

1 00:00:15:07 00:00:16:16
Good morning and welcome to

2 00:00:16:18 00:00:19:20
the Exceptional Planning
in Extraordinary Times session.

3 00:00:19:22 00:00:22:00
Thanks for taking the time to join us
this morning.

4 00:00:22:02 00:00:23:24
First, some housekeeping points.

5 00:00:24:01 00:00:26:19
We are recording this session
for on-demand replay purposes,

6 00:00:26:21 00:00:29:11
which you can see
on the important disclaimer slide.

7 00:00:29:13 00:00:31:19
Today's session
is for structured CPD,

8 00:00:31:21 00:00:34:19
it is accredited
by the CII and the CISI

9 00:00:34:21 00:00:36:01
and you will leave this session

10 00:00:36:03 00:00:38:14
with an understanding of
the following learning objectives...

11 00:00:40:03 00:00:41:19
Since we put these slides together,

12 00:00:41:21 00:00:45:22
that 77 billion figure
reached 120 billion for 2020

13 00:00:45:24 00:00:48:00
and, according to the weekend papers,

14 00:00:48:02 00:00:50:04
is now sitting at
around £150 billion.

15 00:00:51:13 00:00:52:14
During the presentation,

16 00:00:52:16 00:00:55:03
we will be asking some polling
questions to gather your views,

17 00:00:55:05 00:00:56:17
so please participate.

18 00:00:56:19 00:00:59:20
On the right-hand side of your screen
you will see a tab for poll,

19 00:00:59:22 00:01:02:08
you just click on this area
and submit your response.

20 00:01:03:16 00:01:05:07
The presentation
is around 45 minutes,

21 00:01:05:09 00:01:07:12
but we will stay on at the end
to answer any questions

22 00:01:07:14 00:01:09:10
you have submitted
during the presentation

23 00:01:09:12 00:01:11:13
and you are welcome to join us
for that if you have time.

24 00:01:12:17 00:01:15:02
You will find the Q&A tab
on the right of your screen

25 00:01:15:04 00:01:16:19
in the same place as the polling.

26 00:01:17:24 00:01:20:00
Now, before I hand over
to our speaker today,

27 00:01:20:02 00:01:22:01
I just wanted to highlight
some of the current issues

28 00:01:22:03 00:01:25:07
regarding the financial situation
in the UK today.

29 00:01:25:09 00:01:28:11
We've highlighted three here
which could affect your clients,

30 00:01:28:13 00:01:30:14
such as the potential for recession,

31 00:01:30:16 00:01:32:13
what's going to happen
to interest rates?

32 00:01:32:15 00:01:35:19

Are they going to turn negative,
stay low or increase?

33 00:01:35:21 00:01:38:17
And what are people going to do
with the savings they've accumulated?

34 00:01:38:19 00:01:40:23
It's estimated that
around 6 million people

35 00:01:41:00 00:01:43:04
started saving money
during the pandemic,

36 00:01:43:06 00:01:46:15
but lost out on a potential
£38 billion of dividends

37 00:01:46:17 00:01:49:11
if they had invested that money
rather than left it in cash.

38 00:01:51:05 00:01:54:06
Now, I'm joined today by one of
our business development managers

39 00:01:54:08 00:01:56:17
and chair of the Thames Valley PFS,
Colin Simmons.

40 00:01:57:16 00:01:59:12
Now, clearly there are issues
and opportunities

41 00:01:59:14 00:02:01:22
regarding the financial situation
in the UK,

42 00:02:01:24 00:02:04:00
so, Colin, what do you see
as the main opportunities

43 00:02:04:02 00:02:06:01
where advisers can be
supporting their clients?

44 00:02:07:09 00:02:10:07
Yeah. Thanks, Simeon
and good morning, everyone.

45 00:02:10:09 00:02:13:21
Clearly there is plenty of
opportunity for financial advice

46 00:02:13:23 00:02:17:22
and we are going to touch on
many of those opportunities today.

47 00:02:17:24 00:02:23:11
To start with, we're going to look at
a headline from the Bank of England,

48 00:02:23:13 00:02:27:06
which was saying,
"The economy is like a coiled spring,

49 00:02:27:08 00:02:31:12
ready to release large amounts of
pent-up financial energy,"

50 00:02:31:14 00:02:33:08
said the chief economist.

51 00:02:33:10 00:02:36:05
'Strong household finances.

52 00:02:36:07 00:02:37:18
Unlike past recessions,

53 00:02:37:20 00:02:41:24
many UK households have strengthened
their finances during lockdown

54 00:02:42:01 00:02:44:14
and would have more money to spend.'

55 00:02:44:16 00:02:48:16
What I'm going to look at
is what do we do with the 1.5 billion

56 00:02:48:18 00:02:52:24
that's been built up in cash reserves
over the last 12 months.

57 00:02:53:01 00:02:56:07
Clearly, what the economist here
is saying

58 00:02:56:09 00:02:59:06
is that this could mean
two visits to the pub,

59 00:02:59:08 00:03:02:10
two visits to the cinema a week
rather than one,

60 00:03:02:12 00:03:05:15
or maybe replacing that TV
or that car

61 00:03:05:17 00:03:09:07
or, dare I dream it? Go on holiday.

62 00:03:09:09 00:03:15:00
But no-one is considering perhaps

putting their money into a pension,

63 00:03:15:02 00:03:16:20
said nobody ever.

64 00:03:16:22 00:03:19:13
And I think what advisers
need to be doing

65 00:03:19:15 00:03:24:17
is being on the front foot
with clients about the opportunities.

66 00:03:24:19 00:03:26:19
Yes, people are going to
go out and spend.

67 00:03:26:21 00:03:28:16
Yes, they are going to go on holiday,

68 00:03:28:18 00:03:34:16
but perhaps there's time to maybe
put money aside for future

69 00:03:34:18 00:03:38:08
and a pension is a fantastic place
for people to be doing that.

70 00:03:38:10 00:03:41:22
We will be looking at planning
opportunities going forward.

71 00:03:43:07 00:03:45:09
I've recently had
an article published

72 00:03:45:11 00:03:47:13
that looked at this
in a bit more detail

73 00:03:47:15 00:03:51:14
and it's looking at
utilising lockdown savings

74 00:03:51:16 00:03:53:06
for tax-efficient use.

75 00:03:54:17 00:03:58:00
If you want more information on that,
when we send the slides out,

76 00:03:58:02 00:04:00:09
there's a link to that article
at the bottom.

77 00:04:01:18 00:04:06:15
So, the first one I'm going to start
with is this tax wrapper idea.

78 00:04:06:17 00:04:11:23
If we've got people that have
accumulated money into maybe an ISA,

79 00:04:12:00 00:04:17:21
could we utilise the advantages that
pensions tax wrappers have over ISAs

80 00:04:17:23 00:04:21:14
and look at providing more wealth
for a client

81 00:04:21:16 00:04:25:07
without actually taking on
any more investment risk?

82 00:04:25:09 00:04:29:06
And that's just by changing
the tax wrapper situation.

83 00:04:29:08 00:04:34:00
Now, this idea here is more suitable
for people closer to retirement

84 00:04:34:02 00:04:36:17
and, like lots of people
that are close to retirement,

85 00:04:36:19 00:04:40:20
they'll probably not utilise their
full annual allowance every year,

86 00:04:40:22 00:04:42:06
so it does give scope

87 00:04:42:08 00:04:46:19
for them to transfer some of
that cash over into a pension.

88 00:04:46:21 00:04:49:19
If we consider
a higher rate taxpayer, then,

89 00:04:49:21 00:04:55:19
who's got an investment portfolio
or cash accumulated of £50,000.

90 00:04:55:21 00:04:59:05
Let's have a look at
topping up their pension.

91 00:04:59:07 00:05:03:17
We move £10,000 across in year one

92 00:05:03:19 00:05:07:10
and that means that they've now got
40,000 in the investment portfolio

93 00:05:07:12 00:05:10:11
and 12,500 added to the pension.

94 00:05:10:13 00:05:13:00
But because they are
a higher rate taxpayer,

95 00:05:13:02 00:05:17:08
they will be able to claim back
£2,500 through their self-assessment.

96 00:05:17:10 00:05:20:01
If they do this
for the next five years,

97 00:05:20:03 00:05:22:00
what would happen is every year

98 00:05:22:02 00:05:25:14
they would start to exhaust
that pot of the cash portfolio

99 00:05:25:16 00:05:28:07
and create wealth in the pension.

100 00:05:28:09 00:05:32:04
Just through basic rate tax relief
being applied,

101 00:05:32:06 00:05:36:07
they've turned 50,000 into 62,500,

102 00:05:36:09 00:05:41:11
plus they've had £12,500
through their higher rate tax relief.

103 00:05:41:13 00:05:44:21
Now, at some point they are going to
want to access the money

104 00:05:44:23 00:05:49:04
and I get that the money in the ISA
and the investment portfolio

105 00:05:49:06 00:05:51:23
was perhaps readily available.

106 00:05:52:00 00:05:54:05
You've got to wait till
you're of retirement age

107 00:05:54:07 00:05:55:19
to access money from a pension,

108 00:05:55:21 00:05:57:18
so that's why I said possibly better

109 00:05:57:20 00:06:00:06
for people closer to retirement,
this idea.

110 00:06:00:08 00:06:03:01
But when we access it,

111 00:06:03:03 00:06:07:20
we've got 25%
of what we access tax free

112 00:06:07:22 00:06:11:00
and the balance taxed
at marginal rates.

113 00:06:11:02 00:06:15:14
If we were a marginal rate of
20% taxpayer in retirement,

114 00:06:15:16 00:06:21:09
we'd have 62,500
netted down to 53,125.

115 00:06:21:11 00:06:25:17
Add back in the money that we got
back from the self-assessment

116 00:06:25:19 00:06:28:09
and we are at a position of 65,625.

117 00:06:28:11 00:06:33:21
So we've turned 50,000
into over £65,000

118 00:06:33:23 00:06:36:00
just by changing the wrapper.

119 00:06:36:02 00:06:39:20
And my favourite statistic
about pensions is currently

120 00:06:39:22 00:06:45:00
six out of seven 40% taxpayers are
basic rate taxpayers in retirement,

121 00:06:45:02 00:06:46:21
so there is huge opportunity

122 00:06:46:23 00:06:50:02
for people to do planning like this
with advisers.

123 00:06:50:04 00:06:53:11
If we are a 40% taxpayer
when we access it,

124 00:06:53:13 00:06:57:09
it's not as attractive, but you are

still in a better position

125 00:06:57:11 00:07:01:13
than if you left that money in
an investment portfolio or the ISA.

126 00:07:01:15 00:07:04:09
Remember, we haven't considered
the investments

127 00:07:04:11 00:07:08:06
and we will talk about investment
solutions within a pension wrapper

128 00:07:08:08 00:07:10:11
at the end of this presentation today.

129 00:07:12:06 00:07:13:24
Another thing to think about.

130 00:07:14:01 00:07:16:16
The headline here is
what to do with those savings?

131 00:07:16:18 00:07:18:08
And underneath that it says,

132 00:07:18:10 00:07:21:15
'your parents always asked you
to save your lunch money.'

133 00:07:21:17 00:07:24:02
And that's wise words.

134 00:07:24:04 00:07:27:07
Moving forward in time
when we are all adults now,

135 00:07:27:09 00:07:30:24
this could come back and really be
an opportunity for us.

136 00:07:31:01 00:07:35:22
It asks there how to turn a baguette
into £39,000.

137 00:07:35:24 00:07:37:11
Well, it's simple.

138 00:07:37:13 00:07:39:13
Think about the clients
that work in an office.

139 00:07:39:15 00:07:43:19
Perhaps before the pandemic they
worked five days a week in office,

140 00:07:43:21 00:07:48:11

a lot of people now, post-pandemic,
when we ease back into work,

141 00:07:48:13 00:07:51:23
will only work in the office
say two or three days a week.

142 00:07:52:00 00:07:55:09
So, what do they do with the money
that they were spending on lunch,

143 00:07:55:11 00:07:58:00
spending on commuting,
spending on travelling?

144 00:07:58:02 00:08:00:01
Perhaps they could save that.

145 00:08:00:03 00:08:02:24
If we consider someone
that was spending £15 a day

146 00:08:03:01 00:08:07:16
on lunch and coffees, et cetera,
that's £45 a week saved

147 00:08:07:18 00:08:10:11
if they only go into the office now
two days a week.

148 00:08:10:13 00:08:14:17
That's £180 a month,
over £2,000 a year.

149 00:08:14:19 00:08:16:18
With basic rate tax relief added,

150 00:08:16:20 00:08:22:01
if we put that spare money
into a pension now, that's £2,700.

151 00:08:22:03 00:08:27:18
With a 5% net return over 10 years,
that's just shy of £34,000.

152 00:08:27:20 00:08:29:16
If we are a higher rate taxpayer

153 00:08:29:18 00:08:32:21
and we are able to claim back
higher rate tax relief,

154 00:08:32:23 00:08:38:03
then what we would have is another
£5,400 claimed over 10 years

155 00:08:38:05 00:08:42:07
that we'd add to that

and that's where we get to £39,000.

156 00:08:42:09 00:08:44:09
And this is quite a simple idea,

157 00:08:44:11 00:08:47:03
but I think advisers need to be
on the front foot with this

158 00:08:47:05 00:08:49:24
because if it's like our household,
Simeon,

159 00:08:50:01 00:08:53:01
this money that we are saving,
it won't get saved,

160 00:08:53:03 00:08:56:23
it will just get spent on
everyday activities and normality.

161 00:08:57:00 00:09:01:06
So, don't let your clients
squander that savings

162 00:09:01:08 00:09:03:24
like they would in my house.

163 00:09:04:01 00:09:08:07
The other thing that I think is
a big opportunity and largely missed

164 00:09:08:09 00:09:11:14
is last year,
the tapered annual allowance,

165 00:09:11:16 00:09:15:23
which had affected many clients
in the run-up to last year,

166 00:09:16:00 00:09:18:23
was increased by £90,000.

167 00:09:19:00 00:09:21:19
We don't have time to go through
and explain

168 00:09:21:21 00:09:25:12
how the tapered annual allowance
works in detail today,

169 00:09:25:14 00:09:28:24
so what I'd do is I'd encourage you
to speak to your account manager

170 00:09:29:01 00:09:33:02
and ask them to show you
the annual allowance calculator

171 00:09:33:04 00:09:34:20
and the tapering tool.

172 00:09:34:22 00:09:38:21
Every year, our number one question
into the technical helpline

173 00:09:38:23 00:09:41:11
is by an adviser trying to work out

174 00:09:41:13 00:09:45:20
what can and can't be paid into
a pension for a high earner

175 00:09:45:22 00:09:49:13
because you have to pay
your pension contributions in

176 00:09:49:15 00:09:51:16
before the end of the tax year,

177 00:09:51:18 00:09:54:10
but you don't know if you are
going to be affected by this

178 00:09:54:12 00:09:56:14
until you've passed through
the tax year.

179 00:09:56:16 00:09:59:23
Well, we've got a fantastic
calculator available on our website

180 00:10:00:00 00:10:02:05
that helps with these calculations

181 00:10:02:07 00:10:03:12
and all I would say is

182 00:10:03:14 00:10:06:19
because the threshold
has been increased by £90,000,

183 00:10:06:21 00:10:10:03
many people have been removed
out of this trap

184 00:10:10:05 00:10:14:00
and therefore can now utilise
greater pension savings.

185 00:10:14:02 00:10:15:21
If, over the last 12 months,

186 00:10:15:23 00:10:18:20
they are these people
that have saved money,

187 00:10:18:22 00:10:21:01
particularly if
they are higher earners,

188 00:10:21:03 00:10:24:05
then we need advisers
to help them take advantage of

189 00:10:24:07 00:10:27:03
this raising of
the tapered annual allowance.

190 00:10:27:05 00:10:29:07
So, that's just a few ideas there,
Simeon,

191 00:10:29:09 00:10:31:20
in terms of where I think
we could be talking about

192 00:10:31:22 00:10:35:17
the money that's being saved
in cash in the last 12 months.

193 00:10:35:19 00:10:39:18
Thanks, Colin. Your household
sounds very similar to mine,

194 00:10:39:20 00:10:42:00
money doesn't last too long
these days.

195 00:10:42:02 00:10:43:13
Some really useful examples of

196 00:10:43:15 00:10:45:21
where advisers can be adding value
to clients,

197 00:10:45:23 00:10:49:06
really good reminder of the increase
in the tapered annual allowance

198 00:10:49:08 00:10:51:15
and the annual allowance
is a fantastic tool,

199 00:10:51:17 00:10:54:07
one of many that you find
on the PruAdviser website,

200 00:10:54:09 00:10:56:06
so please reach out
to your account manager

201 00:10:56:08 00:10:57:24
if you want to find out

a little bit more

202 00:10:58:01 00:10:59:19
about the annual allowance calculator

203 00:10:59:21 00:11:02:10
or any of the others
that sit in there.

204 00:11:02:12 00:11:04:21
Now, Colin,
with a potential recession looming,

205 00:11:04:23 00:11:06:20
not everyone is going to be
in a position

206 00:11:06:22 00:11:08:13
to take advantage of these ideas.

207 00:11:08:15 00:11:11:08
Are there any areas where advisers
could be providing support

208 00:11:11:10 00:11:13:18
to clients
that maybe haven't been so fortunate?

209 00:11:15:04 00:11:17:04
Yes, Simeon.

210 00:11:17:06 00:11:19:22
The next thing that
I'm going to talk about today

211 00:11:19:24 00:11:21:23
is the winners and losers of COVID.

212 00:11:22:00 00:11:24:02
It's a pretty blunt way
to explain it,

213 00:11:24:04 00:11:28:00
but sadly, you are going to get
people that are affected negatively,

214 00:11:28:02 00:11:30:04
but there are people that have had

215 00:11:30:06 00:11:32:19
some relative success
in the pandemic.

216 00:11:32:21 00:11:36:01
What I'm just going to highlight
some advice opportunities

217 00:11:36:03 00:11:37:12

for both types of client.

218 00:11:37:14 00:11:42:23
Let's start with those that have
perhaps been affected the worst.

219 00:11:43:00 00:11:46:19
Here are some headlines.
You are probably all familiar with this,

220 00:11:46:21 00:11:50:00
but I just want to
raise awareness to the fact that

221 00:11:50:02 00:11:54:16
if you've got long servers in perhaps
any of these industries here,

222 00:11:54:18 00:11:58:06
particularly things like aviation
and manufacturing,

223 00:11:58:08 00:12:02:00
I think there could be
a huge advice need

224 00:12:02:02 00:12:05:11
for things like
defined benefit pension transfers

225 00:12:05:13 00:12:11:07
I'm hearing that there's
airline pilots having to be laid off

226 00:12:11:09 00:12:14:10
and drive vans for supermarkets
and things like that.

227 00:12:14:12 00:12:16:00
Well, if they are at a young age,

228 00:12:16:02 00:12:18:03
then that is perhaps
just biding their time

229 00:12:18:05 00:12:21:03
before they can get back on
the career ladder, flying again.

230 00:12:21:05 00:12:23:11
But if they are closer to retirement,

231 00:12:23:13 00:12:26:19
I would be thinking,
"What's the size of the transfer value?"

232 00:12:26:21 00:12:30:12
What's the opportunity?

Are they able to take early retirement?"

233 00:12:30:14 00:12:34:17
I think there's never been a greater
need for DB transfer advice,

234 00:12:34:19 00:12:35:22
it's just, sadly,

235 00:12:35:24 00:12:39:05
a number of advisers
have pulled out of the market.

236 00:12:39:07 00:12:41:21
The other thing that
I want to talk about

237 00:12:41:23 00:12:44:08
is what about people
that work in these sectors

238 00:12:44:10 00:12:48:19
that are maybe being furloughed,
maybe being redundant

239 00:12:48:21 00:12:52:16
and perhaps two things
that we might want to consider.

240 00:12:52:18 00:12:54:06
If they are getting made redundant,

241 00:12:54:08 00:12:57:20
can we utilise pensions
to help them pay less tax

242 00:12:57:22 00:13:00:15
if they are high earners
and being made redundant?

243 00:13:00:17 00:13:03:23
Or if they are needing to
access their pensions,

244 00:13:04:00 00:13:07:04
how do they do that
in the most appropriate way?

245 00:13:08:19 00:13:12:23
So, I'm just going to look at
a guy here called Derek.

246 00:13:14:02 00:13:17:04
Let's consider him
as a potential new client

247 00:13:17:06 00:13:21:15
who has contacted you because

he was made redundant last year.

248 00:13:21:17 00:13:24:10
Redundancy money is running out.

249 00:13:24:12 00:13:28:21
He's going to start work soon,
but he needs to access his pension early

250 00:13:28:23 00:13:31:01
and why he needs to
access his pension

251 00:13:31:03 00:13:33:20
is because
he needs some money still to live off

252 00:13:33:22 00:13:39:06
and pay off the final payment
on the car lease that he had.

253 00:13:39:08 00:13:43:09
His pension assets are
a small pot of 30,000,

254 00:13:43:11 00:13:46:02
not small in the sense of
a small pot regime,

255 00:13:46:04 00:13:48:12
but his smallest pot is worth 30,000.

256 00:13:48:14 00:13:52:02
One 68,000 and 190,000.

257 00:13:52:04 00:13:54:16
He's got quite a bit of pension
assets there,

258 00:13:54:18 00:13:59:01
but what is alarming
in this situation is his question is,

259 00:13:59:03 00:14:02:04
"I've been considering
accessing my pension,

260 00:14:02:06 00:14:04:16
what do I know about emergency tax?"

261 00:14:05:22 00:14:09:07
That, to me, means that he is
going to perhaps access his pension

262 00:14:09:09 00:14:14:08
in an incorrect or inappropriate way
maybe for his circumstances.

263 00:14:14:10 00:14:15:17
And what I mean by that

264 00:14:15:19 00:14:18:18
is maybe triggering
the money purchase annual allowance,

265 00:14:18:20 00:14:20:17
given that he's going to start work.

266 00:14:20:19 00:14:23:17
It does say the NHS there,
but it might be that

267 00:14:23:19 00:14:28:05
he is joining an employer that has
a money purchase pension scheme,

268 00:14:28:07 00:14:30:16
so we would need to consider
the MPAA.

269 00:14:32:00 00:14:34:04
Let's have a look at his situations.

270 00:14:34:06 00:14:37:12
Rather than access his pension,
could he take out a loan?

271 00:14:37:14 00:14:39:24
Maybe not if he's not working.

272 00:14:40:01 00:14:41:20
Credit card? Possible option.

273 00:14:41:22 00:14:44:12
He only needs to tie it over
for a short period,

274 00:14:44:14 00:14:46:18
but it could be maxed out already.

275 00:14:46:20 00:14:47:22
In this situation,

276 00:14:47:24 00:14:51:14
Derek doesn't have friends or family
that could support him.

277 00:14:51:16 00:14:56:08
His thoughts were that 30,000 pension,
could he cash it in?

278 00:14:56:10 00:15:00:17
Luckily, the provider has alerted him
to the emergency month one tax

279 00:15:00:19 00:15:03:11

and they've suggested that
he seeks advice.

280 00:15:03:13 00:15:09:06
He's also confused that the provider,
because we are now post-February,

281 00:15:09:08 00:15:13:11
has drawn attention to the choice of
pathways that he has to consider.

282 00:15:13:13 00:15:15:13
More of that in a second.

283 00:15:15:15 00:15:17:10
Options, then.

284 00:15:17:12 00:15:20:21
He could do an UFPLS
or cash in that small pot,

285 00:15:20:23 00:15:25:03
both of which would trigger the MPAA
and emergency tax.

286 00:15:25:05 00:15:27:17
To avoid that,
perhaps if he seeks advice,

287 00:15:27:19 00:15:31:10
he could release pension commencement
lump sum from pot two.

288 00:15:31:12 00:15:35:11
It's more money than he needs,
but he won't trigger the MPAA.

289 00:15:35:13 00:15:39:23
However, it will reduce his income
in retirement and cash later.

290 00:15:40:00 00:15:43:24
The final one is maybe
consolidate the pensions,

291 00:15:44:01 00:15:46:15
review the suitability of investments,

292 00:15:46:17 00:15:49:12
match his attitude to risk,
capacity for loss

293 00:15:49:14 00:15:53:06
and release a tax-free amount
without triggering MPAA.

294 00:15:53:08 00:15:57:01
And I just think that shows the benefit

of having financial advice.

295 00:15:57:03 00:16:02:17
Actually, do you know what?
The tax that he might pay in terms of

296 00:16:02:19 00:16:08:10
triggering emergency month one
and triggering the MPAA

297 00:16:08:12 00:16:11:11
and restricting what he can pay in
in the future,

298 00:16:11:13 00:16:13:16
is probably a far greater cost

299 00:16:13:18 00:16:16:20
than the cost of advice
to do this properly.

300 00:16:16:22 00:16:20:08
All I'd say is
it might not be people like Derek

301 00:16:20:10 00:16:22:13
that you've got as clients,

302 00:16:22:15 00:16:26:14
Derek could be one of the sons
or daughters of your existing clients

303 00:16:26:16 00:16:29:22
and I'd just make sure
that you've made everyone aware

304 00:16:29:24 00:16:33:16
that this is an area of advice
that you can support people in.

305 00:16:37:03 00:16:38:12
He wants to access his pension,

306 00:16:38:14 00:16:41:05
I've mentioned the money purchase
annual allowance.

307 00:16:41:07 00:16:43:21
I'm just going to remind people
what this is.

308 00:16:43:23 00:16:45:07
It's a costly mistake

309 00:16:45:09 00:16:48:20
and would be a costly mistake
for someone like Derek.

310 00:16:48:22 00:16:50:20
It was introduced in April 2015

311 00:16:50:22 00:16:53:17
when pensions freedom and choice
came along

312 00:16:53:19 00:16:55:21
Where we allowed people to access

313 00:16:55:23 00:16:58:21
as much money as they wanted
from a pension.

314 00:16:58:23 00:17:01:14
So the idea being
if you took a big withdrawal,

315 00:17:01:16 00:17:04:09
you wouldn't be able to
put it back into a pension

316 00:17:04:11 00:17:06:10
and get tax relief all over again.

317 00:17:06:12 00:17:11:11
They stopped that and they introduced
a maximum limit

318 00:17:11:13 00:17:14:00
of £10,000 back in the day.

319 00:17:14:02 00:17:17:07
That was changed
a couple of years back to £4,000.

320 00:17:17:09 00:17:20:14
This means that
once you trigger the MPAA,

321 00:17:20:16 00:17:23:15
this is a costly mistake
and you will be restricted

322 00:17:23:17 00:17:27:09
to what you can pay into a pension
forever and a day afterwards.

323 00:17:27:11 00:17:29:11
Now, in terms of what triggers that,

324 00:17:29:13 00:17:33:07
I think it's important to look at
what triggers it and what doesn't

325 00:17:33:09 00:17:35:16
and I will take you through
this circle here

326 00:17:35:18 00:17:37:01
just to remind ourselves.

327 00:17:37:03 00:17:38:13
If we start in the middle,

328 00:17:38:15 00:17:42:09
if you take a pension from a pension
scheme of less than 12 members,

329 00:17:42:11 00:17:46:04
something like a SSAS,
you will trigger the MPAA.

330 00:17:46:06 00:17:50:08
At the one and two o'clock position
on the clock face,

331 00:17:50:10 00:17:54:09
you've got UFPLS
and this is the one that worries me.

332 00:17:54:11 00:17:57:02
People think about their pensions
a lot of the time

333 00:17:57:04 00:18:00:14
as a sort of
tax-efficient bank account now.

334 00:18:00:16 00:18:03:15
Well, that's great
in terms of access,

335 00:18:03:17 00:18:07:12
but if you trigger the UFPLS,
uncrystallised pension lump sum,

336 00:18:07:14 00:18:11:15
you will be restricted
to what you can pay in going forward.

337 00:18:11:17 00:18:16:16
If you are in a flexible access
drawdown and you take income,

338 00:18:16:18 00:18:19:17
£1 of income,
you will be restricted

339 00:18:19:19 00:18:23:04
to whatever you can pay in
going forward.

340 00:18:23:06 00:18:25:20
If you are in a capped drawdown,
the good news is

341 00:18:25:22 00:18:29:11
you're in a capped drawdown,
you're not restricted by the MPAA,

342 00:18:29:13 00:18:31:24
but if you trigger that release,

343 00:18:32:01 00:18:36:00
I.E. you've reached the cap
and you take more income out,

344 00:18:36:02 00:18:38:10
then you will trigger the MPAA.

345 00:18:38:12 00:18:40:20
It could be that
there's retired people

346 00:18:40:22 00:18:43:24
needing to raise the amount of income
that they need

347 00:18:44:01 00:18:48:04
because they are looking to
support family members,

348 00:18:48:06 00:18:50:21
like a Derek situation
or something like that.

349 00:18:50:23 00:18:53:03
It might not be an obvious client,

350 00:18:53:05 00:18:56:19
it could be an extended family member
of your clients.

351 00:18:56:21 00:19:00:18
Flexible drawdown,
introduced in April 2015.

352 00:19:02:11 00:19:06:11
Converted to a flexible access
drawdown in April 2015.

353 00:19:06:13 00:19:09:22
They were available for a short
period of time before this date

354 00:19:09:24 00:19:12:05
and if you remember
the rules around them,

355 00:19:12:07 00:19:15:02
you had to have a minimum
income requirement secured

356 00:19:15:04 00:19:17:08
and you can no longer
pay into a pension.

357 00:19:17:10 00:19:19:13
Well, the good news is
for those people,

358 00:19:19:15 00:19:21:18
they can actually pay in
£4,000 a year,

359 00:19:21:20 00:19:25:12
but if you convert it,
you will lose that right.

360 00:19:25:14 00:19:26:20
Stand-alone lump sums,

361 00:19:26:22 00:19:29:17
if you've got protected
tax-free cash and you take it,

362 00:19:29:19 00:19:31:12
you will trigger the MPAA.

363 00:19:31:14 00:19:35:22
And if you buy a flexible annuity,
an annuity that can go down in payment,

364 00:19:35:24 00:19:38:20
that will also trigger the MPAA.

365 00:19:38:22 00:19:43:09
So, in terms of thinking about
what doesn't trigger the MPAA.

366 00:19:43:11 00:19:48:12
If you take anything like income
from a DB pension arrangement,

367 00:19:48:14 00:19:50:15
that doesn't trigger the MPAA.

368 00:19:51:20 00:19:54:07
Small pots or triviality rules,

369 00:19:54:09 00:19:59:18
so if you've got three small pots of
up to £10,000, you can cash them in.

370 00:20:01:09 00:20:05:01
If you've got a DB pension
that you take under triviality rules,

371 00:20:05:03 00:20:07:06
that won't trigger the MPAA either.

372 00:20:07:08 00:20:11:09
We need to be mindful of what other
pension assets people have got

373 00:20:11:11 00:20:13:24
and the fund value sizes.

374 00:20:14:01 00:20:19:19
If you take tax-free cash only,
that does not trigger the MPAA.

375 00:20:19:21 00:20:22:01
So, in Derek's situation there,

376 00:20:22:03 00:20:25:01
perhaps it would be better
to do the second pension,

377 00:20:25:03 00:20:27:21
which would allow him
to release the tax-free cash

378 00:20:27:23 00:20:30:13
that would cover the amount
that he needed

379 00:20:30:15 00:20:34:00
from car payment
and living standards.

380 00:20:35:11 00:20:39:00
If you are in receipt of beneficiary
flexible access drawdowns,

381 00:20:39:02 00:20:42:20
you are receiving a drawdown
from someone that's died,

382 00:20:42:22 00:20:47:13
the good news is you can draw off
that and that won't trigger the MPAA.

383 00:20:49:19 00:20:54:04
If you are receiving a pension credit
through a divorce,

384 00:20:54:06 00:20:56:17
that doesn't trigger the MPAA.

385 00:20:56:19 00:21:02:03
And if you buy a annuity that is
a traditional type of annuity,

386 00:21:02:05 00:21:05:15
I.E. non-flexible,
escalating or level,

387 00:21:05:17 00:21:08:03

that won't trigger the MPAA either.

388 00:21:08:05 00:21:11:13
So, there's as many reasons

389 00:21:11:15 00:21:15:02
how you can access a pension
and not trigger the MPAA

390 00:21:15:04 00:21:17:18
as there are
that will trigger the MPAA.

391 00:21:17:20 00:21:22:24
To me, the big worry is the UFPLS,
people going for the easy option

392 00:21:23:01 00:21:27:12
and triggering emergency
month one tax and the MPAA.

393 00:21:27:14 00:21:31:19
Now, I mentioned
the investment pathways.

394 00:21:31:21 00:21:35:19
Just to make you aware that
if you are advising on drawdown,

395 00:21:35:21 00:21:39:01
you will also need to consider
and make reference

396 00:21:39:03 00:21:43:19
to the investment pathways of
that drawdown provider's solutions.

397 00:21:43:21 00:21:47:13
If you are using Prudential's
drawdown with your clients,

398 00:21:47:15 00:21:51:21
even if it's just to release tax-free
cash, you need to be aware of them.

399 00:21:51:23 00:21:56:16
We've got supporting document now
on our pathway journeys

400 00:21:56:18 00:21:59:06
and I would suggest
speaking to your account manager

401 00:21:59:08 00:22:01:12
if you are not familiar with
what you need to do

402 00:22:01:14 00:22:03:06

and where to find the information.

403 00:22:04:07 00:22:06:01
Let's go back to Derek

404 00:22:06:03 00:22:10:00
and think about the situation
he found himself in nine months ago

405 00:22:10:02 00:22:11:19
when he was made redundant.

406 00:22:11:21 00:22:17:15
And assume that, rather than him
come to us today with his problems,

407 00:22:17:17 00:22:20:09
we were able to assist him
with redundancy planning

408 00:22:20:11 00:22:22:17
at the time
he was getting made redundant.

409 00:22:23:17 00:22:26:07
So, what if the situation
was different?

410 00:22:26:09 00:22:29:08
Let's say he earned £50,000
in the year

411 00:22:29:10 00:22:33:07
and he was being paid £100,000
redundancy payment.

412 00:22:33:09 00:22:35:08
Possibly, like most of us,

413 00:22:35:10 00:22:38:14
unhappy with the amount of tax
that he is going to have to face.

414 00:22:38:16 00:22:43:07
Remember, the first 30,000 of
the redundancy will be tax-free,

415 00:22:43:09 00:22:45:17
the rest taxed at his marginal rates.

416 00:22:45:19 00:22:48:02
If you look at
the marginal rates there

417 00:22:48:04 00:22:51:08
of 50,000 earning
and 70,000 on top,

418 00:22:51:10 00:22:56:14
he'd be £120,000 earner,
he'd be in the 60% tax bracket.

419 00:22:56:16 00:23:00:04
There we go, there's his earnings.
120,000.

420 00:23:00:06 00:23:05:12
All he is keeping of that is 75,640
after tax and NI.

421 00:23:05:14 00:23:07:20
One solution, then,

422 00:23:07:22 00:23:12:14
and I don't imagine many clients will
think about this themselves,

423 00:23:12:16 00:23:17:02
this is where advice really shows
and demonstrate value to clients,

424 00:23:17:04 00:23:20:13
what if we got Derek to pay
his money into a pension first?

425 00:23:22:05 00:23:23:16
If we look at the numbers.

426 00:23:23:18 00:23:27:00
If Derek writes a cheque for £56,000

427 00:23:27:02 00:23:29:16
and effectively puts that
into a pension,

428 00:23:29:18 00:23:32:05
basic rate tax relief
would be applied

429 00:23:32:07 00:23:35:05
and it would be worth £70,000.

430 00:23:35:07 00:23:40:19
Now, because of his age, he could
release 25% of that as tax-free cash,

431 00:23:40:21 00:23:44:09
so that comes out,
leaving 52,000 in his pension.

432 00:23:47:03 00:23:50:14
He is going to be a higher rate
taxpayer, so for his self-assessment

433 00:23:50:16 00:23:53:16
he would get higher rate tax relief

that he could claim back,

434 00:23:53:18 00:23:57:00
but also, he would have
an adjustment in his tax position

435 00:23:57:02 00:23:59:04
by making a pension contribution,

436 00:23:59:06 00:24:02:22
so he would get his personal
allowance back that he was losing.

437 00:24:02:24 00:24:05:23
He would get another £18,000 back.

438 00:24:06:00 00:24:09:08
If we move that over,
in terms of tax relief,

439 00:24:09:10 00:24:13:18
the net cost to him now
has been 20,500.

440 00:24:14:21 00:24:19:23
He's turning 20,500
into 52,500 pension.

441 00:24:20:00 00:24:22:08
The way I would think about this
with Derek is

442 00:24:22:10 00:24:25:15
whilst you probably don't want to
put your redundancy in a pension,

443 00:24:25:17 00:24:27:08
think about it like this -

444 00:24:27:10 00:24:31:17
would you be prepared to give up
£20,000 today

445 00:24:31:19 00:24:34:16
to have £52,000 in the future?

446 00:24:35:19 00:24:37:02
That's a pretty good deal,

447 00:24:37:04 00:24:40:08
demonstrating the value of
tax relief planning

448 00:24:40:10 00:24:43:05
with pensions
and offsetting some tax.

449 00:24:43:07 00:24:46:02

To help with that,
we have a fantastic calculator

450 00:24:46:04 00:24:48:21
called the tax relief modeller
on our website.

451 00:24:48:23 00:24:51:10
I don't have time to go through it
with you today,

452 00:24:51:12 00:24:53:10
but one of the things that it will do

453 00:24:53:12 00:24:56:17
is it will allow you to do
that redundancy-type planning.

454 00:24:56:19 00:24:58:20
Here's your tax position before,

455 00:24:58:22 00:25:03:02
here's your tax position after
you've made a pension contribution.

456 00:25:04:07 00:25:06:14
Simeon,

457 00:25:06:16 00:25:08:21
is there anything there
you wanted to mention

458 00:25:08:23 00:25:10:12
about the tax relief modeller?

459 00:25:10:14 00:25:12:06
Not really, but thanks.

460 00:25:12:08 00:25:15:15
That tax relief modeller
is a great tool.

461 00:25:15:17 00:25:19:12
It's one of many that we've built for
you which you can find on PruAdviser,

462 00:25:19:14 00:25:21:02
I know it's very well used.

463 00:25:21:04 00:25:22:24
So if you want to
go through this

464 00:25:23:01 00:25:26:00
or any of the other calculators
in any more detail,

465 00:25:26:02 00:25:28:12

then please contact
your account manager.

466 00:25:28:14 00:25:31:20
Just a quick reminder,
if you have any questions,

467 00:25:31:22 00:25:35:06
just go to the right-hand tab
and pop them in there.

468 00:25:35:08 00:25:37:22
You will find that
on the right-hand side of the screen

469 00:25:37:24 00:25:40:16
and we will cover those off
at the end if any come through.

470 00:25:40:18 00:25:45:00
Colin, some useful ideas there,
demonstrating the value of advice.

471 00:25:45:02 00:25:48:22
You looked at how advisers can
support clients being made redundant.

472 00:25:48:24 00:25:52:22
Staying on the theme of employment,
are there any ideas you've got

473 00:25:52:24 00:25:55:15
for supporting employers
that have done well in the pandemic?

474 00:25:57:02 00:25:58:16
Absolutely, Simeon.

475 00:25:58:18 00:26:03:18
I'm going to concentrate on the sort
of owner-manager of small businesses

476 00:26:03:20 00:26:05:19
and think about
what clients have we got

477 00:26:05:21 00:26:07:17
that have done well in the pandemic?

478 00:26:08:23 00:26:13:11
And there's any number of industries,
but some might not be as obvious.

479 00:26:13:13 00:26:16:18
Clearly, you've got people
that have worked in pharmaceuticals

480 00:26:16:20 00:26:18:18

and IT people have done well,

481 00:26:18:20 00:26:22:01
helping people set up work from home
and work remotely,

482 00:26:22:03 00:26:23:21
then you've got logistics.

483 00:26:23:23 00:26:25:11
But also, let's not forget about

484 00:26:25:13 00:26:27:14
people that have worked
in construction,

485 00:26:27:16 00:26:30:02
like building and things like that.

486 00:26:30:04 00:26:33:17
There's a builder I know that this
time last year employed nine people.

487 00:26:33:19 00:26:35:13
He now employs 19 people.

488 00:26:35:15 00:26:38:17
I said, "Why have you done so well,

489 00:26:38:19 00:26:41:11
given that there's
this big, looming recession?"

490 00:26:41:13 00:26:44:24
He said, "It's because everyone wants
a home office built

491 00:26:45:01 00:26:48:00
or they want their garage converted
into an office

492 00:26:48:02 00:26:50:14
and we've taken on more work
than we've ever had."

493 00:26:51:24 00:26:53:13
So, that got me thinking.

494 00:26:53:15 00:26:54:24
I was thinking "Well, OK."

495 00:26:55:01 00:26:57:04
Let's say this builder
is called Scott."

496 00:26:57:06 00:26:58:21
We are talking to Scott about,

497 00:26:58:23 00:27:01:18
you've done well,
you've had an exceptional year,

498 00:27:01:20 00:27:05:17
would you like to meet up and discuss
putting some money into a pension?

499 00:27:05:19 00:27:08:17
And you know what I think
Scott's answer is going to be.

500 00:27:08:19 00:27:10:10
No.

501 00:27:10:12 00:27:12:09
"I've worked hard,
I'm actually going to

502 00:27:12:11 00:27:14:22
take the wife and children away
and we are going to have

503 00:27:14:24 00:27:17:06
an exceptional holiday
once the lockdown's over."

504 00:27:17:08 00:27:20:04
And I get that
and I totally understand it.

505 00:27:20:06 00:27:22:07
However, when we are talking to
a business owner,

506 00:27:22:09 00:27:24:00
what about if we approach it
like this -

507 00:27:24:02 00:27:26:10
"Scott,
you've had an exceptional year,

508 00:27:26:12 00:27:30:03
would you like to meet up and discuss
how you could pay less tax?"

509 00:27:30:05 00:27:32:06
And I think if you run a company,

510 00:27:32:08 00:27:36:16
that's something that is going to
interest you. Why wouldn't it?

511 00:27:36:18 00:27:38:03
And what we're going to look at now

512 00:27:38:05 00:27:41:06

is how we extract profits
out of a company

513 00:27:41:08 00:27:43:22
in the most tax-efficient manner.

514 00:27:43:24 00:27:47:01
This is something that
we talk a lot about with advisers

515 00:27:47:03 00:27:52:01
and it's assuming that we've got
profits that we are going to extract.

516 00:27:52:03 00:27:55:21
In this example, 160,000.

517 00:27:55:23 00:28:01:02
And in every example, we're going to
take the first 9,500 as salary

518 00:28:01:04 00:28:04:22
and then we are going to
take the rest as either salary

519 00:28:04:24 00:28:09:07
or as dividend
or as a pension contribution.

520 00:28:10:10 00:28:12:01
Let's build this up.

521 00:28:12:03 00:28:15:07
If we take the first 9,500 as salary,

522 00:28:15:09 00:28:20:00
then the complete amount of salary
afterwards is going to trigger

523 00:28:20:02 00:28:24:14
income tax, national insurance
for employer and employee.

524 00:28:24:16 00:28:28:07
And we'd be left with 85,000
of the 160,000 out.

525 00:28:29:19 00:28:32:09
If we took it as dividend,

526 00:28:32:11 00:28:37:04
you can see that you are paying less
national insurance and income tax,

527 00:28:37:06 00:28:40:11
so you are going to get
96,000 of that,

528 00:28:40:13 00:28:43:12
almost 97,000 out versus 85,000.

529 00:28:43:14 00:28:46:13
You can see why this is
a more popular option

530 00:28:46:15 00:28:50:04
for people that run small companies
and things like that.

531 00:28:50:06 00:28:53:16
Or what if we extracted it out
as a pension?

532 00:28:53:18 00:28:59:22
And, actually, we are pretty much
extracting everything out bar £98.

533 00:28:59:24 00:29:05:10
We've got 150,402, plus the 9,500.

534 00:29:05:12 00:29:08:00
Clearly, the pension is the winner.

535 00:29:09:19 00:29:11:10
It depends how old you are, though.

536 00:29:11:12 00:29:14:09
If you are close to retirement,
this is going to be very attractive.

537 00:29:14:11 00:29:19:11
If you are some way from retirement,
then you've probably got to consider

538 00:29:19:13 00:29:22:08
putting food on the table
to live on today

539 00:29:22:10 00:29:25:17
because you can't access that money
that you've put in the pension.

540 00:29:25:19 00:29:29:14
But when we look at accessing money,
let's consider, first off,

541 00:29:29:16 00:29:34:10
someone who has the ability to retire
and drawdown from these profits.

542 00:29:34:12 00:29:37:04
At the point of time in retirement,

543 00:29:37:06 00:29:40:10
they'd be able to get 25% out
tax-free

544 00:29:40:12 00:29:43:03
and are balance taxed
at their marginal rates.

545 00:29:43:05 00:29:47:02
So, if I was a 20% taxpayer
on the balance,

546 00:29:47:04 00:29:49:24
admittedly I wouldn't
get it all out in one go,

547 00:29:50:01 00:29:55:19
I'd actually extract out 127,000
out of that 160,000

548 00:29:55:21 00:29:59:07
and that's considerably more
than the other options.

549 00:29:59:09 00:30:02:18
Even as a 40% taxpayer
in retirement,

550 00:30:02:20 00:30:05:20
so let's say I'm chunking it out
in bigger lump sums,

551 00:30:05:22 00:30:07:24
I'm still getting quite a lot more

552 00:30:08:01 00:30:10:17
than if I did the dividend
or salary route.

553 00:30:10:19 00:30:13:00
But what we want to do
is think about,

554 00:30:13:02 00:30:15:16
OK, this won't be suitable
for everyone,

555 00:30:15:18 00:30:18:05
Scott's probably a bit younger.

556 00:30:18:07 00:30:20:23
Let's consider
finding the perfect blend, then.

557 00:30:21:00 00:30:23:24
This is something that we do
with advisers all the time.

558 00:30:24:01 00:30:27:12
It's looking at what are the profits
we are looking to extract?

559 00:30:27:14 00:30:31:12

On the left-hand side, we are doing
small salary, remainder dividends,

560 00:30:31:14 00:30:33:02

on the right-hand side,

561 00:30:33:04 00:30:37:10

we are doing small salary,
remainder dividends and some pension.

562 00:30:37:12 00:30:39:13

What we are looking to achieve

563 00:30:39:15 00:30:43:09

is the perfect blend of salary,
dividends and pensions

564 00:30:43:11 00:30:47:12

in a tax-efficient and accessible
manner for our clients.

565 00:30:48:14 00:30:51:21

We are just going to swap
some of the dividends for pension.

566 00:30:51:23 00:30:56:03

In terms of what we take home
in this situation,

567 00:30:56:05 00:30:59:04

on the left-hand side,
I've got 96,000 in the bank,

568 00:30:59:06 00:31:01:20

on the right-hand side,
47,000 in the bank.

569 00:31:01:22 00:31:05:14

It's cost me about £49,000.

570 00:31:05:16 00:31:12:01

But giving up £49,000 has meant that
I've got £100,000 in the pension.

571 00:31:12:03 00:31:14:13

It goes back to
what I was saying with Derek.

572 00:31:14:15 00:31:18:07

Would you be prepared
to give up £49,000 today

573 00:31:18:09 00:31:21:12

to have potentially £100,000
tomorrow?

574 00:31:21:14 00:31:24:13
And that's a way
to consider these things.

575 00:31:24:15 00:31:26:20
Then, if we go to access it,

576 00:31:26:22 00:31:31:20
as a 20% or 40% taxpayer
on the balance after tax-free cash,

577 00:31:31:22 00:31:35:06
You can see I'm getting 85,000 out
or 70,000,

578 00:31:35:08 00:31:38:23
which is quite a lot more
than the 49,000.

579 00:31:40:10 00:31:44:08
In that case, that would be,
for a 20% taxpayer,

580 00:31:44:10 00:31:49:11
over 70% return on that money
risk free.

581 00:31:49:13 00:31:51:22
So, again, what I'd be doing is

582 00:31:51:24 00:31:54:21
I'd be talking to everyone I know
that runs their own business

583 00:31:54:23 00:31:59:00
about would you like a conversation
about the tax situation

584 00:31:59:02 00:32:02:22
and if we can look at ways of seeing
if we can pay less tax?

585 00:32:02:24 00:32:05:20
Also, of course,
boosting their retirement.

586 00:32:05:22 00:32:08:13
Here's a tool that's available
on our website.

587 00:32:08:15 00:32:10:05
We've got lots of tools
and calculators,

588 00:32:10:07 00:32:12:07
we've mentioned some of them
already today.

589 00:32:12:09 00:32:14:19
This one is
the extracting company profits tool.

590 00:32:14:21 00:32:16:04
There's a link at the bottom

591 00:32:16:06 00:32:19:08
or speak to your account manager
if you want more information.

592 00:32:19:10 00:32:22:19
Now, earlier on,
I started the conversation

593 00:32:22:21 00:32:26:11
talking about the opportunities of
the money that's been sat on cash

594 00:32:26:13 00:32:29:10
and lots of people
have been saving money.

595 00:32:29:12 00:32:32:19
I think the biggest cohort of people
that are saving money

596 00:32:32:21 00:32:34:16
are going to be retired people.

597 00:32:34:18 00:32:39:09
I look at my parents' situation,
they are in retirement,

598 00:32:39:11 00:32:43:08
their biggest consumption was
holidays and socialising.

599 00:32:43:10 00:32:46:17
They've not been able to do
any of that in the last 12 months,

600 00:32:46:19 00:32:49:03
so they've built up
some cash reserves.

601 00:32:49:05 00:32:53:19
Now, we've just produced a document
called Family Wealth Unlocked

602 00:32:53:21 00:32:58:18
and it looks at
intergenerational wealth transfers.

603 00:32:58:20 00:33:01:21
Some headlines for you
from this research -

604 00:33:01:23 00:33:03:14
over the next 20 years,

605 00:33:03:16 00:33:08:04
5.5 trillion is going to be
passed down through generations.

606 00:33:09:10 00:33:13:15
The average IHT bill is 179,000
currently.

607 00:33:13:17 00:33:16:19
The UK debt that has been built up
in the pandemic,

608 00:33:16:21 00:33:20:20
the cost of providing things like
furlough schemes and stuff like that

609 00:33:20:22 00:33:22:15
is over £2 trillion.

610 00:33:22:17 00:33:28:08
What worries me is maybe inheritance
tax could be changed in the future

611 00:33:28:10 00:33:31:04
to try and offset
some of this 2 trillion.

612 00:33:31:06 00:33:34:21
I would be on the front foot
talking to people about

613 00:33:34:23 00:33:39:12
can we potentially
do some planning

614 00:33:39:14 00:33:42:18
that gives some of your wealth away
to the next generation

615 00:33:42:20 00:33:45:23
and helps you pay
less inheritance tax?

616 00:33:46:00 00:33:49:00
Or certainly those people
pay less inheritance tax.

617 00:33:50:14 00:33:53:12
Our research also tells us that
in the pandemic

618 00:33:53:14 00:33:57:06
a number of people have started to
look at financial advice

619 00:33:57:08 00:33:59:15
and what I find interesting here

620 00:33:59:17 00:34:02:11
is the growth in people
looking for advice

621 00:34:02:13 00:34:05:17
as millennials or generation Z.

622 00:34:05:19 00:34:10:08
Yes, we've still got baby boomers
looking for advice and those over 75,

623 00:34:10:10 00:34:14:14
but perhaps these numbers are smaller
because they already have advisers.

624 00:34:14:16 00:34:21:24
And the millennials are the children
that are turning 40 today.

625 00:34:22:01 00:34:28:04
So these people are soon to become
the largest learners in society,

626 00:34:28:06 00:34:30:21
so they're going to need
financial advice,

627 00:34:30:23 00:34:34:14
and they are also going to be
the generation

628 00:34:34:16 00:34:39:09
set to inherit that 5.5 trillion
over the next 20 years.

629 00:34:39:11 00:34:44:00
In terms of future proofing
your business as an adviser,

630 00:34:44:02 00:34:48:19
one way to start to pick up
this next generation of clients

631 00:34:48:21 00:34:52:17
is through family wealth transfers.

632 00:34:52:19 00:34:58:19
However, if, as an adviser,
we don't start this process today,

633 00:34:58:21 00:35:01:13
There is a huge risk
that these millennials

634 00:35:01:15 00:35:07:09

will actually remove their parents'
adviser out of the picture

635 00:35:07:11 00:35:09:09
when they inherit money.

636 00:35:09:11 00:35:11:16
Our statistics tell us that,
worryingly,

637 00:35:11:18 00:35:16:04
38% of these people are not
comfortable sharing the same adviser.

638 00:35:16:06 00:35:19:12
Now, I've been doing a lot of work
recently with advisers

639 00:35:19:14 00:35:21:22
and more and more of you
are starting to do

640 00:35:21:24 00:35:25:07
intergenerational wealth planning
and bringing on board

641 00:35:25:09 00:35:28:03
the next generation of clients
to the business,

642 00:35:28:05 00:35:31:15
which is great, and helping these
people out with things like pensions,

643 00:35:31:17 00:35:35:13
ISAs, savings for universities,
that sort of thing.

644 00:35:37:09 00:35:40:15
I want you to think about how you
engage with this younger generation.

645 00:35:40:17 00:35:43:03
Think about the millennials
and generation Z,

646 00:35:43:05 00:35:46:19
these are the generations that have
been brought up with technology.

647 00:35:46:21 00:35:49:12
One obvious example is

648 00:35:49:14 00:35:53:18
what has their experience been like
their whole lives as consumers?

649 00:35:53:20 00:35:59:12

Thinking about Amazon or
the John Lewis website as an example.

650 00:35:59:14 00:36:02:01
That is a world away to how, perhaps,

651 00:36:02:03 00:36:05:04
we have been offering
financial services.

652 00:36:05:06 00:36:09:19
Last year, we started some seminars
on digital technology

653 00:36:09:21 00:36:12:10
and how that could help
with the advice process.

654 00:36:12:12 00:36:14:21
On the right-hand side of the screen

655 00:36:14:23 00:36:18:18
is thinking about
using digital technology

656 00:36:18:20 00:36:23:08
with human advisers to create
an omni-channel advice experience.

657 00:36:23:10 00:36:26:07
What the next generation of clients
are looking for

658 00:36:26:09 00:36:29:13
is digital engagement,
where they might be able to do

659 00:36:29:15 00:36:32:22
some of the fact-finding
and onboarding themselves,

660 00:36:32:24 00:36:35:15
track goals, a bit of self-servicing,

661 00:36:35:17 00:36:38:18
don't be frightened
of these sort of things.

662 00:36:38:20 00:36:43:15
Having video meetings with advisers,
COVID has accelerated that trend.

663 00:36:43:17 00:36:47:15
But just to give an example,
we have used smart phones here,

664 00:36:47:17 00:36:49:02
we are all aware about

665 00:36:49:04 00:36:52:17
how smart phones have become
so crucial to our lives,

666 00:36:52:19 00:36:56:16
but interestingly, one adviser
when we were doing seminars last year

667 00:36:56:18 00:37:01:04
thought the iPod on the left-hand
side of the screen was a thermostat.

668 00:37:01:06 00:37:04:16
It just goes to show that
not all advisers are up to speed

669 00:37:04:18 00:37:07:16
with utilising this technology
with clients.

670 00:37:07:18 00:37:11:16
And in our research, there are
some interesting observations

671 00:37:11:18 00:37:14:05
by some industry thought leaders

672 00:37:14:07 00:37:18:20
around how you are going to need to
engage with the next generation

673 00:37:18:22 00:37:21:24
through digital media
and things like that.

674 00:37:22:01 00:37:24:01
And that is well worth
having a read of

675 00:37:24:03 00:37:26:03
if you don't want to get left behind.

676 00:37:26:05 00:37:28:01
It's not just advisers, though,

677 00:37:28:03 00:37:31:09
it's providers as well
that have had to make big changes.

678 00:37:31:11 00:37:32:24
And you will see here that

679 00:37:33:01 00:37:35:06
this is just showing that,
on our Retirement Account,

680 00:37:35:08 00:37:40:21

we have made huge enhancements
in our digital and technology spends

681 00:37:40:23 00:37:42:24
and we've now provided new ways

682 00:37:43:01 00:37:45:08
for people to access
our Retirement Account.

683 00:37:45:10 00:37:47:02
That's the first of many enhancements

684 00:37:47:04 00:37:49:07
that we are making
across our product range

685 00:37:49:09 00:37:52:11
to make the experience
for you and your clients better.

686 00:37:53:18 00:37:55:13
And finally, I just want to mention

687 00:37:55:15 00:37:59:21
about the intergenerational
wealth transfer strategies.

688 00:37:59:23 00:38:03:20
These are concerns
that retired people are having

689 00:38:03:22 00:38:05:16
about passing that wealth on.

690 00:38:05:18 00:38:09:15
I get this main concern that
they might need it in the future,

691 00:38:09:17 00:38:11:09
that's 29%.

692 00:38:11:11 00:38:13:03
But it's these ones here,

693 00:38:13:05 00:38:17:03
25% concerned that their children
might squander the money.

694 00:38:18:08 00:38:20:24
That there is a lack of control
over the spending

695 00:38:21:01 00:38:24:22
or maybe 19% that the recipients
would pay too much tax.

696 00:38:24:24 00:38:26:23

Well, you know
where I'm going with this.

697 00:38:27:00 00:38:30:12
An obvious example would be to perhaps
put that money in pensions.

698 00:38:30:14 00:38:34:15
The final thing that I'm going to
consider is a very quick example.

699 00:38:34:17 00:38:38:15
Let's look at a couple here.
They are 71 and 72.

700 00:38:38:17 00:38:42:01
They are in receipt of
an escalating final salary pension,

701 00:38:42:03 00:38:44:00
they are very comfortable
in retirement,

702 00:38:44:02 00:38:46:13
they are accumulating
lots of cash savings,

703 00:38:46:15 00:38:48:04
they have two adult children

704 00:38:48:06 00:38:51:13
and both of those children
are married with grandchildren.

705 00:38:51:15 00:38:54:19
What we are going to look at
is utilising pensions.

706 00:38:54:21 00:38:56:17
Usually I would ask the question,

707 00:38:56:19 00:38:59:05
how much can I pay into
a child's pension?

708 00:38:59:07 00:39:03:06
The stock, model answer
is 3,600 gross,

709 00:39:03:08 00:39:06:20
but I would say OK, that's fine
for your children under 18

710 00:39:06:22 00:39:09:02
that are not employed, not working,

711 00:39:09:04 00:39:12:01
but remember, if you are employed,

you are working,

712 00:39:12:03 00:39:17:00
you can pay 100% of your salary in
up to the annual allowance.

713 00:39:17:02 00:39:20:15
And I get this because, if we are
talking to people that have retired,

714 00:39:20:17 00:39:24:22
Brian and Kathy, their children
are likely to be of employed age

715 00:39:24:24 00:39:29:18
therefore they've got annual
allowance that they could utilise.

716 00:39:29:20 00:39:34:00
Let's say that Brian and Kathy have
£1,000 a month surplus income.

717 00:39:34:02 00:39:38:11
They invest that
at 5% return over 10 years,

718 00:39:38:13 00:39:41:15
that would be worth £155,000.

719 00:39:41:17 00:39:44:09
If they had
an inheritance tax problem,

720 00:39:44:11 00:39:46:09
Rachel and Ben,
their son and daughter,

721 00:39:46:11 00:39:50:10
would only receive 93,000,
the taxman 62,000.

722 00:39:50:12 00:39:53:12
But if we paid it into a pension,

723 00:39:53:14 00:39:58:07
let's say £500 a month
into Rachel and Ben's pension,

724 00:39:58:09 00:40:01:19
that would be 6,000 each,
12,000 a year,

725 00:40:01:21 00:40:04:08
but with the additional
base rate tax,

726 00:40:04:10 00:40:08:14
£15,000 a year, £7,500 each.

727 00:40:08:16 00:40:14:14
So therefore we get a much higher
number gifted away at 194, not 155.

728 00:40:14:16 00:40:19:19
But the beauty of this is those
contributions go into the pension,

729 00:40:19:21 00:40:23:08
They are immediately out of the state,
there is no inheritance tax

730 00:40:23:10 00:40:26:07
and if Rachel and Ben
were higher rate taxpayers,

731 00:40:26:09 00:40:30:11
they would each claim £1,500 a year
through their self-assessment.

732 00:40:30:13 00:40:34:02
Over 10 years, that would be £15,000.

733 00:40:34:04 00:40:36:06
So, this is a fantastic way

734 00:40:36:08 00:40:40:05
to get 90% tax relief
on pension contributions.

735 00:40:40:07 00:40:43:24
Saving on inheritance tax,
basic rate tax applied

736 00:40:44:01 00:40:47:01
and higher rate tax relief
claimed back.

737 00:40:49:15 00:40:52:07
I'm just going to finish off
and just draw your attention

738 00:40:52:09 00:40:54:22
to one idea
which I think is really great

739 00:40:54:24 00:40:57:12
for this intergenerational
wealth planning.

740 00:40:57:14 00:41:01:20
That is environmental, social
and governance investment funds.

741 00:41:01:22 00:41:05:02
We have a huge range of them
on our Retirement Account pension

742 00:41:05:04 00:41:07:20
and something that
I would consider you to look at

743 00:41:07:22 00:41:09:02
is have a look at this.

744 00:41:09:04 00:41:13:19
The Make My Money Matter campaign,
which the driving force behind that,

745 00:41:13:21 00:41:16:21
ex-Bank of England Governor,
Richard Curtis,

746 00:41:16:23 00:41:21:09
the writer of many of
our loved comedy shows and films.

747 00:41:21:11 00:41:22:21
And on the right-hand side,

748 00:41:22:23 00:41:26:07
what pension scheme members
think about responsible investing

749 00:41:26:09 00:41:27:12
and this video here,

750 00:41:27:14 00:41:31:01
where is your pension money invested
and the good that it does.

751 00:41:31:03 00:41:32:13
If we think about perhaps

752 00:41:32:15 00:41:35:08
transferring wealth
through the generations,

753 00:41:35:10 00:41:37:14
it doesn't necessarily have to be
a pension,

754 00:41:37:16 00:41:39:21
but if I'm going to gift money away

755 00:41:39:23 00:41:42:15
that can't be accessed
for 20 to 30 years,

756 00:41:42:17 00:41:47:19
I might think to myself, "Rather than
the old investment company

757 00:41:47:21 00:41:50:01
just benefit from my contributions,

758 00:41:50:03 00:41:53:24
could society benefit
from those contributions as well?"

759 00:41:54:01 00:41:57:22
There's a nice line
that I've seen and heard on this,

760 00:41:57:24 00:42:00:20
what's the point in saving
for someone's future

761 00:42:00:22 00:42:02:08
if there isn't a future?

762 00:42:02:10 00:42:03:21
Hopefully, investment funds,

763 00:42:03:23 00:42:06:03
like the ones that
you will see on your screen here

764 00:42:06:05 00:42:08:05
that are available
on Retirement Account,

765 00:42:08:07 00:42:10:22
can actually make a positive change
to that.

766 00:42:10:24 00:42:12:21
If you'd like to know
more information

767 00:42:12:23 00:42:15:23
about the type of investment funds
I'm talking about today,

768 00:42:16:00 00:42:18:01
then please speak to
your account manager

769 00:42:18:03 00:42:20:00
and we can give you
more information.

770 00:42:21:08 00:42:23:23
There's the Wealth Unlocked report
that I mentioned.

771 00:42:24:00 00:42:25:13
When you receive the slides,

772 00:42:25:15 00:42:29:04
the link is on there with all that
information I talked about today.

773 00:42:29:06 00:42:35:05
With that, I'd like to hand you back
to Simeon to end the conversation.

774 00:42:36:22 00:42:39:22
Colin, yes.
Thanks ever so much for that.

775 00:42:39:24 00:42:44:18
Some really insightful content there,
so thank you.

776 00:42:44:20 00:42:47:19
As you can see, here are the learning
objectives for today's session.

777 00:42:47:21 00:42:51:07
I trust you took away a number of
planning ideas for your clients,

778 00:42:51:09 00:42:53:14
including the blending
the sustainable funds

779 00:42:53:16 00:42:57:01
with our PruFund range, which you
can do through our product wrappers.

780 00:42:57:03 00:43:00:04
As Colin says, please do reach out
to your account manager

781 00:43:00:06 00:43:02:06
to discuss any of these ideas

782 00:43:02:08 00:43:05:03
or any clients
that you may want to talk about.

783 00:43:05:05 00:43:10:01
This is the fifth of seven in our
Managing Future Risks seminar series.

784 00:43:10:03 00:43:12:15
If you haven't signed up
to the last one yet,

785 00:43:12:17 00:43:14:23
there is a link to
the upcoming sessions

786 00:43:15:00 00:43:17:06
on the left-hand panel
of your screen.

787 00:43:17:08 00:43:20:19
A reminder
to please complete the CPD feedback.

788 00:43:20:21 00:43:23:18

You can find this
on the left of the panel.

789 00:43:23:20 00:43:25:03

Once we have your feedback,

790 00:43:25:05 00:43:28:12

our events team will be sending you
an email over the next few days,

791 00:43:28:14 00:43:31:10

this will have
an embedded CPD certificate,

792 00:43:31:12 00:43:35:05

so please make sure
you save the email for your records.

793 00:43:36:09 00:43:38:11

You will find copies of the slides
from today

794 00:43:38:13 00:43:40:23

and the recordings
of the previous sessions,

795 00:43:41:00 00:43:44:06

including this one,
on our PruAdviser seminar page.

796 00:43:44:08 00:43:46:09

This should be up there
from next week.

797 00:43:46:11 00:43:49:07

Colin,
we've had no questions come in,

798 00:43:49:09 00:43:50:23

but if you do have any questions,

799 00:43:51:00 00:43:53:01

please just pop them
on your feedback form

800 00:43:53:03 00:43:56:06

and we will pick those up with
your account manager after today.

801 00:43:56:08 00:43:59:12

Finally, that just leaves me to say
thank you for attending

802 00:43:59:14 00:44:02:01

and please enjoy
the rest of your day. Thank you.

