Understanding and Analysis Report

Mr and Mrs Example

Date 13th August 2019

This report is based on a number of assumptions and has been produced with certain scenarios in mind. The retirement income forecasts are forecasts and are not to be treated as certainties. Based on actions and events the outcomes will change
The recommendations made are based on the current tax legislation which is subject to change

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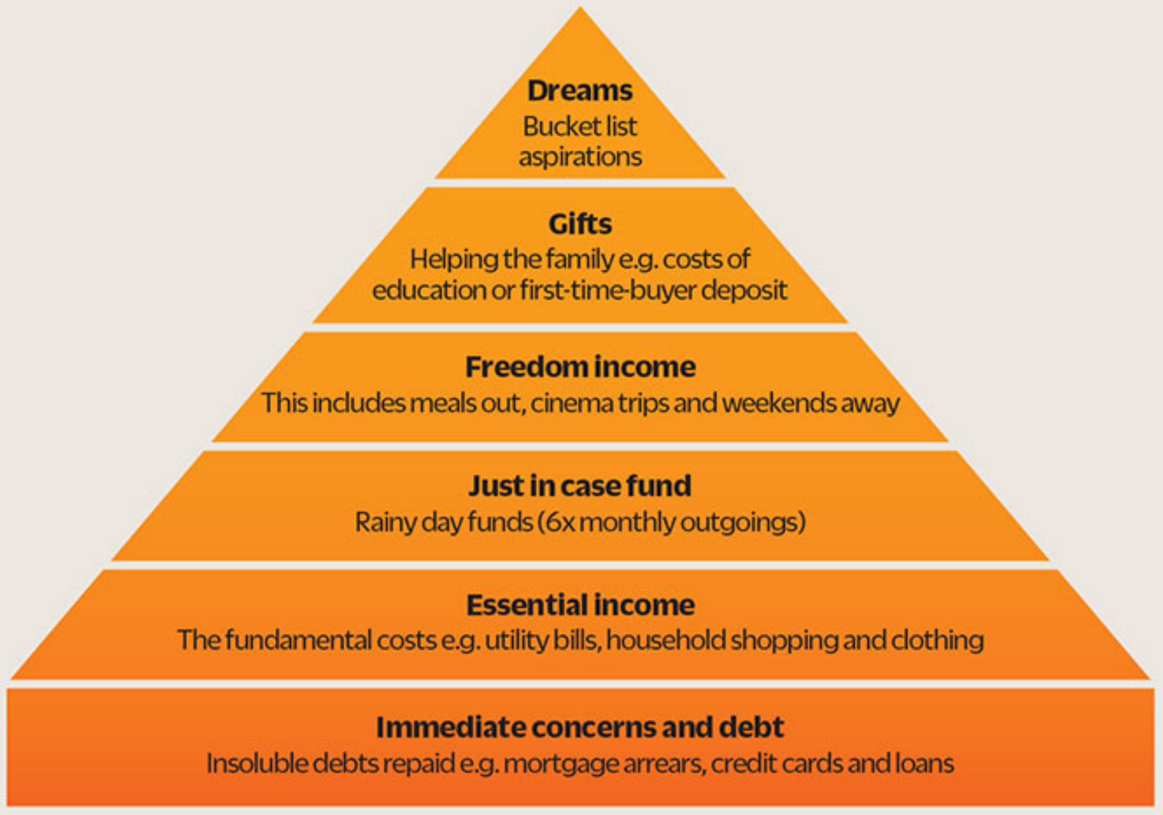
The Benefits of Financial Advice

The potential benefits of receiving and acting on advice from a qualified financial adviser are:

- Identify goals/shortfalls/problems/objectives
- Assess attitude to risk/capacity for loss
- Budgeting/affordability/cash flow
- Analyse suitability of existing arrangements/analyse your changing circumstances
- Tax planning/use of tax allowances/tax efficiency
- Benefit from research
- Receive recommendations/implement a financial plan
- Ongoing service/reviews
- Professional/expert knowledge
- Clarity of explanation/aiding understanding
- Regulated advice/consumer protection.

Pyramid of Spending



SOURCE: JUST RETIREMENT AND MITCH ANTONY

Questions to Consider:

Do you want to reach financial freedom?

What will you do when you get there?

What does financial independence look like?

Personal Objectives

Immediate and Longer Term Objectives:

- ✓ You would like to retire early to enable you to enjoy life whilst you are young enough and healthy enough to do so. You are concerned about the likelihood of breast cancer due to the amount of family members that have had it.
- ✓ You would like to buy a place abroad and either live there or live there for 6 months of the year.
- ✓ You would like to remain active and healthy and not worry about money.
- ✓ You would like to ensure that you have a plan in place and a clear picture of where you are heading both financially and in terms of lifestyle and ensure within that, all the arrangements that need to be put in place have been.
- ✓ You would like to travel to the places you have not yet been, particularly Asia and Australia.
- ✓ You are concerned about what will happen to your disabled son, although living independently this is still a concern.
- ✓ You may consider going part time at some point in the future but you are unsure at this moment in time what this would look like.
- ✓ You are about to pay off your mortgage in the UK and want to ensure that the monies you have been paying every month are redirected somewhere else.
- ✓ You need £3,000 net per month in retirement plus an extra £10,000 for the first two years for the additional travel.

You asked me to analyse your current financial position to see if these objectives are achievable given your current financial position

Freedom and Choice in Retirement

What do the new rules mean?

Since April 2015, following changes in legislation, individuals have had more freedom and choice about how to access their personal pension savings. One of the key benefits of personal pensions is that 25% of the fund can be accessed tax free, the residual when accessed is treated as earned income.

With regard to personal pensions, generally these are the 5 main options available with the introduction of pension freedoms:

- Leave your pension pot untouched – leave it invested
- Get a secure income – known as an Annuity
- Get a flexible income – known as Drawdown (Flexible Access Drawdown)
- Cash in your whole pot – may be subject to a considerable amount of tax
- Mix the options – either now, or at some future point in time

NB Once 'income' is accessed from a personal pension arrangement, contributions to personal pensions are limited to the 'Money Purchase Annual Allowance' (MPAA) currently £4,000.

Along with changes to accessing pensions in the hands of the retiree, the government also amended the rules around taxation of death benefits relating to pension funds. This has created opportunities for legacy pension planning which were not in place prior to the new legislation.

Remember that although the new rules apply to every person, they don't necessarily apply to every pension fund and this is something we will explore in relation to your pensions.

Attitude to Risk and Capacity for Loss

Establishing and understanding your risk profile.

Mrs - Cautious ATR

You are likely to require an investment where the potential return is better than that available from a deposit account and you accept that the value of your investment can fall as well as rise.

As a cautious investor, you may have some limited experience of investment products, but you are likely to be more familiar with bank and building society accounts rather than other types of investments. You have a preference for outcomes that have a degree of certainty although you understand that in certain circumstances, particularly if investment markets fall, the value of your investments could fall in turn.

Cautious investors can take a relatively long time to make up their mind on investment matters and may feel concerned when investment decisions turn out badly

Typical Asset Allocation

	UK Equities	**20%**
	US Equities	10%
	Other Developed Markets Equity	10%
	Alternative Strategies	10%
	UK Bonds	35%
	Global Bonds	15%

Attitude to Risk and Capacity for Loss

Establishing and understanding your risk profile.

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Mr - Balanced ATR

You are likely to require an investment that offers higher returns than those available from deposit accounts. You are also likely to accept fluctuation in the value of your investments as the markets change, based on an understanding that this will be necessary to meet your long-term goals. As a balanced investor, you will be knowledgeable about financial matters, and show some interest in keeping up to date with them. You may have some experience of investment, including investing in products containing assets like shares and government bonds. In general, you understand that you have to take investment risk in order to be able to meet long-term goals and you are willing to take risk with part of your investments, accepting that the value of them could rise or fall. Balanced investors will usually be able to make up their minds on investment matters relatively quickly, but do still feel some concern when their investment decisions turn out badly.

Typical Asset Allocation

	UK Equities	30%
	US Equities	15%
	Other Developed Markets Equity	15%
	Alternative Strategies	5%
	UK Bonds	20%
	Global Bonds	5%
	Emerging Markets	10%

Strengths and Weaknesses of your current position.

Strengths

- ✓ You have a will in place although it may need reviewing.
- ✓ You are overpaying the mortgage and intend to pay it off this year which means you will then be mortgage free.
- ✓ You are both in reasonable health but are concerned about the breast cancer in the family, although you have regular checks for this.
- ✓ You have several pensions and a range of assets that you can utilize for your financial planning.
- ✓ You haven't used your ISA or Capital Gains tax allowance in the 19/20 tax year, meaning they are available for use.
- ✓ You are paying into your employers pensions and they are maximizing contributions as well.
- ✓ You haven't made any gifts in the last 7 years which means you have all your inheritance allowances available for use.
- ✓ You have earning capacity to enable you to take control of your financial planning.

Weaknesses

- ✓ Your will may need reviewing to ensure it makes adequate provision for your son in a tax efficient way.
- ✓ You should both have Lasting Powers of Attorney for yourselves, all parents and ensure that they all have more than one person as the attorney.
- ✓ Your life cover policies are not in trust meaning they will add to the estate on death.
- ✓ You own the house as joint tenants instead of tenants in common which may not sit with your intended route on death and may not be the most beneficial way to hold the property in the future.
- ✓ Your pensions are invested in a range of providers making a plan difficult to bring together. Only one of your plans allows flexi access drawdown in retirement.
- ✓ All of your current pensions are too high risk for your risk appetites and haven't performed as well as their peers or the benchmark.
- ✓ Neither of you have full state pension, Mrs forecast is currently as £162.72pw and you need another 2 years for full state pension. Mr has £123.35pw and needs another 10 years worth of contributions to ensure full state pension.
- ✓ Some of your plans do not allow nominees drawdown meaning they could contribute to your inheritance tax liability on second death.
- ✓ Any inheritance you receive directly from your parents and family members will increase your exposure to inheritance tax.

Pension Considerations

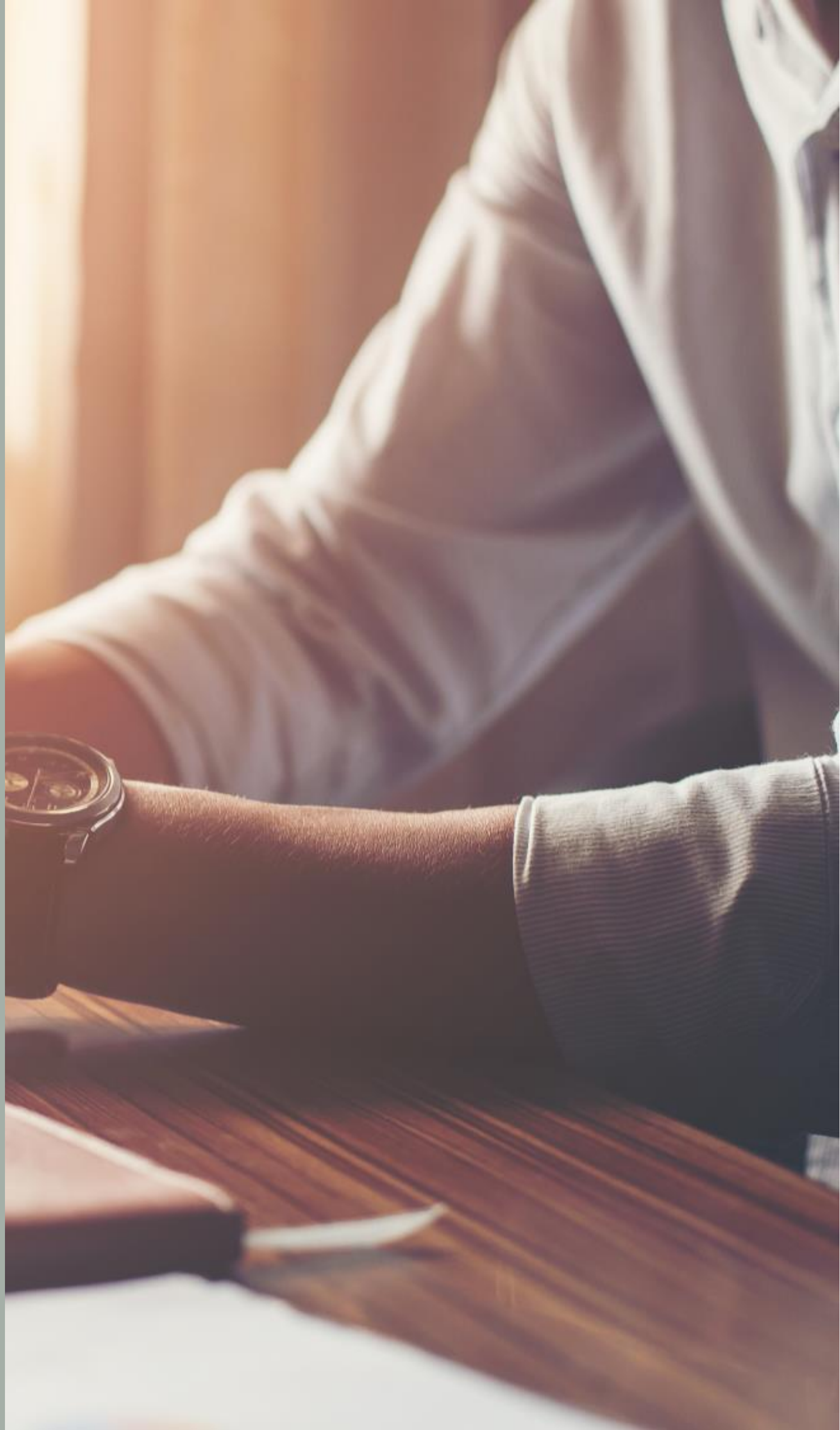
<u>Mrs Pensions</u>

1. XXX Provider

The XXX plan is an old style plan that isn't in-line with the new flexible pension rules. The only option at retirement with this is an annuity or uncrystallised pension fund lump sums. It doesn't allow 'Flexi Access Drawdown'. The plan doesn't allow 'Nominee's Flexi Access Drawdown on death' meaning the plan would pay out on first death and potentially add to any inheritance tax on second death.

The fund is invested into the Balanced Lifestyle fund, although you have other funds in your other pension.

- Balanced Lifestyle Fund – This is a middle risk fund that has pretty much tracked the sector (its peers) and the benchmark. The fund has done 27.63% over the past 3 years vs a sector of 27.03%. A lifestyle fund means that they start to move the asset mix into safer assets as you near retirement. The problem with this is it is an automated process that doesn't take account of timing in the markets. It is also a strategy traditionally used if you are securing an annuity in retirement as opposed to remaining in drawdown and therefore this may not be in line with your objectives.



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Pension Considerations

2. Mrs XXX Pension

The XXX Pension is similar in that it doesn’t allow Flexi Access Drawdown. The only option at retirement is an annuity. There is no option for Nominees flexi access drawdown but you could move to another plan within XXX with no charge but no advice and this would allow access to the full flexible features that the new rules allow.

The fund is split between XXX and XXX Enhanced Diversification Growth Fund.

- The XXX Fund targets a return of 3.5% above the Bank of England official bank rate over a rolling 3 year period. The fund has not performed over the long term in comparison to the sector with the figures being as follows: Over 3 years 9.93% vs 21.18% and 5 years 8.04% vs 32.71%. It is a balanced fund in terms of risk.
- XXX Enhanced Diversification Growth fund targets long term growth and income. It is a higher risk fund in comparison due to the higher equity (shares) content and has underperformed its peers (the sector) but alarmingly the benchmark by a large margin. Figures are (fund:sector:benchmark): Over 3 years 11.78% vs 26.22% vs 52.55% and over 5 years 21.14% vs 38.46% vs 78.00%.

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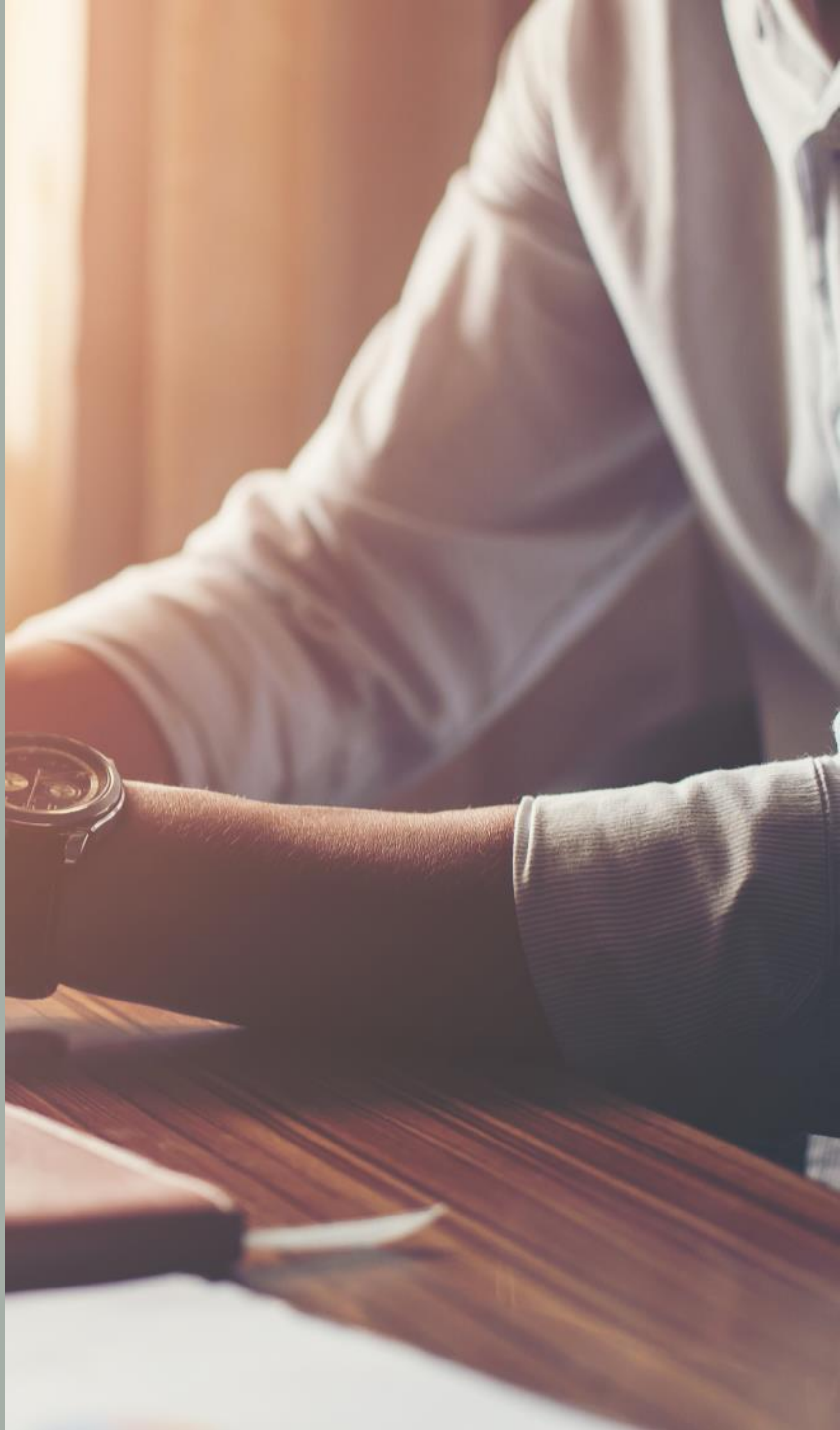


Pension Considerations

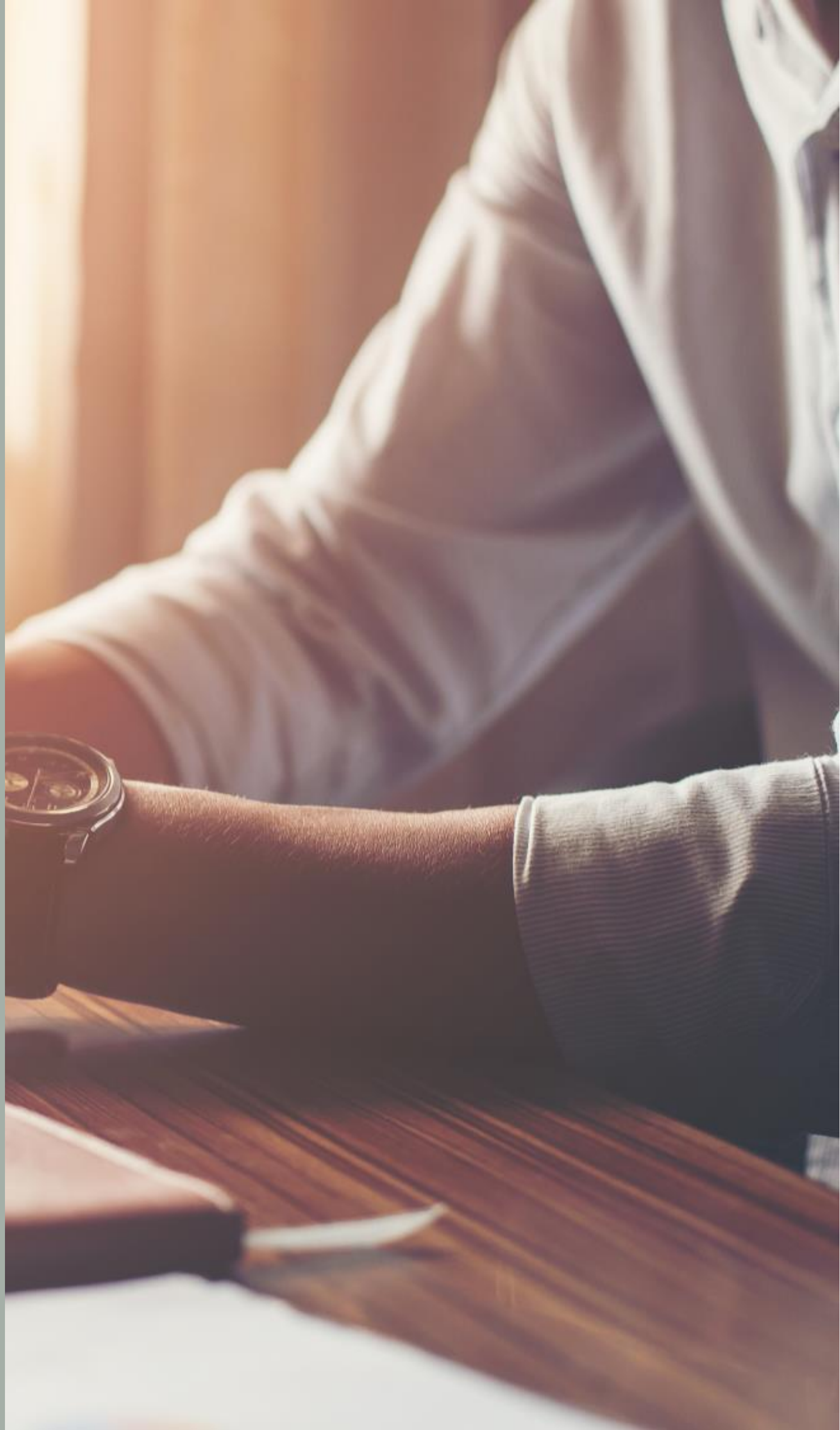
Initial Thoughts for All Pensions

Overall the fund performance has not been as good as expected over the 3 and 5 year periods. When we look at the portfolios as a whole they have underperformed the sector and the benchmark over the longer term which can be seen on the enclosed FE Analytics Report. On some of the funds you are taking more risk that your attitude to risk suggests you would be comfortable with (in both cases) but not receiving the rewards you would expect.

If you wish to access flexible features in retirement then the funds will have to be moved. Either to other products within the existing wrappers or to other providers completely. There may be charges for this.

They are not as tax efficient on death as they could be due to not allowing ’Nominee’s Flexi Access Drawdown’ and this is something you need to consider due to the impact on inheritance tax on second death. There is an ‘Pension Death Benefits” Example in the pack.

The funds as a whole are too high risk for you as they are Balanced and Adventurous and you are Cautious and Balanced Investors. Although this may give you better performance over the long term it may also make you uncomfortable with the volatility in the funds in turbulent times.

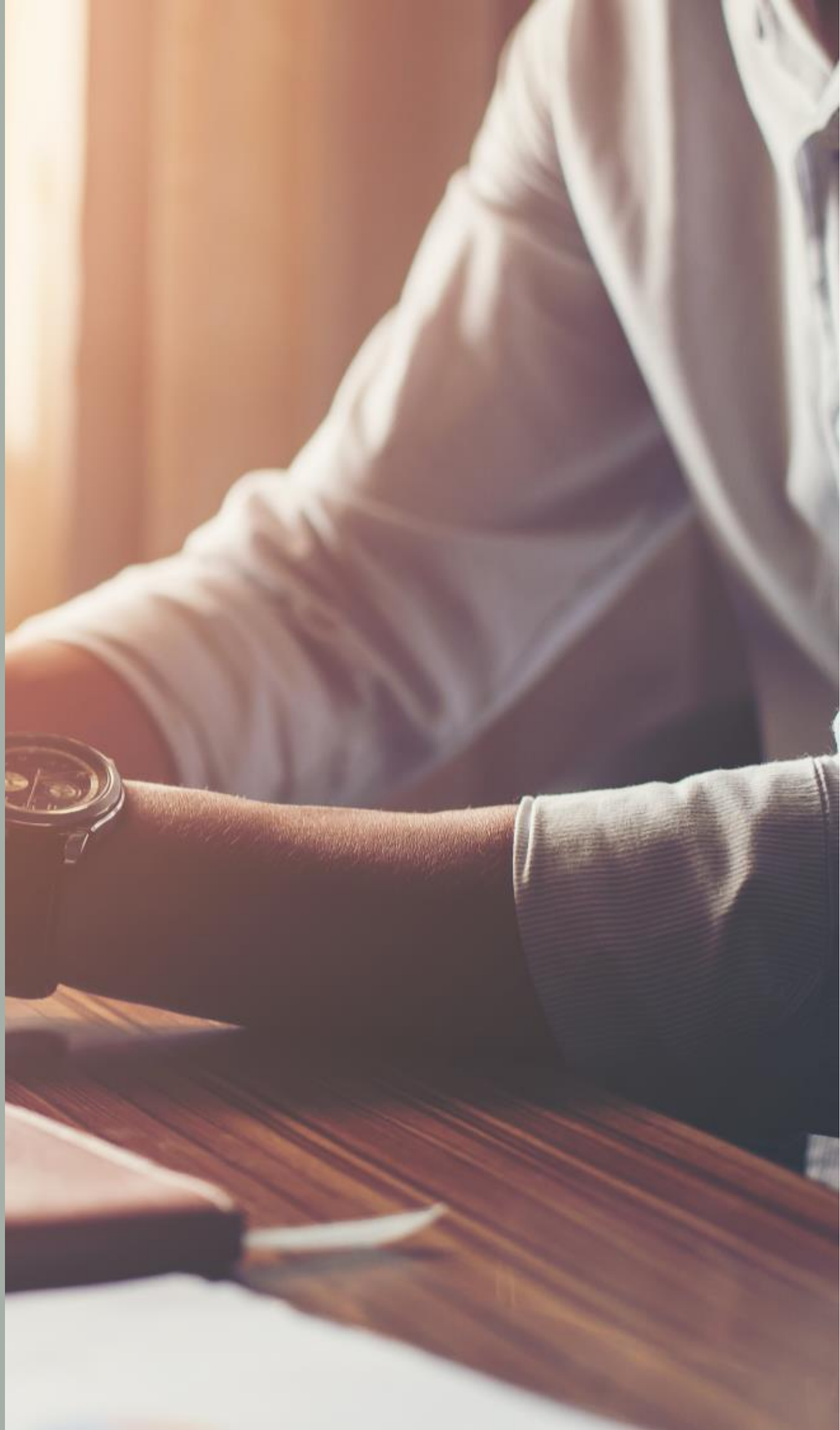


Inheritance Tax Calculations

Current Estate Planning

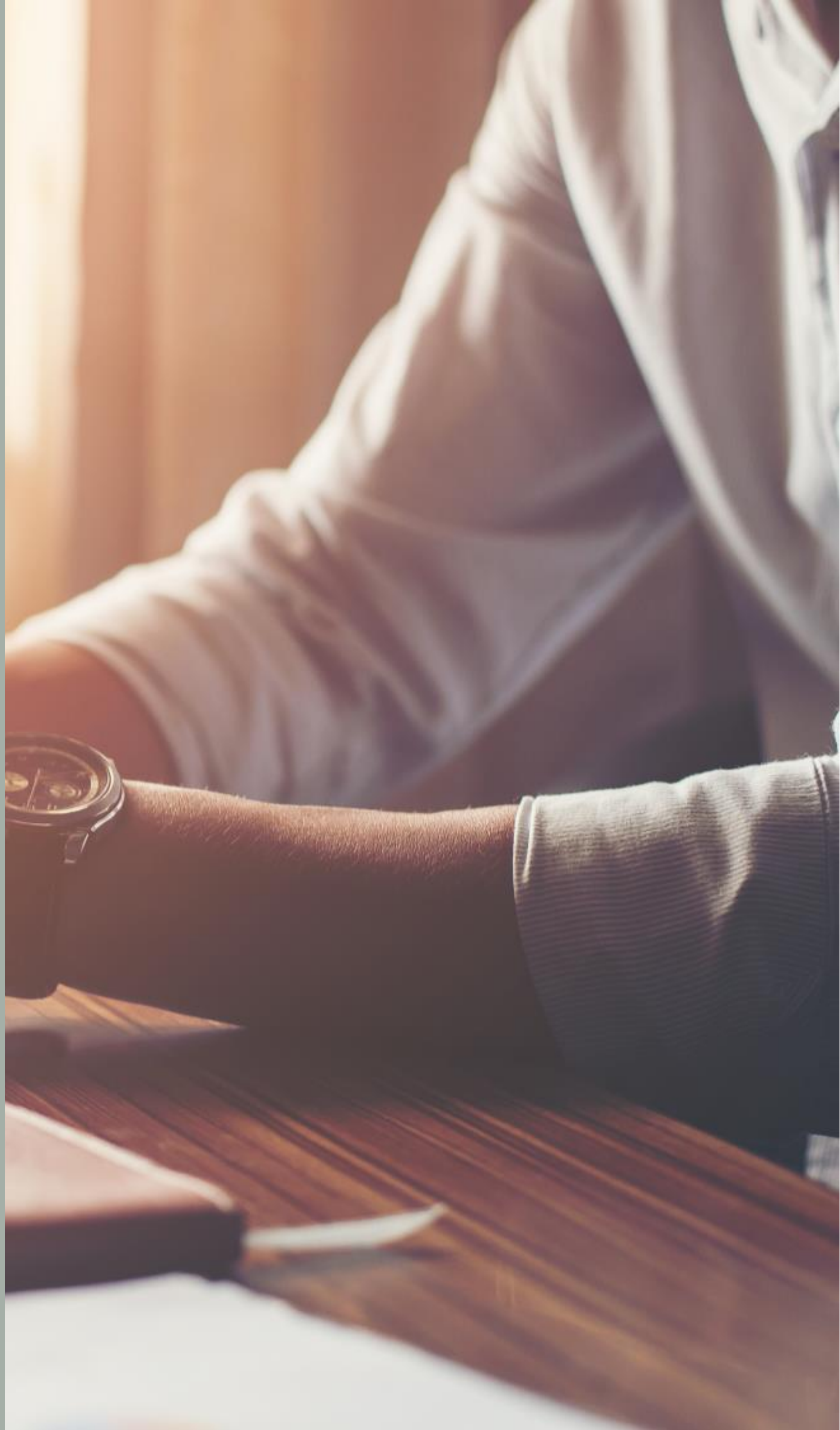
Main Residence	£1,000,000.00
Savings	£100,000.00
Investments	£50,000.00
Total Assets:	£1,150,000
Minus Liabilities:	£0 – being paid off now
Net Estate:	£1,150,000
Nil Rate Band (£325,000*2)	- £650,000.00
Taxable Estate:	£500,000
Tax at 40%:	£200,000

Note: The main residence nil rate band has not been included due to the potential for trust planning for your son.



Initial Recommendations

- ✓ Review your will to ensure your wishes are documented for on death. This should include discretionary trust for your son that the funds are outside of future estates for inheritance tax planning and to ensure control of the money, protection for means tested benefits and also protection against future bankruptcy and divorces if applicable.
- ✓ You should ensure you both have Lasting Powers of Attorney in place with at least 2 attorneys and a replacement attorney. You should also ensure they are in place for parents.
- ✓ Owning the properties jointly but as tenants in common allows you to will them to people you individually wish. Transfers between spouses are ‘tax neutral’ so doing so shouldn’t cause any tax charges.
- ✓ You have not maximized your state pensions. Mrs’s is likely to be full state pension by the time she retires but Mr’s has 10 years missing. You are able to go back a number of years to top up the state pension and then make voluntary contributions going forward to ensure a full National Insurance record.



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Initial Recommendations

- ✓ Ensure that all pensions have the nomination of beneficiary forms (expression of wish) completed so that the trustees know where to direct the money on death as pensions are held under Trust and don't follow the terms of the will.
- ✓ Once the mortgage is paid off, utilize your income to maximise any allowances to you including the ISA and Capital Gains tax allowances by building up tax efficient investments using disposable income.
- ✓ Pay £2,880.00pa into a pension for Mr and receive tax relief of £720.00 per annum from the government. This can be done regardless of him not working. This means a total of £3,600 is going into the pension pa with it only costing you £2,880.00.
- ✓ Protection – you should ensure any protection policies you have are held in a trust to ensure they are outside of the estate for inheritance tax purposes and do not add to the estate. You should ask your parents to leave any inheritance to you via a discretionary trust so that it doesn't add to your estate on their death (or go directly to your son).
- ✓ With regards to inheritance tax, as the bulk of the estate is your main residence you have limited options for how to mitigate this. As the situation will change when the house is sold in the future this is something we can review at the time. Depending on who the estate is going to be left to, you could consider setting up some life cover to pay the bill and we will discuss this in the meeting but as an example for £203,980 of whole of life cover it would cost in the region of £179.68pm which means you would both have to live another 94.6 years before you have paid more money in than it pays out.

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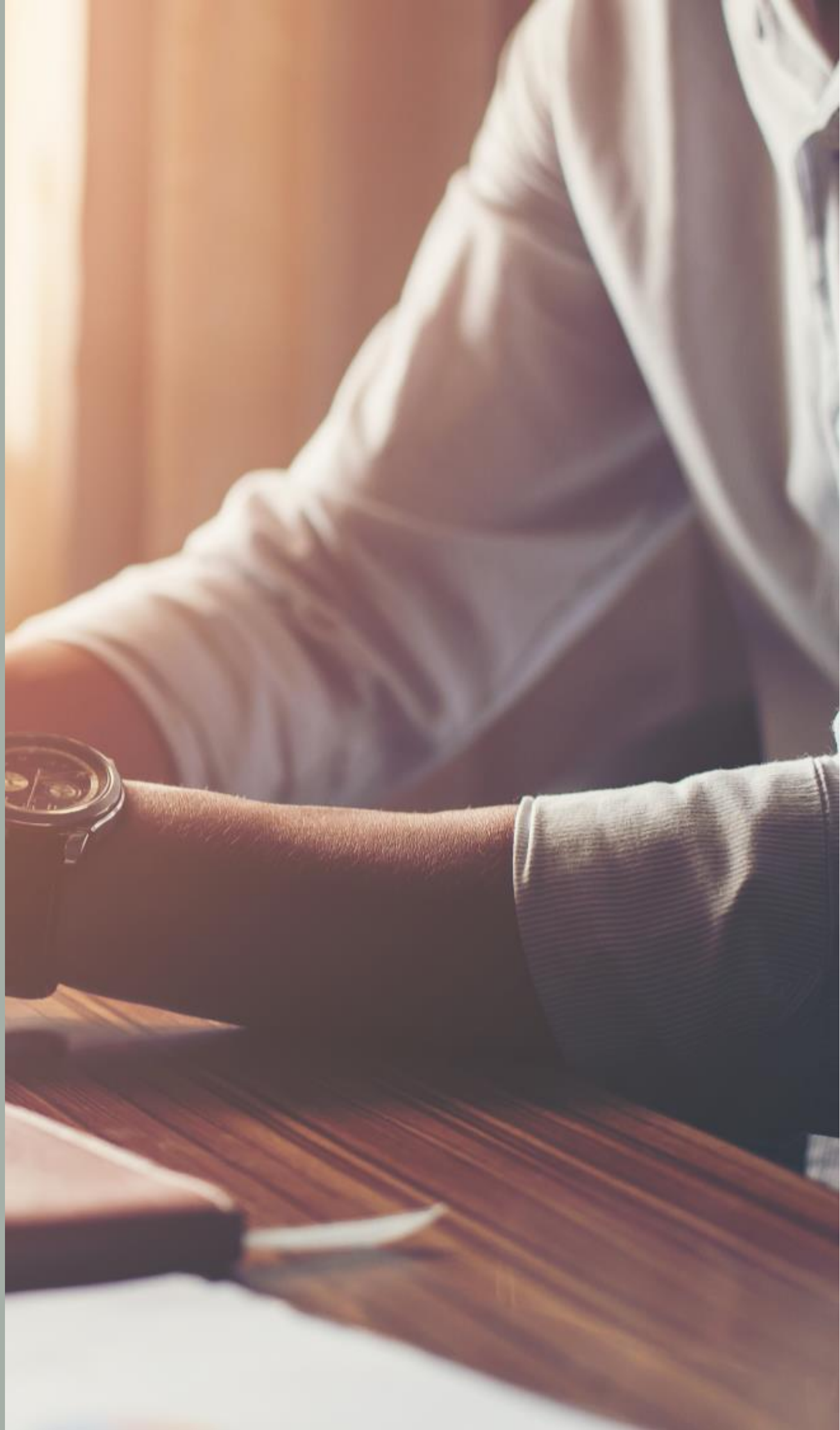

Initial Recommendations – Your son

If your son is on means tested benefits and also if he wouldn't have capacity to manage money in the future you need to consider both the practical and financial options for her future.

1. What level of care will he need? Is this something you can provide or will there have to be external Carers that have a cost implication?
2. What is the difference in Support in the UK vs abroad if you move abroad in the future?
3. Have you set up any trust planning?
4. What happens to her care if you two also pass away?

My initial thoughts would be to either leave the estate to your son via a discretionary trust if that's what you wish to do. Alternatively, set up a life cover plan that pays (via a trust) to help support him financially in the event of your deaths. This would avoid inheritance tax, not impact his means tested benefits and you can rest assured that regardless of what happens with your estate (you spend it all, care home fees, tax etc) that he is cared for financially.
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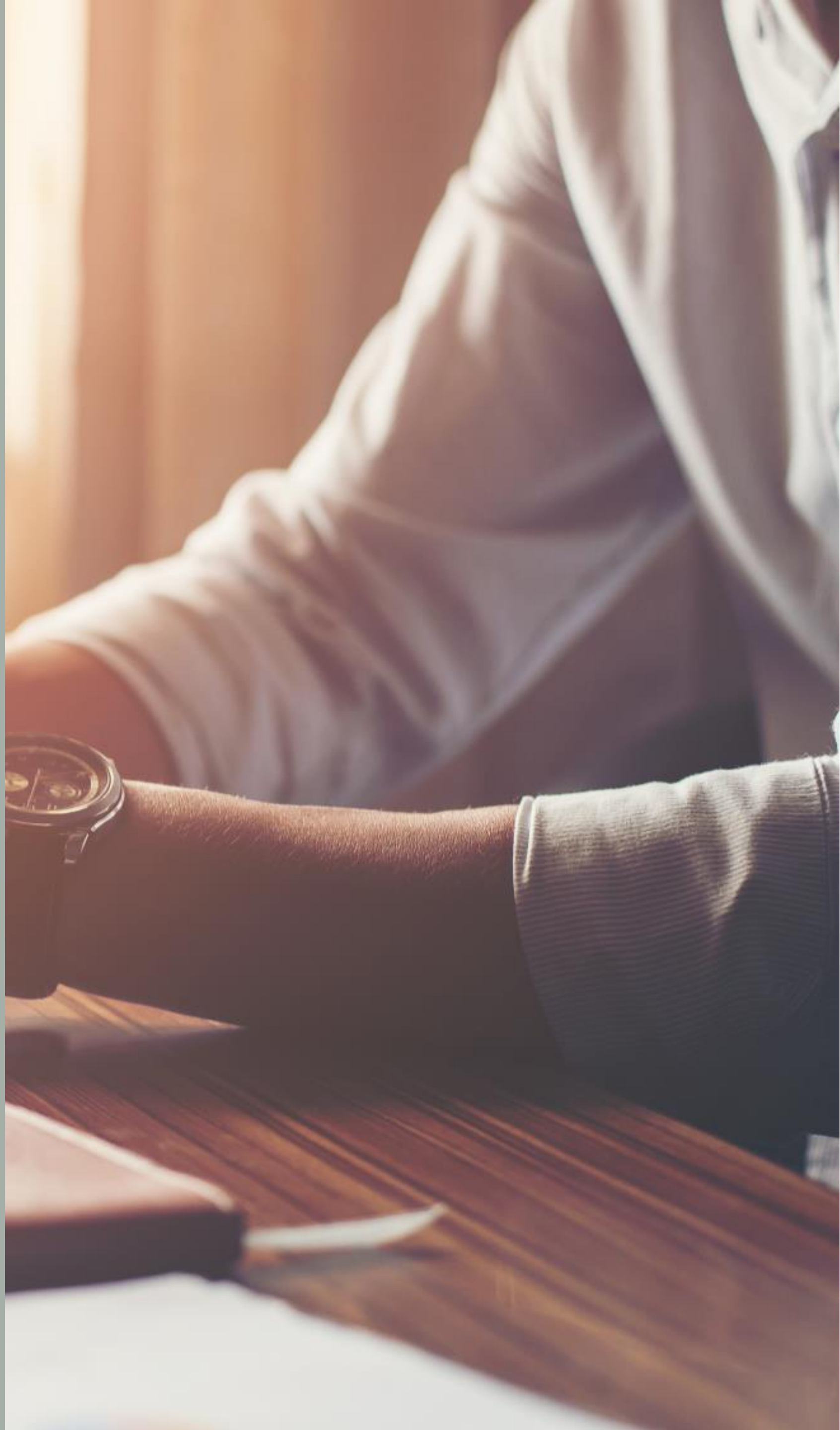

Notes

Further thoughts

Notes to consider

- ✓ These recommendations are based on your current position and based on the information you have provided.
- ✓ These recommendations can be undertaken with ourselves, done personally or with another financial adviser.
- ✓ Should you decide to restructured your arrangements with ourselves we will deduct the initial fee for the analysis from the implementation fee if you proceed.
- ✓ By proceeding with KBA, in order to review the plan each year to ensure it stays on track, that you are making the right decisions, making changes to benefit from changes in the budget and managing your accounts for you, you would be expected to be part of our Wealth Management Service (see our Proposition brochure provided in the first meeting for more information).

This is the start of your financial plan. Your financial plan is a an individual plan that is based around your needs, wants and dreams for the future. KBA FS Ltd are lifestyle financial planners which means we look at the life you want to create and then help you to organize or utilize your resources in the correct way to help you achieve this. We like to work with individuals that are committed to their financial future and that we can help on their journey to financial independence.

We hope that means we get to work with you going forward.