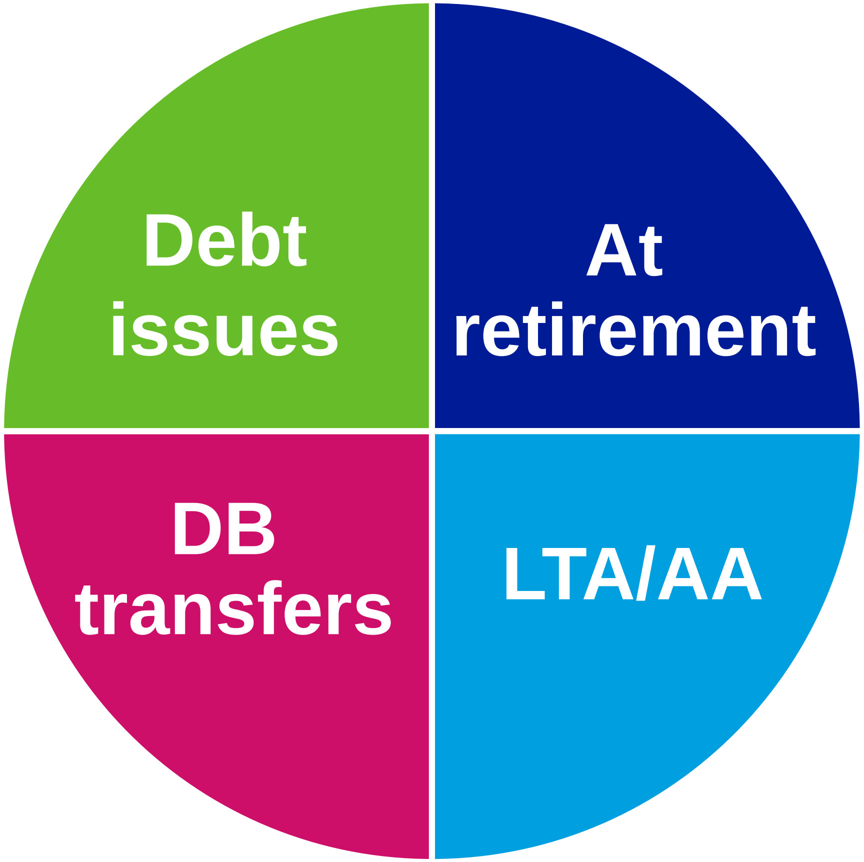
Full financial wellbeing

“ Hire to retire financial education and access to advice and implementation”

Starting point

“ The dumbbell approach”

At minimum – biggest risks



Retirement is just much more complex

What income do you want?

But…
you don't want to run out of money

Do you have enough money - what risk are you willing to take?

Do you want to leave a tax-free legacy?

What income do you want in retirement?

A
£12,719

B
£26,000

C
£36,000

D
More

Annual income needed in retirement

Average
£26,000[1]

State pension £12,719 [2]	Additional £14,909 [3]	Or more?

Source & assumptions:
1. Which research April 2017
2. State pension is currently £122.30 per week (if you qualify for it before 6 April 2016). Assumed two state pensions are received and shortfall covered by one person
3. Assumed 20% tax paid over £11,500 personal allowance

When do you want your income to stop?

A	B	C	D
85	95	Higher	?

How could you get there?

Capital required

A	B	C	D
£270,000	£330,000	£340,000	£400,000

Source & assumptions: Close Brothers Intelligent Retirement modeller
Taking income from 65
A & B - Based on the Median Case – 50% percentile of expected outcome for a Balanced portfolio
C & D - Based on the Lower Case – 90% percentile of expected outcome for a Balanced portfolio

Decisions at retirement – a solution

Best practice

- Pension engagement for all
- 10 - 5 years from retirement
- 12 months pre-retirement
- Access to advice prior to accessing pension

At minimum

- Accessible retirement income/ pension saver modeller
- Communication on pension freedoms
- ‘Top tips’ on where to find suitable advice
- ‘Top tips’ on avoiding fraud
- Only allow transfers to suitable investment products/ provider
- Check individuals have received advice

DB transfers – the problem

Morning Simon,

I was put in contact with Close Bros through our HR Director who mentioned that you were able to conduct DB – DC transfers.

My situation is as follows:

Armed Forces service to 2001 – preserved pension kicks in Aug this year age 55.

2001 – 2007 working at current employer on a DB pension scheme closed in 2007 to any new accruals.

2007 – 2016 DC pension at current employer but stopped further contributions in March 16 to enable me to take fixed protection 2016.

DB pension retirement age 60 without actuarial reduction ran from 2001 – 2003 from 2003-2007 age was increased to 65. I could take the pension at 60 but with a significant actuarial reduction on the 2nd part.

Aware of recent high CETV valuations so asked for a quote for transfer which was calculated on Feb 21 and is valid for 3 months from then i.e must be completed by 21st May. The quote looks v attractive as it allows increased flexibility and opportunity for earlier retirement and gives option to pass on wealth should I die early. My Armed Forces pension was last valued at 16,700 pa from this Aug and with my DB and DC valuations I find myself around the £1.25m LTA limit albeit the delay in my transacting the transfer is due to a long awaited assessment of the calculation of my Forces pension which is due now. Given my situation and the fact I also have a significant ISA holding and have no mortgage on the house, I'm confident that the transfer of DB to DC is right for me and at minimal risk given my overall situation. I conduct all my own investment decisions and am happy to do so in retirement following a move into drawdown but I'm aware that for the transfer to go ahead I need to have a degree of due diligence carried out by an IFA and require a signed declaration to that effect.

Could you please provide me with a quote for conducting the transfer, recognising that I don't require investment advice simply the due diligence element. A colleague and friend has also determined to transfer his DB to DC, so there would potentially be two of us subject to the right T's and C's.

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Pension decisions – the risk

A	B
£7,981 annual income	£175,203 CETV

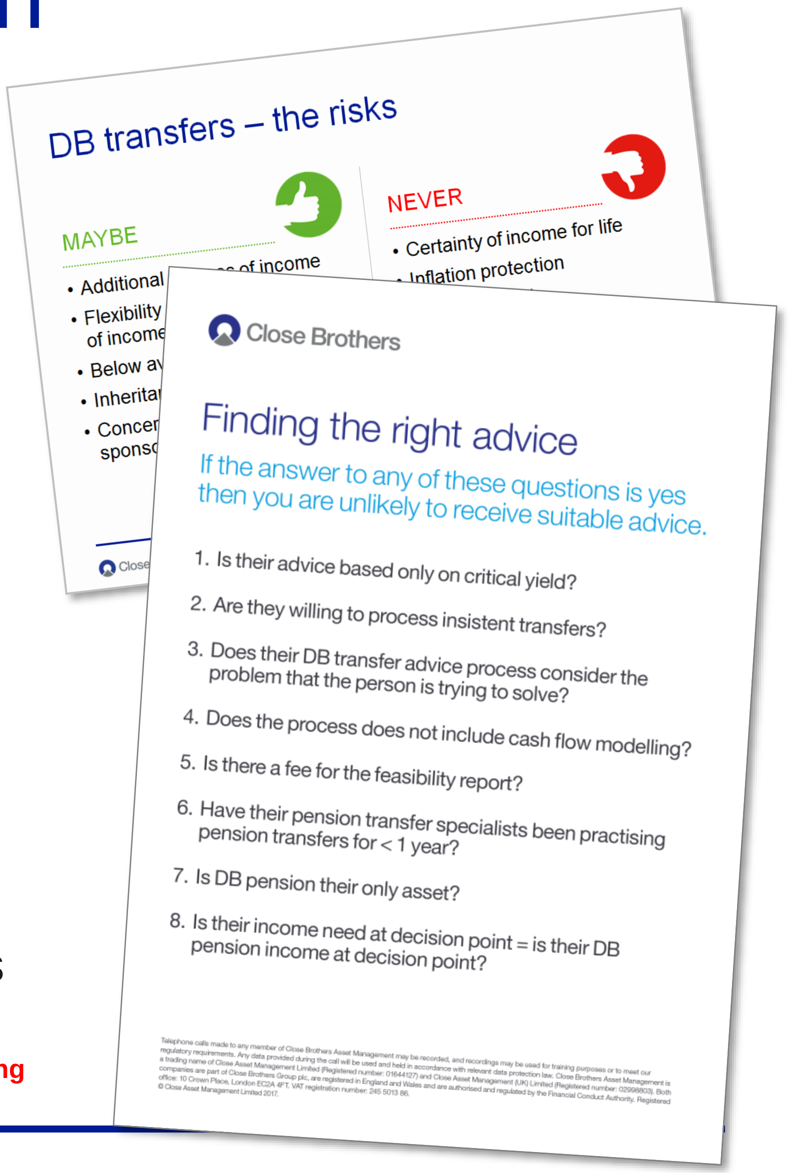
DB transfers – a solution

Best practice

- Seminar/ webinar
- Access to selected DB pension transfer advice service

At minimum

- ‘Top tips’ on where to find suitable advice
- ‘Top tips’ on avoiding fraud
- Only allow transfers to suitable investment products/ provider
- Check individuals have received advice
- What is your position if you know the advice was no? – Do not process insistent transfers



DB Transfers are usually only suitable in most cases for individuals with existing sources of suitable retirement income outside their DB pension.

Lifetime/ annual allowances – the risk

You have communicated the reduced limits ✓

You have reduced annual contributions to £10,000 ✓

You have provided a cash alternative ✓

Problem solved? ✗

Lifetime / Annual allowances – the risks

Lifetime	Annual
Choice: • Restrict benefits? • Pay tax charge?	What are they doing instead to save for retirement?

Annual Allowance – the next 10 years….

Emma

- Earnings £100,000 pa
- DC pension 5% employee, 15% employer
- Total contributions £20,000 pa

£294,352

James

- Earnings £210,000 pa
- Same DC pension
- Limit contributions £10,000 pa
- £10,000 cash alternative

£122,646

42% less
(£171,706)

Assuming growth at 4% per annum over a 10 year period

What could James do instead?

£5,800 net pa

A
Holiday

B
Mortgage overpayment

C
Cash savings

D
Investment

What does James do instead?

A Holiday - GONE	B 8 years early	C £61,008	D £71,134

Which is going to help him prepare for retirement?

How does that compare to Emma?

£171,706 savings gap over 10 years

Assumptions
1 - £150,000 repayment mortgage , 20 year remaining, 3.5% interest, overpayment £5,800pa – 8 years 7 months
2 - £5,800 saved over a 10 year period earning 1% per annum
3 - £5,800 saved over a 10 year period earning 4% per annum

Lifetime/ annual allowances – a solution

1. Annual education to capture those potentially affected/ approaching these limits/ all employees
2. Education addresses
   - Limit and tax impact
   - Example showing who is potentially impacted/ valuing pensions
   - Protections available
   - Alternative investments to pensions – for cash alternatives and retirement income planning
   - Includes how to assess attitude to risk
3. Access to 121 advice

Managing debt – the issue

- Knowing the difference
- Managing debt
- Knowing where to go to get help

Managing debt – a solution

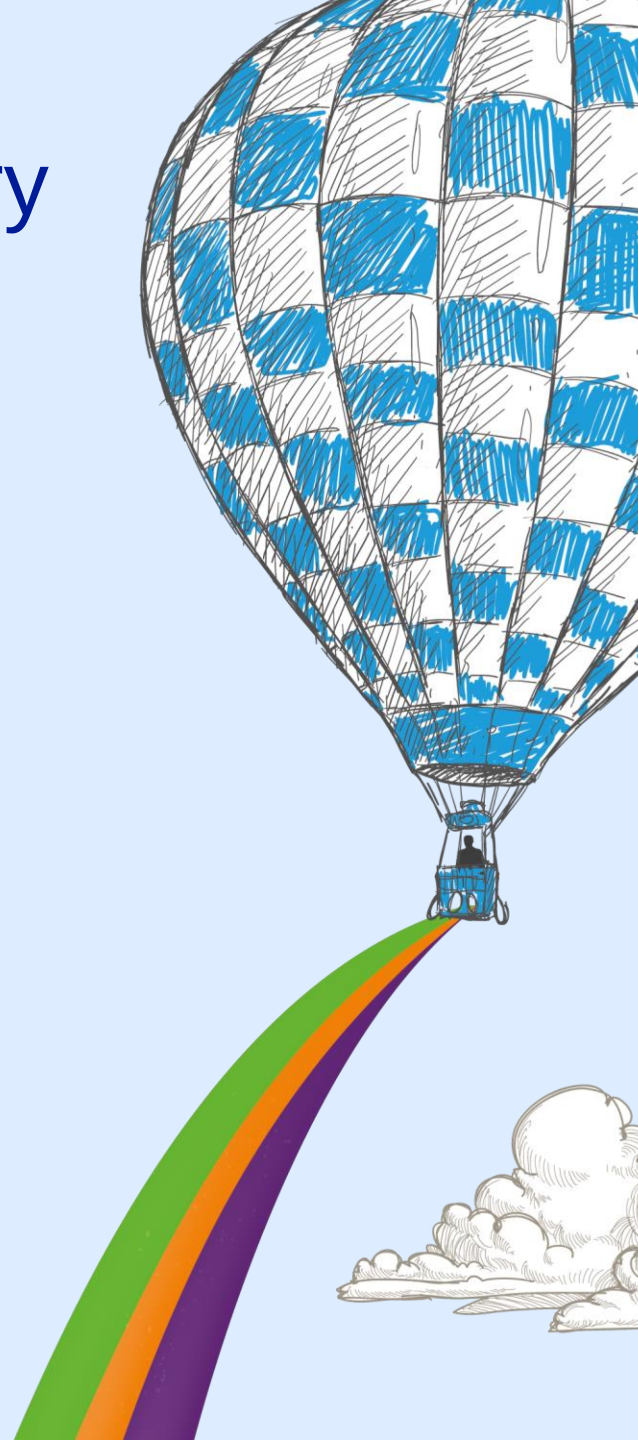
Crippling debt	Debt as part of normal life

• EAP
• Debt counselling
• Bankruptcy
	• Education
	  • How much?
	  • Where to get a loan/ where not to
	  • Mortgages/ remortgages
	  • Regular reviews
	  • Changing provider

Financial wellbeing – summary

Best practice – 7 steps to financial wellbeing

1. Have a strategy
2. Communicate your strategy
3. Ideally have a programme that includes all workers
4. If not, start with key risk areas
5. Then introduce the areas of biggest impact
6. Measure the starting point and impact
7. Refine plan over time



Close Brothers

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Investments

Close Brothers

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