

Client Scenario

Richard plans for early retirement

By contributing unused annual allowance into a Rowanmoor SIPP Richard, who is in his employer's defined benefit scheme, lays the foundations to fund for a shortfall in income during his early retirement years.

- Employed man approaching retirement.
- Requires additional income in the early retirement years.
- Looking for discretionary fund management via a low cost SIPP.
- Wishes to maximise pension contributions.
- Contributions have been made against previous years' annual allowances.
- Uses carry-forward to fund for previous years.
- Tax-efficient method of funding further benefits.

Self-Invested Personal Pension (SIPP)

- For individuals looking to build and control their pension fund investments.
- Tax relief on personal contributions up to 100% of earnings.
- Contributions paid by an employer reduce the company's tax liability.
- Carry-forward maximises contributions.
- Flexibility provides facility to switch between single and full investment options.
- Benefits can be taken in stages and not all at the same time.
- Comprehensive, flexible benefit options enable retirement income to be phased.
- Provides flexi-access drawdown, scheme pension and uncrystallised funds pension lump sum.
- Administration is of a truly bespoke nature and each plan has a dedicated administrator

Contribution calculation

Tax Year	Annual Allowance	Defined benefit pension inputs	Carry-Forward
2016/2017	£ 40,000	£8,445*	£ 31,555
2017/2018	£ 40,000	£ 11,191	£ 28,809
2018/2019	£ 40,000	£ 20,800	£ 19,200
Total available for carry-forward			£ 79,564

Tax Year	Annual Allowance	Defined benefit pension inputs	Remaining annual allowance
2019/2020	£ 40,000	£ 15,600	£ 24,400

Contribution to SIPP

Total permitted contribution for 2019/2020 and carry-forward	£ 103,964
Total earned income for 2019/2020	£ 78,000

Contributions to SIPP

Current tax year 2019/2020	£ 24,400
Carry-forward	£ 79,564

Total contributions

Total earned income 2019/2020	£ 78,000
Permitted gross contribution	£ 78,000

This means the net cost of the contribution following 20% basic rate tax relief, is £62,400 (£78,000 - £15,600).

Tax relief above the basic rate can be reclaimed via Richard's annual selfassessment tax return. Assuming a personal tax allowance of £12,500 so a further £5,600 could be reclaimed making the net cost of the contribution £56,800.

+Tax reliefs are subject to change and the exact amount will be dependent upon personal circumstances as other factors may affect tax relief eligibility.

Meet Richard . . .

Richard works for a large pharmaceutical company and has done so for some considerable time. He is reaching an age where full retirement is appealing as he wishes to see the world with his wife and spend more time on his hobbies. Richard's brother is very knowledgeable about the investment market and Richard takes an active interest too.

Richard is a member of his company's occupational defined benefit pension scheme and wishes to retire prior to state pension age. He has no other pension provision and realises that he will have to wait a few years before his pension income is topped up by the state pension if he does this. It is not possible for him to pay additional contributions into his occupational pension.

His employers are coping with the downturn in the economy; there have not been any pay rises for a number of years for employees and Richard is concerned he is not building up sufficient pension benefit as he would like. It is confirmed by the company payroll team that he does not accrue the maximum benefits permitted for his pension currently.

During a meeting with his financial adviser Sean, he is informed that taking benefits early or transferring benefits from his existing defined benefit pension would probably not be in his best interests. Sean suggests that he establishes a separate pension and uses the new pensions flexibility to draw an income from it during the period he will not be receiving the state pension. Sean explains Richard could use his carry-forward allowance to fund the new pension. When the SIPP is established Richard has the option to control his investments if he opts for a Rowanmoor SIPP with the full investment option. However, the lower cost single investment option SIPP will meet his current requirements and has the added flexibility of being able to convert to the full investment option at a later date.

Richard likes this idea and as he has a fair amount of savings the idea of obtaining tax relief on any contributions appeals to him. Sean confirms that calculating the amount of carry-forward allowance is fairly easy and asks Richard to provide the relevant information about his defined benefit pension from the company.

Following Sean's calculations it is confirmed that Richard can contribute £31,555, £28,809 and £19,200 for the tax years 2016/2017 to 2018/2019 respectively, a total of £79,564. A contribution of £24,400 can be paid in respect of the tax year 2019/2020, which when added to the carry-forward amount equates to £103,964. However, as Richard will only earn £78,000 for this tax year this limits his total annual contribution for the 2019/2020 tax year.

A contribution net of basic rate tax of £62,400 is made, making a gross contribution of £78,000. Tax relief above the basic rate of £15,600 can be reclaimed by Richard via his annual self-assessment return. There is potential for a further £5,600 to be reclaimed making the net cost of the contribution £56,800.

The flexibility of a Rowanmoor SIPP means that Richard can take an income or lump sum from his funds whenever he likes and as often as he likes, in the most tax-efficient manner, to ensure he has a financially secure and happy retirement. In the event of his death before age 75 Richard's funds can pass to his wife tax-free.

This scenario illustrates some of the features of a Rowanmoor SIPP. It is based upon our understanding of current pensions law and taxation and is correct at the time of publishing. Professional advice from a suitably qualified adviser should always be sought when considering retirement planning.

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