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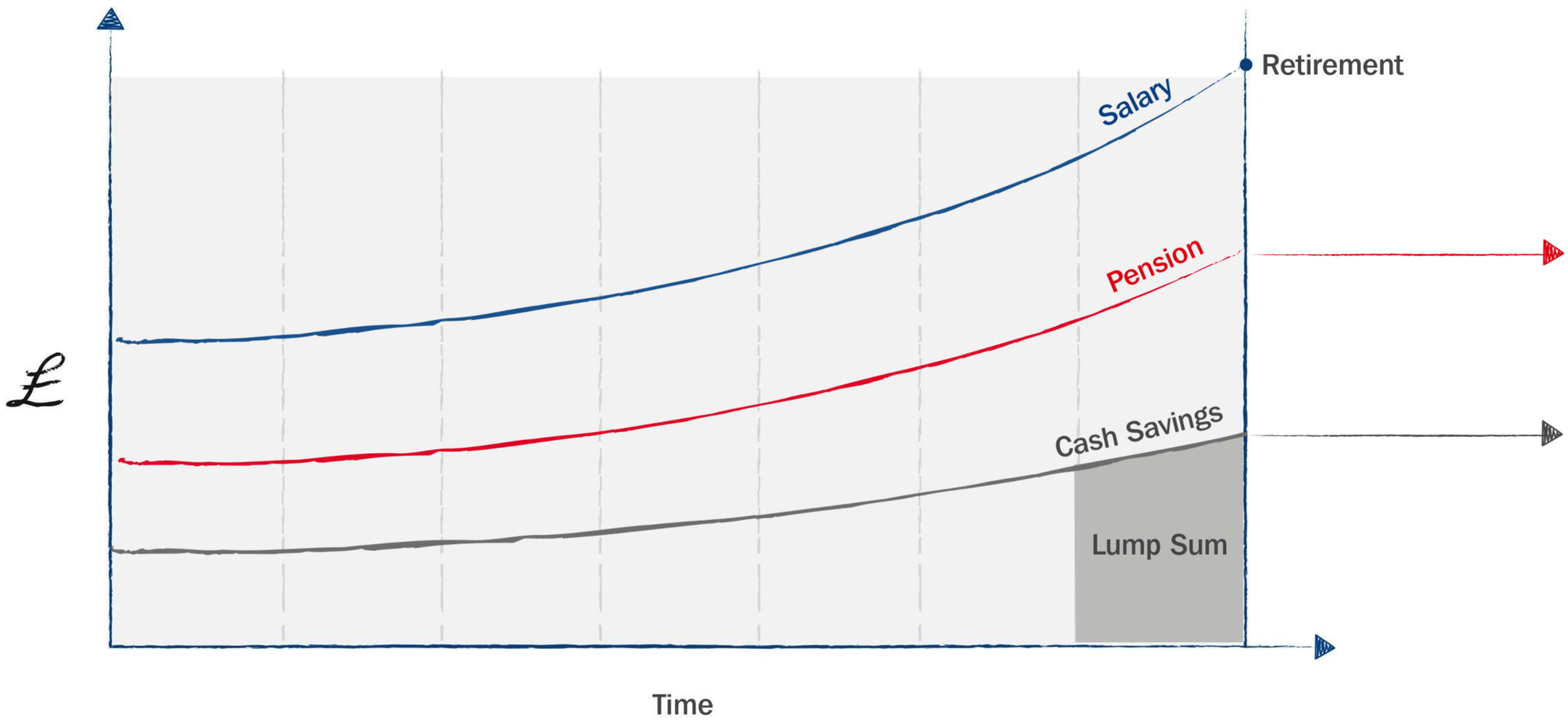
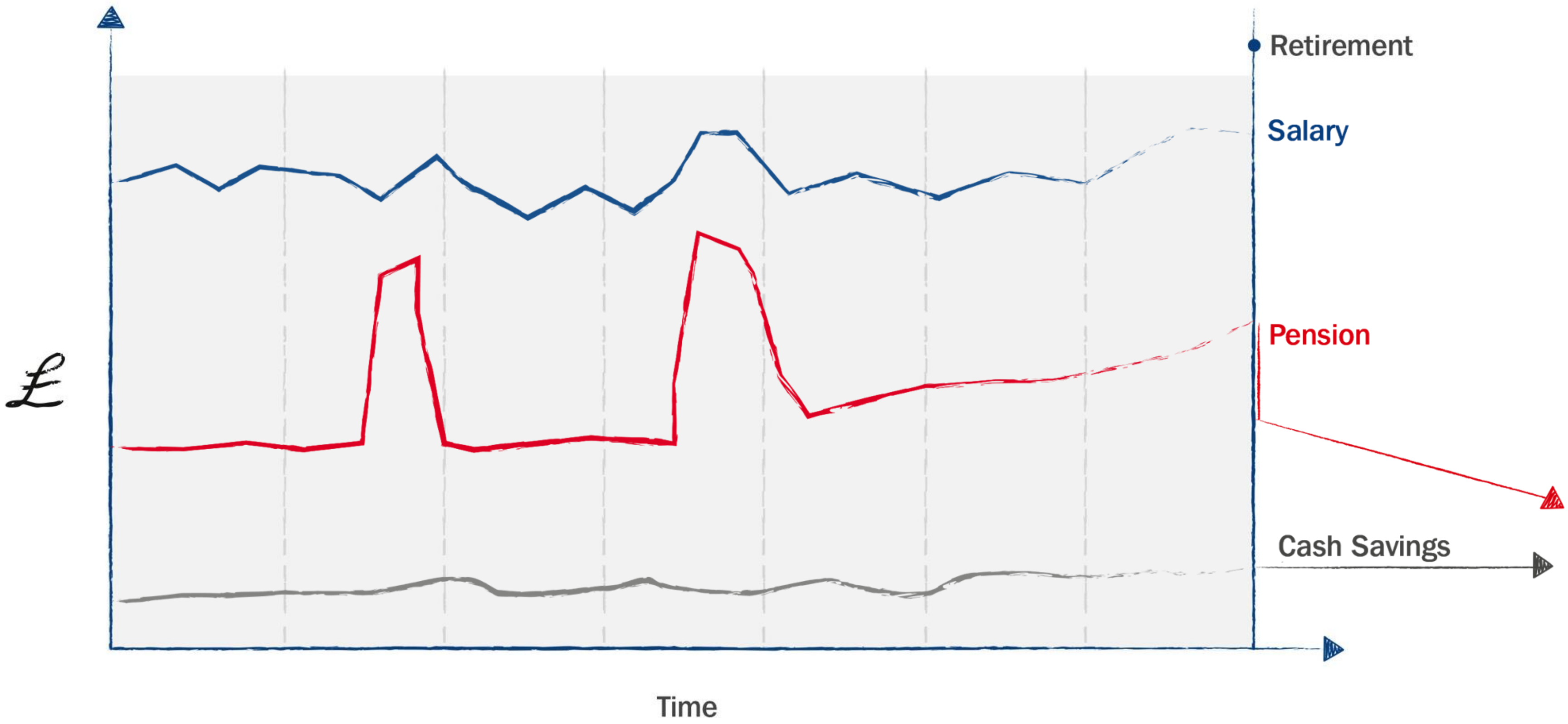
What next for long term savings?

Paul Speight
UK Relationship Manager

What the world used to look like



What the world looks like now

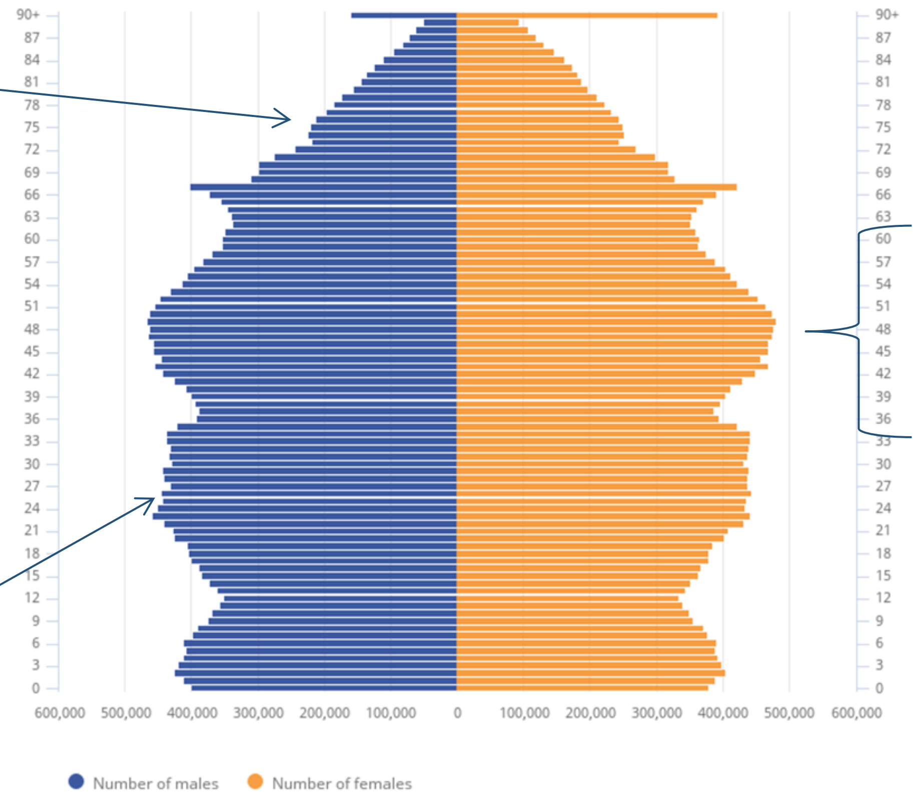


So your clients want a comfortable retirement

The DB generation

Figure 5: UK population by single year of age

2014



Source: Office for National Statistics

The Squeezed Middle

The AE generation

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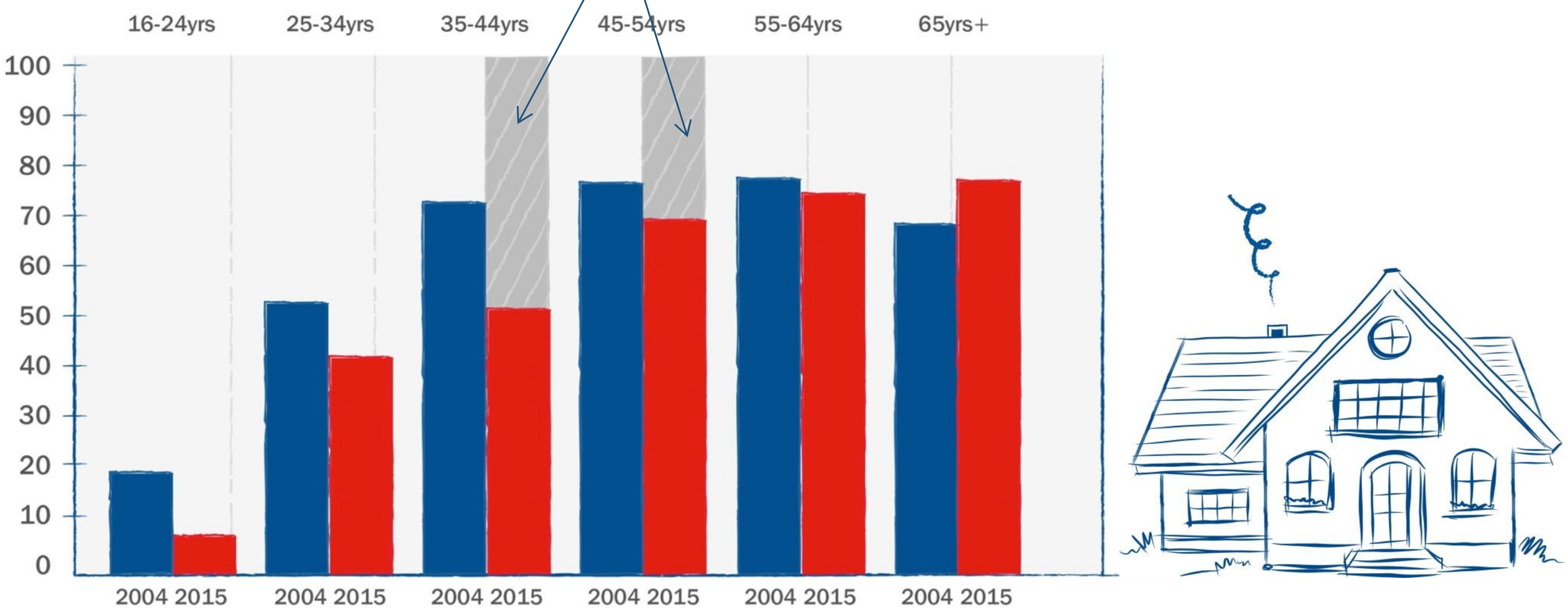
So your clients want a comfortable retirement – part 2

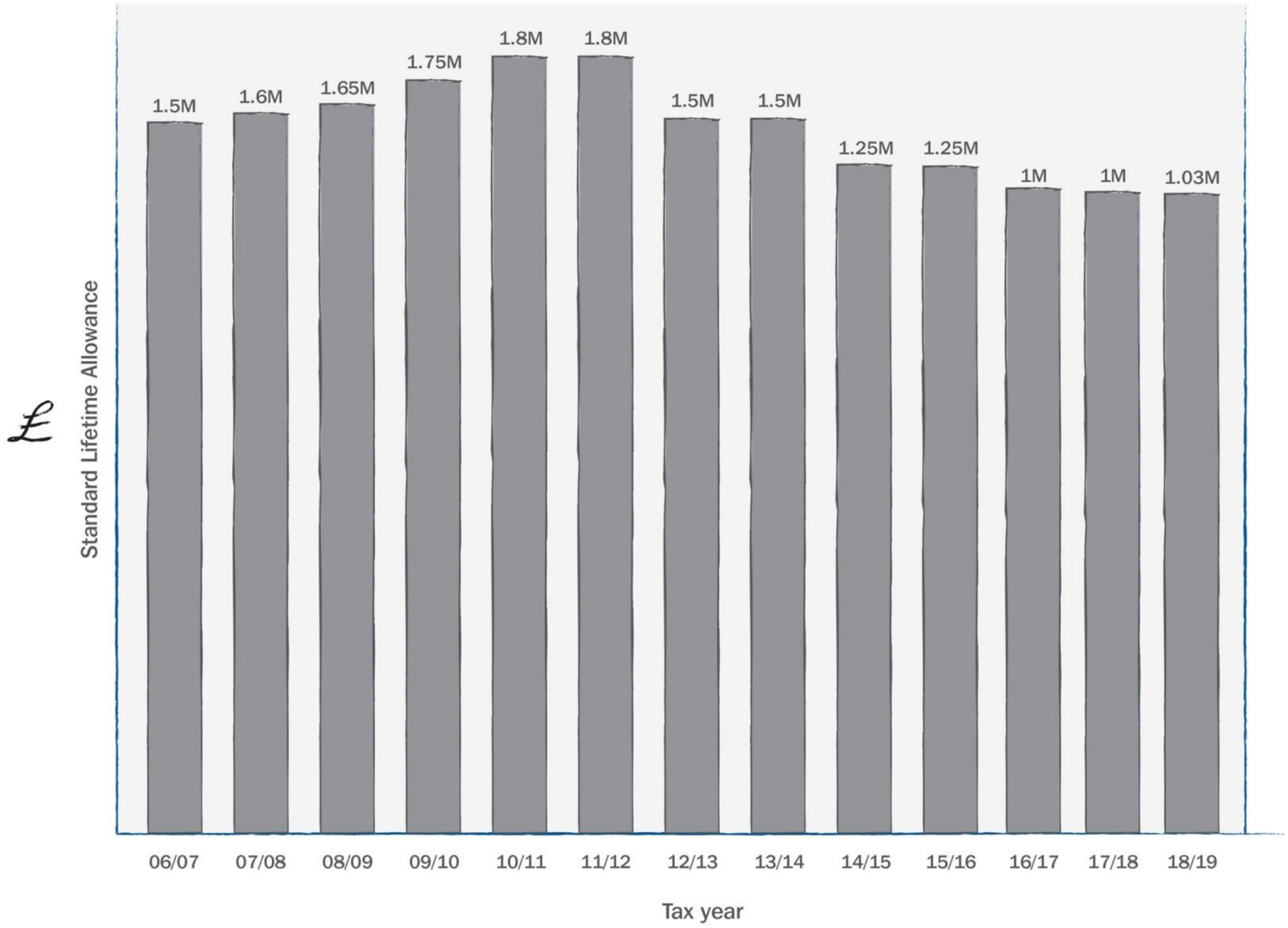
- Rent doesn't stop in retirement
- You can't use Equity Release



Homeownership rate, %, in age categories

Source: English Housing Survey

The lifetime allowance used to be a target



BCE's – taxing times

BCEs	
BCE 1	Funds designated to drawdown
BCE 2	Member entitled to scheme pension
BCE 3	Scheme pension increases beyond allowable amount
BCE 4	Member entitled to lifetime annuity
BCE 5	Reach age 75 under DB scheme not having drawn all benefits
BCE 5a	**Reach age 75 with drawdown pension fund**
BCE 5b	Reach age 75 with unused defined contribution funds
BCE 5c	Member dies before age 75 and uncrystallised funds provide beneficiary drawdown pension
BCE 6	Member entitled to relevant lump sum (TFC)
BCE 7	Relevant lump sum death benefit paid
BCE 8	Benefits transferred to a QROPS
BCE 9	Certain payments made (arrears after death, pension errors)

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BCE's and Estate Planning

It's now popular to leave the pension fund as intact as possible given its' IHT benefits

The age 75 test becomes very relevant:

- Fund values will vary
- Working out the values for the test may not be obvious

Clients may have a mixture of benefits

Annuity | **Drawdown**

Benefits of a Hybrid solution – The Retirement Account

Flexi-access drawdown wrapper

Drawdown Account

- Drawdown with simplified investment choice
- Cash account for holding funds when not immediately needed
- Can be used as a nest egg or for providing regular or ad-hoc income

Guaranteed Income

- An annuity written under drawdown rules
- Guaranteed income for life with escalating income and death benefit options
- 30 year guarantees and value protection
- Provides the security of a lifetime annuity but under drawdown rules

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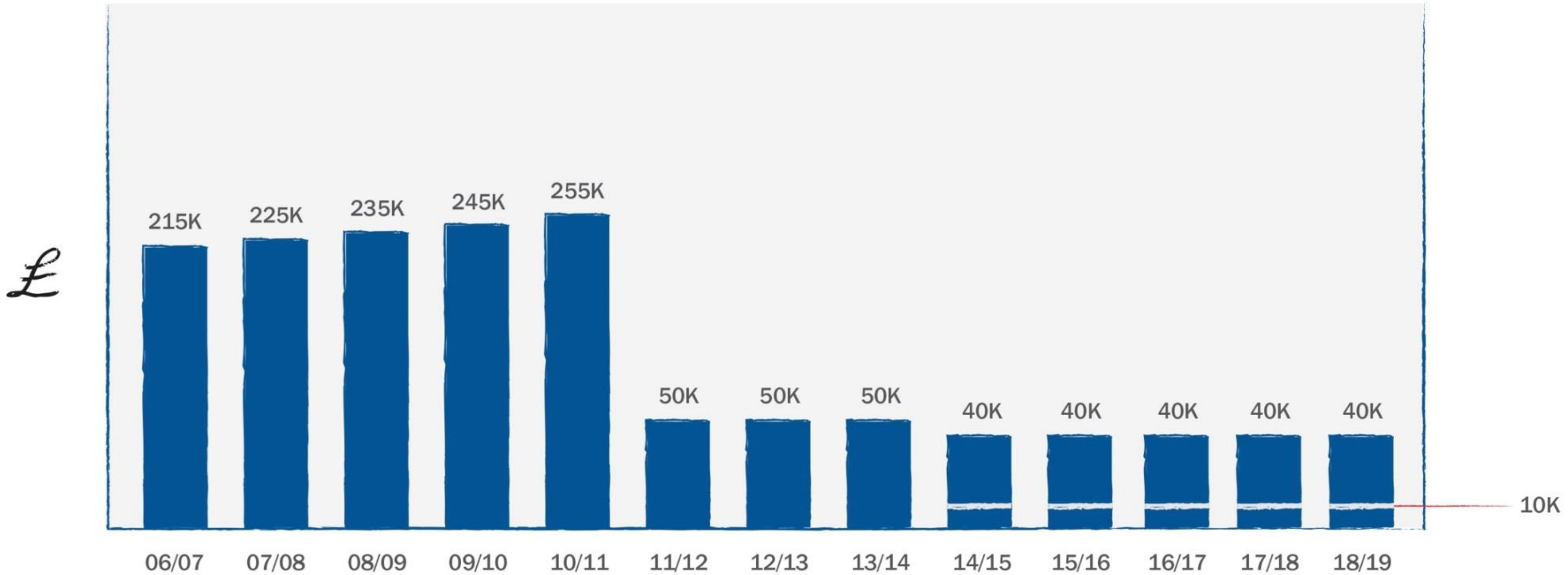
The lifetime allowance is now an unreachable cap



Annual allowance for tax relief on pensions (2006/07 to 2017/18)

Where next?

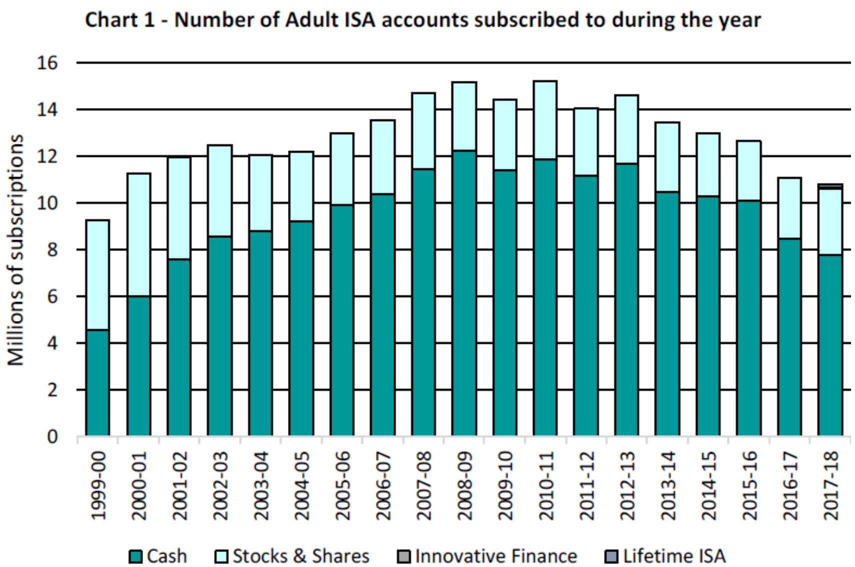
Cash deposits | Fixed Interest | Equities | Property

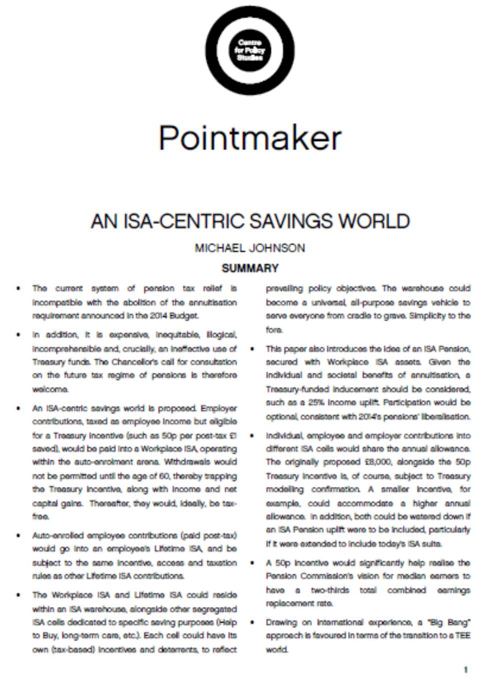
Putting the asset type inside a wrapper changes the way it is taxed

ISA | UK Investment bond | International Investment bond | SIPP

- Which tax do you want your client pay?
- When do they want to pay it?
- Will that affect how much they pay?
- Is the investment return reliant on its tax position?

Some interesting facts – an ISA centric savings culture?





Pointmaker

AN ISA-CENTRIC SAVINGS WORLD

MICHAEL JOHNSON

SUMMARY

- The current system of pension tax relief is incompatible with the abolition of the annuitisation requirement announced in the 2014 Budget.
- In addition, it is expensive, inequitable, illogical, incomprehensible and, crucially, an ineffective use of Treasury funds. The Chancellor's call for consultation on the future tax regime of pensions is therefore welcome.
- An ISA-centric savings world is proposed. Employer contributions, taxed as employee income but eligible for a Treasury incentive (such as 50p per post-tax £1 saved), would be paid into a Workplace ISA, operating within the auto-enrolment arena. Withdrawals would not be permitted until the age of 60, thereby trapping the Treasury incentive, along with income and net capital gains. Thereafter, they would, ideally, be tax-free.
- Auto-enrolled employee contributions (paid post-tax) would go into an employee's Lifetime ISA, and be subject to the same incentive, access and taxation rules as other Lifetime ISA contributions.
- The Workplace ISA and Lifetime ISA could reside within an ISA warehouse, alongside other segregated ISA cells dedicated to specific saving purposes (Help to Buy, long-term care, etc.). Each cell could have its own (tax-based) incentives and deterrents, to reflect prevailing policy objectives. The warehouse could become a universal, all-purpose savings vehicle to serve everyone from cradle to grave. Simplicity to the fore.
- This paper also introduces the idea of an ISA Pension, secured with Workplace ISA assets. Given the individual and societal benefits of annuitisation, a Treasury-funded inducement should be considered, such as a 25% income uplift. Participation would be optional, consistent with 2014's pensions' liberalisation.
- Individual, employee and employer contributions into different ISA cells would share the annual allowance. The originally proposed £8,000, alongside the 50p Treasury incentive is, of course, subject to Treasury modelling confirmation. A smaller incentive, for example, could accommodate a higher annual allowance. In addition, both could be watered down if an ISA Pension uplift were to be included, particularly if it were extended to include today's ISA suite.
- A 50p incentive would significantly help realise the Pension Commission's vision for median earners to have a two-thirds total combined earnings replacement rate.
- Drawing on international experience, a "Big Bang" approach is favoured in terms of the transition to a TEE world.

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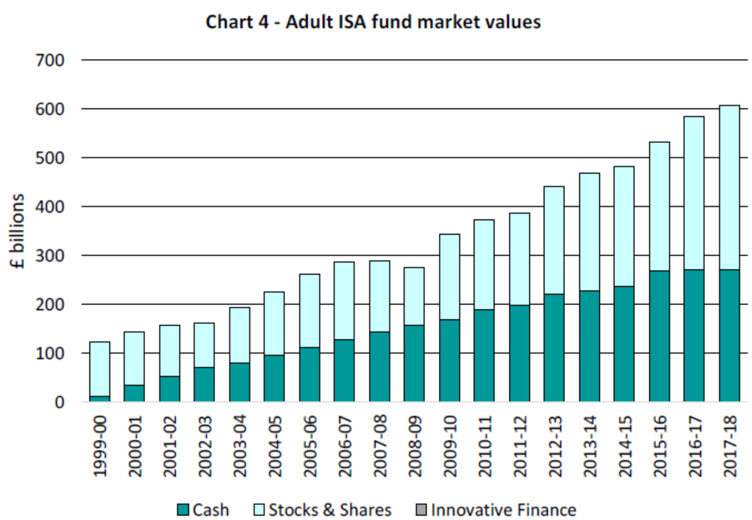
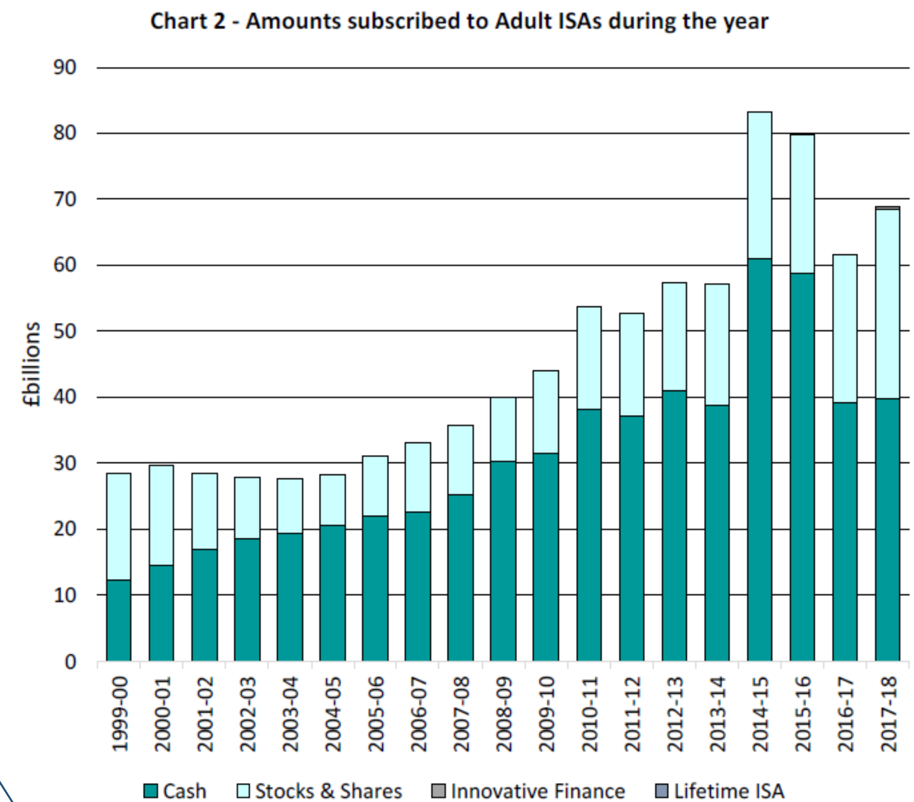
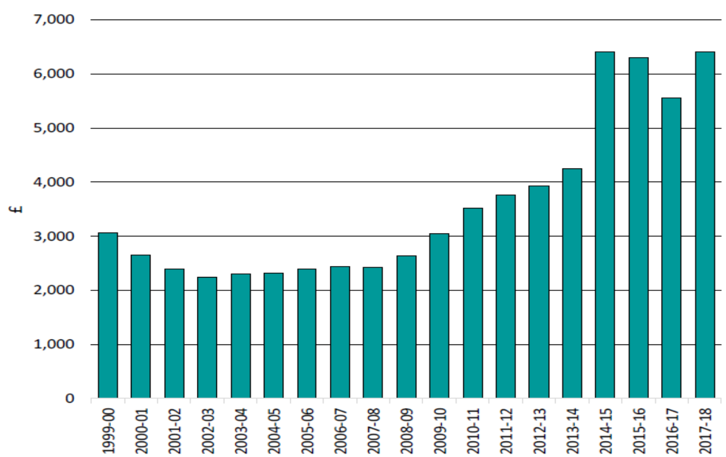
- Vast majority held in cash
- Average subscription well below £20,000
- ISA take up and contribution levels actually falling

Source: HMRC, August 2018

ISA’s in detail







Average amount subscribed is just over £6,000

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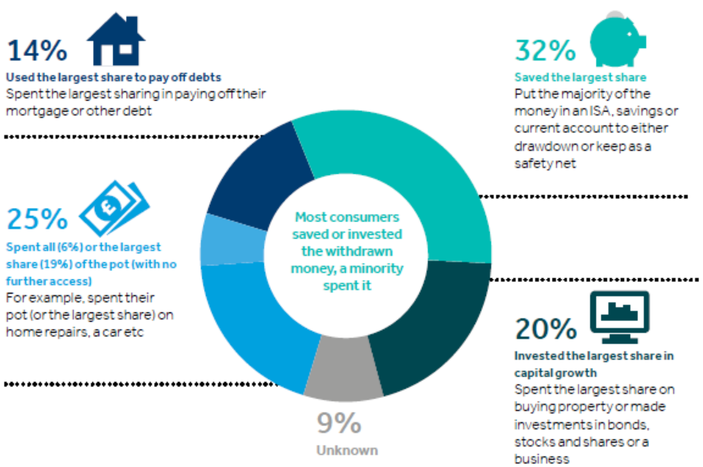
Source: HMRC, August 2018

It's not just ISA's that are in cash

- 32% put the withdrawn money in cash
- Up to 39% of non advised drawdown funds are in cash or cash like funds

Figure 23: Most consumers saved or invested the withdrawn money; a minority spent it



Source: Consumer research commissioned by the FCA, Annex 4.

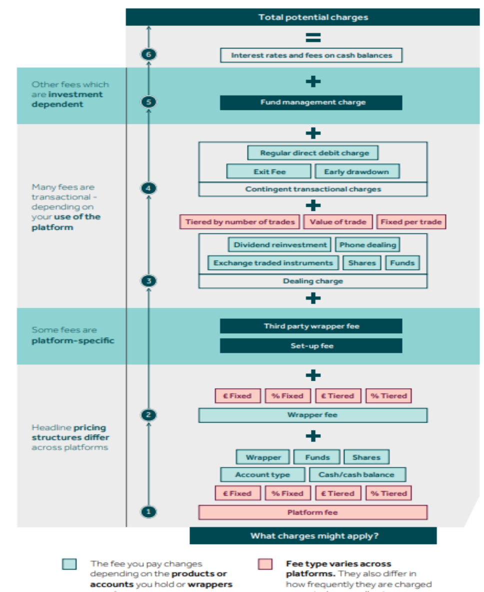
Figure 11: Percentage of consumers who have not taken advice wholly in cash by pot size, May 2017.

Source:

Source: HMRC, August 2017

A role for platforms

Figure 5.2: Price complexity in investment platforms



It's all about tax?

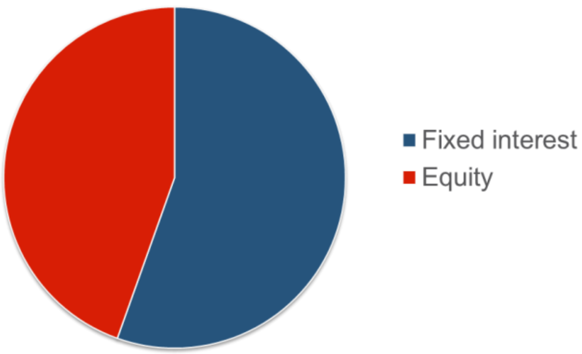
- Model portfolios
- Multi-asset funds
- DFM

Using a GIA might have a wrapper cost saving, but at what taxation price?

- CGT, savings income, dividend's can all be managed

Other wrappers?

- No limit on what you pay in
- No limit on what it can grow to
- Simple taxation regime



- As long as 60% of assets are in qualifying investments then savings income is distributed - not a dividend
- Receive equity performance without a dividend

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A cost worth paying?

Bond wrappers come with a cost

- Onshore/International investment bonds: a client-by-client decision, investment options and individual objectives will be key.
- Fluctuating earnings create need for a lump sum holding
- At the time when you most want to pay into a pension – you can't
- Helps manage the client's retirement tax position

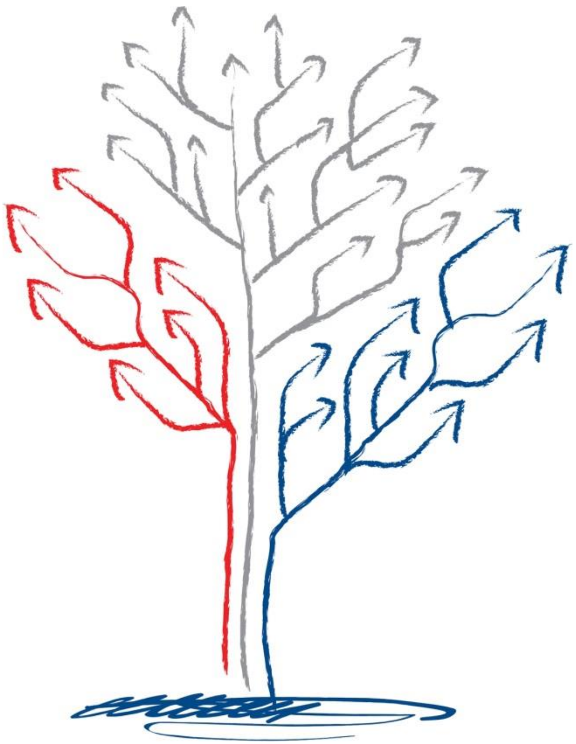
Freedom to invest

But bonds have restrictive permitted investment lists…don’t they?

- Onshore – wide access to multi-asset solutions – its all about tax
- International – access to most retail platforms and DFMs

DFMs

- Segregated Portfolio Service
- Ireland domiciled = VAT saving



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Canada Life – International bonds

International Bonds

- A range of charging and investment options
- Jurisdiction in Dublin & IOM
- Unique solutions

Wealth Preservation Account

Innovative estate planning solutions

Range of Trusts

Segregated Portfolio Service

Enhanced investment options

Canada Life – Onshore bonds

Onshore Bonds

- Range of Charging options
- Range of Trust Solutions
- Select from 150 carefully chosen funds

Is now the time to revisit onshore bonds?

How can onshore bonds be better? I don't believe it!

Jeremy Pearson

This was the reaction from one of our adviser connections when we told him that the net potential return from an onshore bond can often be higher than that for a collective investment.

But this is perfectly feasible and illustrates that an 'across the board' approach to product selection is not appropriate. It should be geared towards the client's circumstances, especially focusing on the expected situation as to when they are likely to cash in the investment.

This is all about tax; it is very well having a higher gross return but what matters is how much is left in the investor's hands after any personal tax is paid. We will look at this later.

Other comments the adviser made were:

"Onshore bonds are taxed"

Yes, and so are collective investments, as regards the distributions made, regardless of whether the income is paid out or reinvested.

One important difference is that although corporation tax on capital gains is payable in an onshore bond fund, indexation relief is available on equity disposals so tax is only actually payable on the excess amount after inflation.

And if the funds chosen are heavily geared towards fixed income holdings, there would only be a minimal 'tax drag' on fund performance.

"The charges are higher"

Not any more. Since RDR and the end of high unit allocation rates, charges have reduced and compare most favourably with collective investments.

Take the CanInvest Select Account for example; the maximum charge is capped at 0.6% a year – for minimum investments – and tiered down as low as 0.3% on larger sums. The overall cost also compares favourably with wrap and platform charges.

"You don't have the capital gains tax (CGT) annual exemption"

Yes, that is true; the client cannot offset his annual exemption each year against realised capital gains. However, to do so would involve an annual 'bed & breakfasting' transaction, with the 30-day restriction on buying the same fund.

This requires calculating the appropriate amount, administering the transaction and being out of the market for a period.

On the other hand, there are some advantages with holding an onshore bond.

"You can avoid higher rate tax"

In some ways, the be all and end all of investment bonds is tax deferral. And for an onshore bond, it is the deferral of higher rate tax and additional rate tax, where it applies.

If the bondholder's circumstances change before they cash-in, these taxes can be avoided completely. That may be because the bondholder has retired and is now a basic rate taxpayer or because, thanks to pension drawdown, the ability to manipulate taxable income reducing it to a low level in the tax year of encashment is just about to get a whole lot easier.

"Chargeable event gains can be top-sliced; capital gains can't"

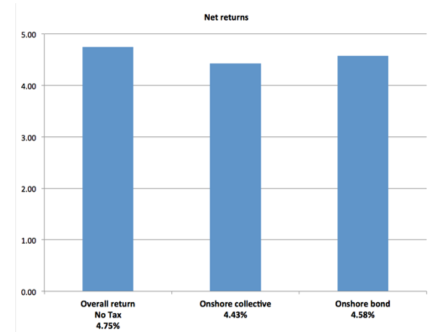
Many people extol the virtues of collective investments in that, unlike an onshore bond, no tax is payable until they are cashed-in. And then CGT is only payable at 18%.

Firstly, that is only true for a non-income producing fund, as distributions are subject to income tax, even for accumulation units. Secondly, the 18% rate only applies to the balance of the investor's basic rate tax band.

As ever, to demonstrate that an onshore bond can compete on tax grounds with a collective investment, I have to make various assumptions.

These include the split between equities and bond funds, rates of return, the investment term, availability of CGT exemption and other factors. And to be entirely fair, I am using the independent Technical Connection Wrapper Selector to calculate the results.

This ignores charges so, in effect, it assumes charge "neutrality" between the wrappers. The purpose of this tool is to accurately show the tax drag on various investments. In this example, for a basic rate taxpayer, the returns are:



Assumptions: £100,000 invested over 20 years, no withdrawals, 25% invested in fixed interest / 75% in equities, basic rate taxpayer using annual CGT allowance each year and includes the dividend allowance. Yield and growth assumptions available on request.

So in this example the onshore bond produces a marginally better return than the collective fund, even taking into account the dividend allowance and capital gains tax annual exempt amount. Charges would have to be taken into account to ascertain the actual returns for an investor and these will include wrapper charges for the bond or platform, specific fund charges and any adviser charges.

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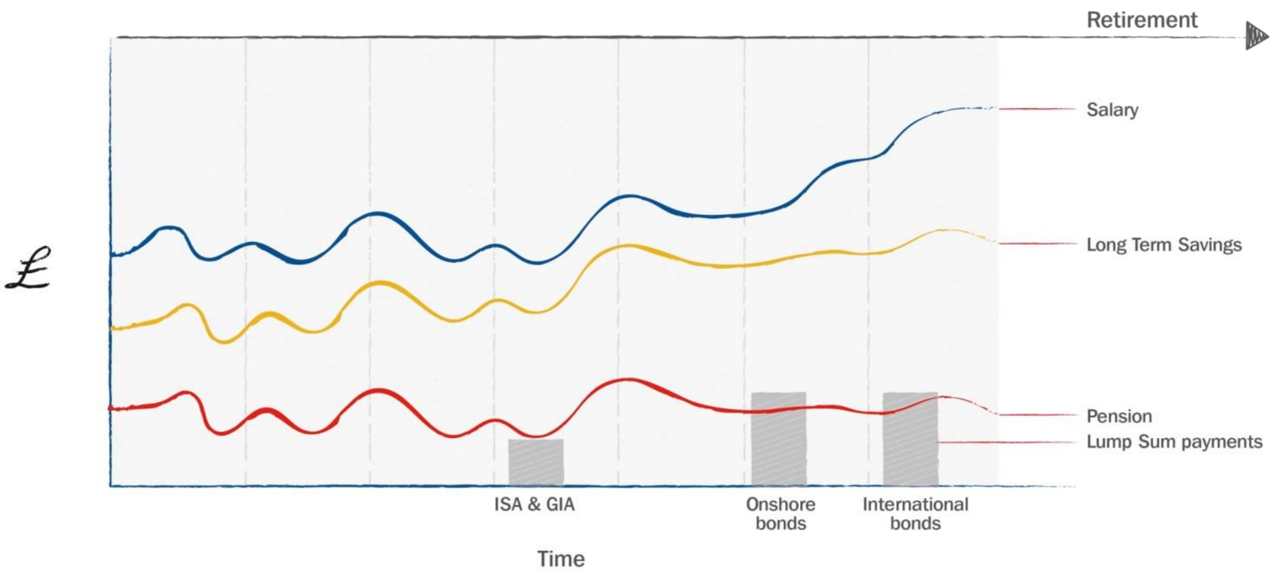
Re-drawing the advice journey

So many different needs, so many ways to meet client objectives

- Annual allowance and lifetime allowance pressures for clients
- Changing taxation regimes for unwrapped investments
- Realities of the "squeezed middle"
- Changing the taxation of investments by using tax wrappers
- Making use of all the tax wrappers



Canada Life – Support Solutions

Service Charters

Regional and central sales support

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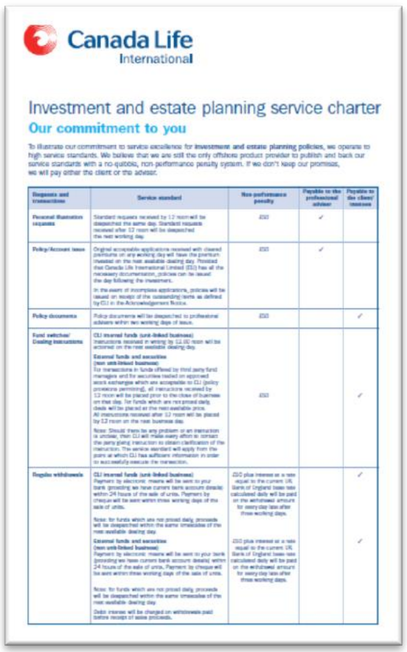
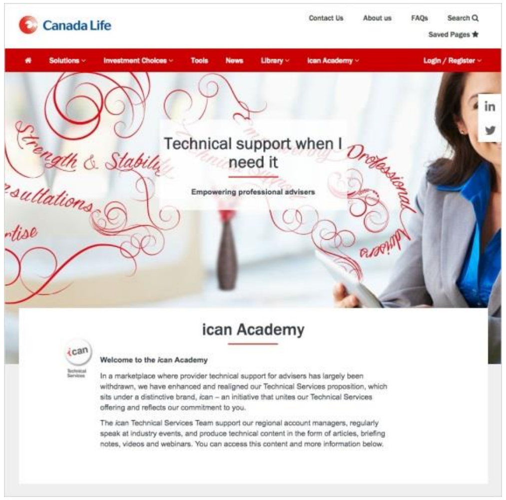


Dedicated Account Management



Regional and central technical support

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Everyone has a storyline

For every stage of life, Canada Life

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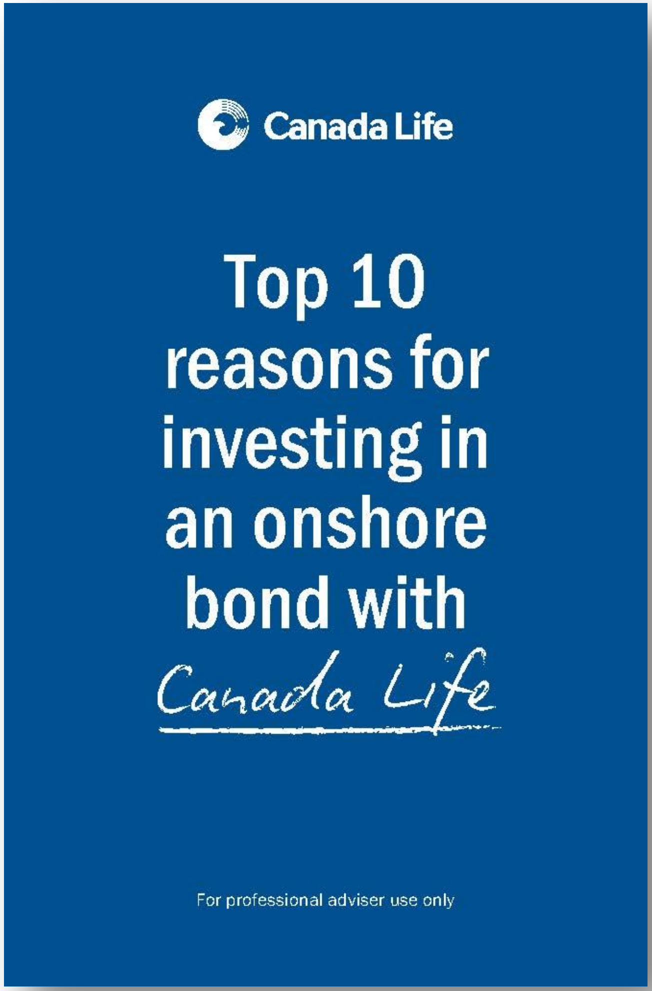
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Top 10 reasons for investing in an onshore bond with
Canada Life
For professional adviser use only


Dependable
efficient
good-value
innovative
established
trustworthy

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