How Bill's pension effectively became Life Insurance after a life threatening illness was diagnosed and his pension fund was ring-fenced to reduce potential Inheritance Tax for future generations by £248,000

Background

We had been advising Bill 52 and Jane 51 for 5 years when Bill developed some health problems and wanted to retire early in 3 years' time. Sadly Bill was then diagnosed with a life threatening condition and given 10 – 15 years to live.

Bill was a director in a profitable agricultural services business	**He had pension funds worth a total of £620,000**	**Other assets (excluding their home) totalled £410,000**

Challenges

- After his health scare, Bill decided to reduce his working week to 4 days per week.
- He wanted to retire in 3 years' time at the age of 55. This was 5 years earlier than originally planned.
- He needed reassurance to know if his existing plans could provide the required income of £4,000pm net at 55.
- To develop a bespoke investment strategy (within acceptable risk tolerance) to make required income available

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What we did

- Over several years we simplified and consolidated Bill's pension funds so than when he needs income it is available easily and tax efficiently from one place.
- Using cash flow analysis we developed a plan to show how he could generate income and proved that they would be able to maintain the required income in a variety of different scenarios.
- We researched alternatives and reduced pension costs by moving Bill's pension to a new company which would also allow access to the pension from 55.
- When subsequently diagnosed with a life threatening illness we updated his plans to reassure him and Jane everything was still on track despite the devastating news
- We explained that the pension fund could now be considered in effect a life Insurance plan and liaised with his solicitor to put in place a special trust to ring fence these substantial assets

The Results

- We switched to a new pension provider and reduced pension charges by around £2,450pa .
- This new plan would have allowed Bill to access the pension from 55 onwards whilst leaving the fund in place for Jane and the family if he died
- We revised and updated the plan so that income was payable from their investments and leave the pension un-touched (now effectively life cover)
- We encouraged Bill to contact his solicitor to suggest a special trust ("spousal bypass") which means on his death before 75 the entire fund can be paid tax-free to the trust.
- If Bill needs funds from the pension for any purpose all options are still available
- If the trust comes into effect – sadly this means Bill will have died. However Jane can have access to money in the trust at any time and on her death there is no Inheritance Tax due
- That way the proceeds of the pension fund can be passed free of tax to the children.
- There may be a "periodic charge" for the trust every 10 years – but 6% every decade is much less than 40% tax which we avoid on Bill's death as a result of the trust

Bill will face many personal challenges in the coming years – but he has peace of mind from knowing Jane and the children are well provided for when he is gone

The removal of the pension fund from his estate on death can save up to 40% of £620,000 ie around £248,000 tax saved

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