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The path through retirement

Pension decumulation

Adviser Solutions

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Introduction

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Steve Jobs once said 'You can't connect the dots looking forward, you can only connect them looking backwards'. There are differing interpretations of precisely what Jobs meant, but this does seem to resonate with retirement planning. There's a great deal of focus on making the right decisions at the point of retirement, understandably so, but retirement isn't a 'one and done' event. However, robust retirement planning may be, it's impossible to chart the precise course of any individual retirement. We can't predict the unpredictable.

However, while we can't accurately map the shape of any individual retirement, we can identify the main catalysts that disrupt retirement plans. For example, changes in physical health, decline in cognitive ability, death of a partner or divorce. All of these are more likely to occur as people age. Vulnerability is also more pronounced among older people. Then there are extraneous influences, the economic environment and the behaviour of investment markets.

It's also important to note that these elements are interrelated. The death of a partner can lead to a deterioration in mental health, which can cause someone to become vulnerable.

What's more, drawdown clients should review the role of annuities throughout retirement. As clients age, annuity rates are higher and, if physical health deteriorates, an enhanced annuity can boost income further. An annuity can also mitigate the impact of a decline in mental health.

While we can identify the main factors that derail retirement plans, there is an unknown we can't define – the timing of any changes. One couple may lead an active life, where both partners are mentally and physically in good shape, for more than 20-30 years. Another couple may experience divorce or the death of a partner and suffer poor health early during their retirement. It's essential that retirement plans are regularly reviewed.

In this report we identify the main influences and consider how they can affect retirement plans. We've developed a checklist of the key issues which you can compare with your own processes. Maintaining contact with clients during their retirement can also create relationships with the next generation. And consider this, by 2066 one in four people in the UK will be over 65[1]. This is a growing opportunity for financial advice.

1. Living longer: how our population is changing and why it matters, ONS, August 2018.

Contents

The path through retirement

The English writer R.C. Sherriff is credited with saying words to the effect that 'When someone retires and time is no longer a matter of urgent importance, their colleagues generally present them with a watch!'. This could be a subliminal reminder that time is finite, so make the most of it. Alternatively, it could suggest how little we know or think about retirement, particularly retirement in the 21st Century. Relentless improvements in life expectancy and breakthroughs in medicine hold out the prospect of an ever longer retirement that our forefathers could never have imagined.

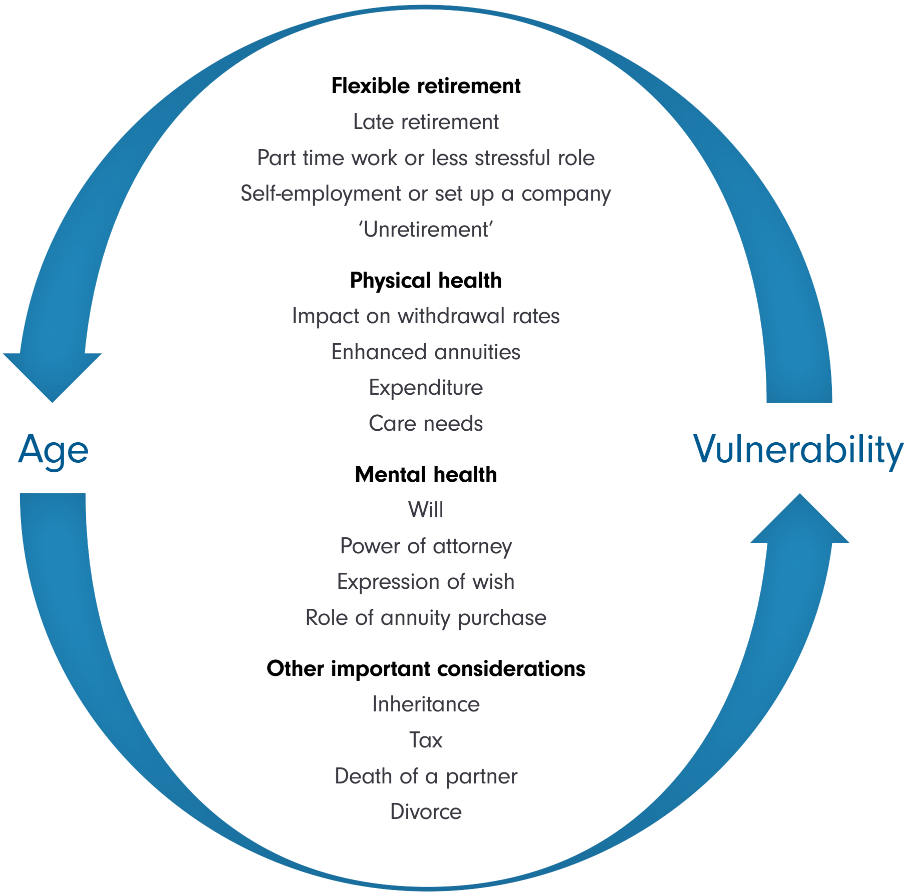
Welcome though this is, it creates challenges for financial advisers. The concept of retirement as a 'one and done' financial planning exercise is outdated. There is significant focus on helping people make the right decisions when they approach retirement, rightly so: Pension freedoms extended the options people have when they access their benefits. Some decisions, like buying an annuity, are irreversible, while others, like drawdown, involve managing a complex range of interrelated risks. Nevertheless, whatever choices are made when retirement begins, one thing is almost certain – changes will be required throughout retirement.

We can't predict when changes might occur nor can we know in advance the nature of such change. For example, early in retirement someone may fall victim to a terminal illness or lose a partner or show signs of dementia. Alternatively, someone could remain active and healthy well into their nineties. What's more, extraneous events may disrupt the best laid plans, like inflation, for example. The permutations are endless. While we can't say when and if any of these changes will occur, we can identify the main changes that can disrupt people's plans and the action that can be taken to mitigate the impact. For example:

- **Flexible retirement.** The process of retirement could evolve over several years and include distinct stages that may require a series of iterations to financial plans. It can also include periods of 'unretirement' with people returning to the workplace.
- **Physical health.** Despite the relentless improvements in medicine, the evidence suggests that a proportion of retirement will be spent in poor health. This has a number of implications on spending patterns including the costs of dealing with ill health.
- **Mental health.** Deteriorating mental health can bring an array of problems for advisers. This can include difficulties in making decisions and ultimately the need to consider delegating decision-making.
- **Vulnerability.** While vulnerability includes mental health issues and physical incapacity it is much broader than this and advisers should constantly be on the lookout for signs of vulnerability throughout retirement.
- **Age.** As clients age, this can have implications for withdrawal rates under drawdown and bring into focus the attraction of partial or full annuitisation (given the impact of mortality surplus, the income from an annuity is difficult to match).
- **Miscellaneous.** Advisers also need to monitor other changes that could impact financial plans. These could include the death of a partner or inheritance tax planning.

Of course, many of these are interrelated. As people age, their mental and physical faculties decline which can induce vulnerability, so categorising changes under these headings may seem erroneous. Nevertheless, it does provide a framework to track how changes can affect retirement plans. The overarching themes are age and vulnerability as shown in the chart on the next page.

Many issues are interrelated, but age and vulnerability are overarching themes



In the next section, we'll look individually at each of these categories and their influence on retirement planning.

Key points

- Retirement is no longer a 'one and done' exercise for advisers, regular reviews are necessary throughout retirement.
- There is significant focus on making the right decisions at the beginning of retirement, but this is only the start.
- This is particularly relevant where people ease gradually into retirement, which can lead to several iterations to any financial strategy.
- The timing and the nature of any changes during retirement cannot usually be predicted with any degree of accuracy.
- Nevertheless, we can identify the more common changes that can occur and propose solutions to mitigate any adverse occurrences.
- Changes are often interrelated, but it can be useful to understand changes independently.

The long and winding road

The future is uncertain and that's a good thing. Life would be mundane if we knew what would happen and when. In financial planning this uncertainty presents challenges. It requires advisers to stay close to their clients during retirement, undertake regular reviews and to adapt plans as events unfold. Here are just some of the challenges advisers face.

Flexible retirement

Retirement is increasingly referred to as a journey rather than an event. In fact, it can be difficult to know when work ends and retirement starts. Yet there is usually a tangible sign: a reduction in working hours, a move to a less stressful role or a complete change of career. This phase can take many twists and turns before someone stops work completely (and some never do).

Often this transition is accompanied by a reduction in earnings, so income may need to be supplemented. This subject is explored in much greater detail in one of our other reports titled 'Reinventing retirement', but some of the implications are summarised here.

State Pension

Someone who has reached State Pension age could use their State Pension to top up any shortfall. However, it's not possible to take part of the State Pension. This means the State Pension could push someone into a higher tax bracket. At best, it may provide more income than the client needs (though any excess could be used to fund further pension contributions under the right circumstances). Alternatively, the State Pension could be deferred and taken at a later date.

Top up from private pensions

It could make sense to top up any shortfall from private pensions. If so, the following should be borne in mind:

- Leaving aside the tax-free cash element, income from private pensions is taxable so this approach could push someone into a higher tax bracket.
- Taking income could trigger the MPAA. This may be less relevant now the MPAA has been increased to £10,000 (though carry forward can't be used to fund contributions to a DC pension plan above the MPAA limit).
- Using the tax-free cash sum to top up income would not trigger any reduction in the MPAA or lead to an increase in tax payable. Also less income would need to be withdrawn because of the tax-free status. If pension contributions continue to be made, the rules on recycling tax-free lump sums should be borne in mind.
- Income from a lifetime annuity or any defined benefit income would not trigger the MPAA, but would be taxable. If the retirement journey begins at a relatively young age, annuity rates may not be that attractive and defined benefit schemes usually apply an actuarial reduction if income is taken early.

Other savings and investments

An alternative source of income to top up any shortfall could be other savings and investments, particularly those which are tax advantaged like ISAs or the tax deferred status of investment bonds. Utilising the CGT allowance, dividend allowance or personal saving allowance could also create additional tax-free income.

Ageing during retirement

Ageing is often accompanied by physical and mental decline and these are explored later, but there are some specific aspects of ageing we should consider. For example:

Annuitisation

Annuity rates increase with age. That means the decision to annuitise part or all of a client's fund should be reviewed throughout retirement. There is a growing body of evidence that introducing a degree of annuitisation into a drawdown portfolio can produce better outcomes[2]. This effect is more pronounced if phased annuitisation is adopted[3]. The income from an annuity at older ages becomes difficult to match from other assets. Currently, a 70 year old could secure a guaranteed annual income for life of £7,752[4].

Income drawdown

As people defer taking income from drawdown, the amount they can withdraw safely increases. For a 65 year old the recommended safe withdrawal rate is 4% based on a 90% likelihood of funds lasting until age 95 and a 40% equity weighting. This rises to 4.3% for someone who starts to take an income at age 70 and 5.2% at age 75[5].

Economic environment

It's also critical to consider extraneous factors that can impact the amount that can be taken from drawdown. This could result in an increase if the circumstances have been favourable or a reduction if performance has been lower than expectations. It's also important to assess whether the forecast for the economic environment going forward requires changes to asset allocation and fund selection.

Life expectancy

Advisers often plan to 100 years of age. At the moment, the likelihood of a 66 year old reaching age 100 is 3.1% for a man and 5.5% for a woman[6]. This is conservative, but what if there's a seminal change in life expectancy? Over the next decade, it's not inconceivable that new drugs could delay the onset of dementia and Alzheimers (these are the biggest causes of death for people over 80)[7]. Reviewing life expectancy regularly is important.

Equity release

It's worth mentioning that the amount that can be borrowed under equity release plans increases with age. For example, at age 55 a little under 25% is typical in the market, but this doubles to over 50% at 80 years of age[8]. Equity release can be useful for retirees in a number of ways.

It's worth mentioning that the amount that can be borrowed under equity release plans increases with age.

2. Annuities reinvented: Are annuities the missing asset class for sustainable drawdown solutions?, Milliman, October 2018. More recently, Abraham Okusanya, Timeline CEO, substituted half of the bond element in a 60/40 drawdown portfolio for an annuity, resulting in a 60/20/20 split. The results showed that introducing the annuity element boosted the fund value over the long term.
3. 'Can we help consumers avoid running out of money in retirement?', Institute and Faculty of Actuaries, March 2018.
4. Hargreaves Lansdown, January 2024 (single life, level, no guaranteed period).
5. The State of Retirement Income: Safe Withdrawal Rates, Morningstar, November 2023.
6. Life expectancy calculator, ONS, January 2024.
7. Leading causes of death, UK: 2001 to 2018, ONS, March 2020.
8. What are the age limits for equity release?, Money Release, January 2024.

A decline in physical and mental health may also be age-related, but these subjects can have significant implications and should be reviewed independently.

Deterioration of physical health

It's a sad fact that a woman aged 65 today can expect to spend less than half (47%) of her remaining years in good health. And a man aged 65 today can expect a little more than half (53%) of his remaining years to be in good health[9]. There are a number of implications of poor health. These include:

Life expectancy

If poor health is expected to shorten life expectancy this could have an impact on retirement finances:

- **Drawdown rates.** It may be possible to increase withdrawal rates. However, the prognosis for many diseases can vary widely. Across all stages of bowel cancer 20% of people diagnosed won't survive one year, but 55% will survive for more than 10 years[10]. Care is needed, but where there is a strong likelihood that life expectancy will be shortened, higher withdrawal rates are possible
- **Enhanced annuities.** Given the uncertain course of many diseases, and the prospect of better treatments emerging, an enhanced annuity could be worth considering. Again, the combination of better rates at older ages plus an enhancement for poor health can provide a significant boost to income.

Patterns of expenditure

There are a number of chronic conditions that may not impact life expectancy, but could impede mobility and therefore limit opportunities to socialise or travel. This can curtail expenditure, which means income could be reduced (if there's a desire to leave as much as possible on death). Where income is fixed any excess income could be 'gifted' (including using the 'normal expenditure out of income' exemption explored later).

An enhanced annuity could be worth considering...the combination of better rates at older ages plus an enhancement for poor health can provide a significant boost to income.

9. Centre for Ageing Better, Health and life expectancies, ONS (England, 2018/20).
10. Cancer Research UK, 2023.

Care costs

Though regular income needs may reduce as a result of physical disability, there is the prospect of additional costs. For example:

- **Home modifications.** It may be necessary to fund changes to the home. If funds aren't available from other sources, equity release could help. Alternatively, it may make sense to move, perhaps to a property that is more suitable.
- **If care in the home is required, again equity release could be used if funds aren't available.** Clients may qualify for a disability allowance: Commonly, Attendance Allowance for people over State Pension age.
- **Care home.** If disability means your client requires support in a care home, then the issue of paying for care fees arises. There are changes to the current regime to cap the amount that people will pay for their care in future. From October 2025, a new cap is planned set at a total cost of £86,000. The new scheme will operate differently to the current scheme:
  - Someone with assets of less than £20,000 will not have to make any contribution for their care from their savings or the value of their home.
  - Someone with assets of between £20,000 and £100,000 will be eligible for some means-tested support towards the costs of their care.
  - Someone with assets over £100,000 must pay their fees in full.

The changes only apply to England as health and social care are devolved matters and any money spent on care before the new proposals become effective will not count towards the £86,000 cap. The £86,000 cap does not include the costs of food and accommodation. Bear in mind that, while the new provisions are due to be implemented in October 2025, a general election must be held by January 2025. It is therefore possible that if there is a change of government these reforms may not be implemented.

Decline in cognitive capacity

It's an unfortunate fact of life that cognitive ability declines with age. After 65, US data suggests that the chances of developing Alzheimer's disease or dementia broadly doubles every 5 years, and that one-third of all people age 85 and older may have Alzheimer's disease[11].

It's important for advisers to prompt clients to act while they're still in good health. Otherwise, it may be too late. But this is easier said than done. Behavioural economics reveals that we struggle to imagine a point where we can't make our own decisions. That means we're likely to procrastinate, rather than anticipate a future where we're incapable of acting rationally. Some of the implications are considered here:

Power of attorney

This tendency to procrastinate puts pressure on advisers to encourage their clients to act while they're mentally fit. One obvious solution is to appoint a power of attorney. There are different types of power of attorney, but for someone who is concerned to only pass control of their affairs when they lose mental capacity (unless they give specific permission before), a lasting power of attorney is the solution. There are two types of lasting power of attorney:

- Health and welfare gives an attorney the authority to make decisions about medical care and moving into a care home, for example.
- Property and financial affairs means an attorney can manage money and property including paying bills.

An attorney should be someone your client trusts. It could be a partner or spouse, another family member, a close friend or a professional. Of course, it can be more than one person, but the client should specify whether each attorney can act alone or whether decisions should be agreed collectively (a hybrid approach is also possible). If someone loses the capacity to act without setting up a power of attorney the Court of Protection can appoint a deputy to make decisions, but this can be a slow and expensive process.

Will writing

The financial affairs of clients who use an adviser will often be more complicated. That means it usually makes sense for you to be involved with creating a will to make sure that your clients' affairs are dealt with in the most efficient manner. Again, this is a subject people are often loathe to discuss, but it's in your clients' interests to make sure their affairs are in order.

Expression of wish nominations

It's also critical to regularly review expression of wish nominations during retirement. Where these aren't reviewed regularly it can create uncertainty as to the client's wishes on death.

> **It's important for advisers to prompt clients to act while they're still in good health. Otherwise, it may be too late. But this is easier said than done.**

11. What causes Alzheimer Disease?', National Institute of Aging, July 2019.

Lifetime annuities

As cognitive ability declines, clients may become less able to manage their pensions. Taking decisions about investment strategies and withdrawal rates, for example. For some, the answer may be to buy a lifetime annuity. This removes the need to actively make future decisions. This won't be for everyone. Many clients will be keen to pass on their pension wealth, though greater flexibility around guaranteed periods, and the option of value protection, mean there is now more potential to accommodate a client's desire to provide a legacy from an annuity.

> **The FCA final guidance on Customer Duty has a strong emphasis on vulnerability. In fact, the term 'vulnerability' is mentioned more than 100 times.**

Vulnerable clients

Vulnerabilty is defined by the FCA as 'someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care'. Vulnerability can take many forms and as people age they are more likely to face periods where they are considered vulnerable, permanently or temporarily. A 2017 FCA study found that 50% of UK consumers show one or more characteristics of potential vulnerability. This rises to 69% among those aged 75 and over and 77% of those aged 85 and over[12]. Advisers must be particularly diligent when dealing with clients throughout their retirement.

The FCA final guidance on Customer Duty has a strong emphasis on vulnerability. In fact, the term 'vulnerability' is mentioned more than 100 times[13]. The introduction to the FCA's final guidance, explains that[14]:

'We expect consumers with characteristics of vulnerability to benefit from the overall improvements in outcomes delivered as a result of the new Duty.'

The causes of vulnerability are many and varied. The FCA gives examples of the types of circumstances and characteristics which can lead to consumers being classified as 'vulnerable'[15]:

- **Health.** This covers physical and mental health issues and includes impaired hearing and loss of sight. Addiction can also be an issue.
- **Life events.** This could include bereavement, a relationship breakdown and even retirement itself.
- **Resilience.** Inability to withstand financial shocks, inadequate income and over indebtedness would all fall into this category.
- **Capability.** This identifies impediments to comprehension. For example, lack of knowledge or confidence in financial matters, literacy or language problems, learning difficulties and poor digital skills.

It's also important to bear in mind that vulnerability can be brought on suddenly, bereavement for example, or develop gradually like dementia. Where it leads to a financial shock, loss of income following bereavement, divorce or job loss this can exacerbate people's vulnerability.

12. Understanding the financial lives of UK adults, Findings from the FCA's Financial Lives Survey 2017, October 2017 (updated January 2020).
13. Vulnerable Customers and the Consumer Duty, Parmenion, February 2023.
14. FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty, July 2022.
15. FG21/1 Guidance for firms on the fair treatment of vulnerable customers, FCA, February 2021.

Vulnerability isn't always a constant or permanent state. For some, it will be, but others may move in and out of vulnerability. For example, someone who loses their job and finds another job quickly at the same or even a higher salary may feel vulnerable for a limited period. The impact of vulnerability can also fluctuate and may be multi layered. Someone caring for an elderly relative may find that they need to reduce their working hours or give up work altogether. The loss of income means they may need to start to dip into savings. Eventually, money saved has been spent and debts accumulate. It's not difficult in this example to see how vulnerability can escalate.

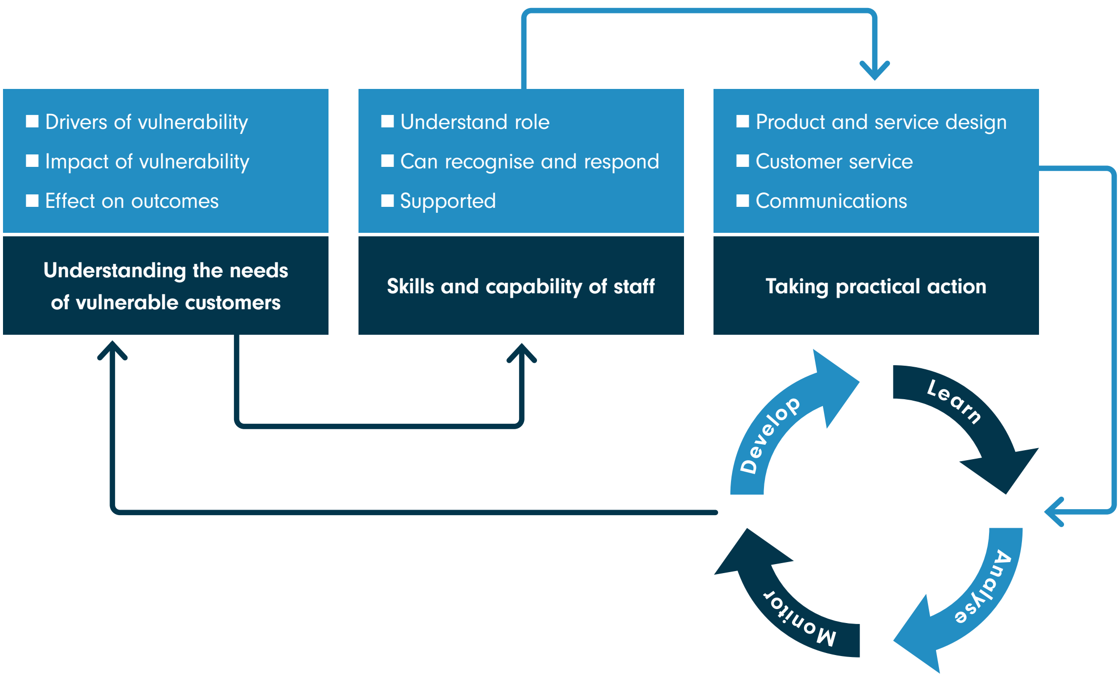
Vulnerability isn't always a constant or permanent state. For some, it will be, but others may move in and out of vulnerability.

In February 2021, the FCA published guidance for regulated firms on the fair treatment of vulnerable consumers. This builds on the their 'Approach to Consumers', published in 2018. It comprises four main sections covering the approach to achieve good outcomes for vulnerable customers and how to comply with the FCA's Principles for Businesses:

- Understanding the needs of your target market or client base.
- Ensuring staff have the skills and capabilities needed.
- Taking practical action on how to respond to a vulnerable consumer's needs.
- Monitoring and evaluation.

The Guidance did not produce checklists, but encouraged firms to explore how they comply with the principles.

FCA guidance on fair treatment of vulnerable consumers



Source: Guidance for firms on the fair treatment of vulnerable customers, FCA, 23.02.21

Other important considerations

There are a number of other issues advisers should consider as retirement progresses. These include:

- Tax
- Inheritance
- Marital status

Let's consider these in turn:

Tax

One objective of financial planning during retirement may be to mitigate the tax burden. This can include not just tax on income, but also tax on death. If we consider income tax firstly, many people may want to try and avoid higher rate tax, by arranging their income such that any further income, above the basic rate of tax, is sourced from tax advantaged savings and investments.

This means the tax position should be reviewed regularly. Where income is inflation linked but personal allowances are frozen, which is currently the case, it may be necessary to frequently adjust the balance of income between pensions and non-pension assets. Here are some of the common tax efficient products:

Savings
Income from pensions could be supplemented by taking income from savings:

- **Personal Savings Allowance.** Basic rate taxpayers can earn up to £1,000 interest a year without having to pay tax on savings accounts with banks, building societies or other savings institutions. Higher-rate taxpayers can earn up to £500 interest. The interest free allowance does not apply to people paying the additional rate of income tax. For people on low incomes there is also the starting rate for savings of £5,000.
- **Premium Bonds.** From £25 to £50,000 can be invested in premium bonds tax-free. Premium Bonds are popular because of the potential to win a substantial amount of money. They don't pay an income, but can be encashed periodically to boost income.
- **Cash ISA.** A cash ISA can provide an alternative to a stocks and shares ISA. Up to £20,000 can be invested in the current tax tear (2024/25). There is no additional income tax or capital gains tax payable, so income can be drawn from these products tax-free.

Investments

There are a range of different investments available that could be used to supplement income that are tax advantaged:

- **Stocks and shares ISA.** There is no additional income tax or capital gains tax payable under a stocks and shares ISA, so income can be taken tax free (though there is a 10% tax credit on dividend income applied that cannot be reclaimed). There is also an Innovative Finance ISA, which allows clients to earn tax-free interest on peer to peer lending.
- **Investment bonds.** Up to 5% of the original investment can be taken each year without creating a chargeable event. If the tax-deferred allowance is not taken each year, any unused amount can be carried forward for future use. There are differences between how onshore and offshore bonds are taxed. Offshore bonds enjoy gross roll up with no tax payable on income and gains within the funds. Using the starting rate for savings, someone could potentially have a chargeable gain on an offshore bond of £17,570 (depending on their total taxable income) without any liability to tax, increasing to £18,570 if the Personal Savings Allowance is used.
- **Unit trusts, investment trusts and OEICs.** The first £500 (2024/25) of dividend income is covered by a dividend allowance which is tax-free. Dividends above this amount will be taxable at 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers or 39.35% for an additional rate tax payer. There is also the capital gains allowance of £3,000 (2024/25).

Equity in the home

There are a number of ways to generate a tax-free income from the home:

- **Rent a room.** This is not about leveraging the equity in the home, but renting a furnished room in the client's main residence can generate a tax-free income of up to £7,500 per year.
- **Downsizing.** At some point, it may make sense to downsize. The house may be too big after the children have left home and the upkeep of the home could be challenging.
- **Equity release.** Many people are reluctant to sell the family home. For these reasons, equity release is becoming more popular than ever before. It can be a valuable way to release money tax free.

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Inheritance

Leaving a legacy may be a major objective for clients with access to a range of different products and substantial funds. The treatment of different products on death can impact how they are used during retirement. To maximise any legacy on death, it can make sense to take income from products that are less Inheritance Tax 'friendly'. This is something that should be continually reviewed throughout retirement. Here are some of the considerations advisers should review:

> **To maximise any legacy on death, it can make sense to take income from products that are less Inheritance Tax 'friendly'.**

Pensions

For drawdown clients, funds on death can be distributed free of tax on death before age 75 up to to the new Lump Sum and Death Benefit Allowance. Any payments made on death after age 75 will be taxed at the marginal rate of the person receiving the money. Death benefits from an annuity are treated similarly. Wealthier drawdown clients could choose to take income from other assets to maximise any legacy payable on death before 75. After 75 the position should be reviewed, but it may still be advantageous to consider other assets for income.

Property equity

In 2017, the government introduced the additional 'main residence' nil rate band which is now £175,000. It applies when a residence is passed to a direct descendent (children or grandchildren for example). For estates worth over £2million, the additional nil rate band will be reduced (for every £2 over the £2m threshold the amount will be reduced by £1). Married couples and civil partners can transfer their allowances to each other. It may make sense to ring fence equity that is free of Inheritance Tax. If the estate is likely to exceed £2m a potentially exempt transfer could preserve the additional main residence nil rate band. It should also be remembered that pension assets do not form part of the estate.

Pre – inheritance: potentially exempt transfers

Children could be in their fifties or sixties when any inheritance becomes payable on death. At this stage in their life they may be settled financially. In contrast, young people can find it difficult to buy property. A potentially exempt transfer can provide financial support when it's needed most. Such payments are free of Inheritance Tax if the donor survives for seven years after making the gift. If the funds aren't readily available a lifetime mortgage could be used to raise capital.

Normal expenditure out of income exemption

The normal expenditure out of income exemption is an important feature. The seven year rule doesn't apply and it doesn't impact other exemptions or constitute a chargeable transfer. For the exemption to apply, it has to meet three conditions:

- It forms part of the transferor's normal expenditure
- It's made out of income, and
- It leaves the transferor with enough income to maintain their normal standard of living.

It can be used to make pension contributions for grandchildren or pay school fees.

Business relief

Business Relief was originally introduced as part of the 1976 Finance Act to help small to medium sized enterprises (SMEs) after the death of a business owner or investor. To qualify for Business Relief, the business or business assets must have been owned for at least two years before death. The exception is assets inherited from a spouse or civil partner. In this case, the spouse or civil partner 'inherits' the period of ownership of their partner.

A business must not be listed on a main stock exchange to qualify for Business Relief. Shares in unquoted companies, companies listed on the Alternative Investment Market (AIM) and even an entire family business being passed to the next generation can qualify. However, the business must be a trading business. In practice, this means less than 50% of the business's activities should consist of investment activities, like buying stocks and shares or land and buildings.

ISAs

Although ISAs are not exempt from inheritance tax, assets from an ISA can effectively be passed tax-free to a spouse or civil partner, but when both die the funds cannot be passed to any children (or anyone else for that matter) tax-free.

Trusts

Trusts are often used to reduce any inheritance tax liability. However, the tax treatment of trusts is complicated. More information can be found here.

- **Bare trusts.** This is the simplest type of trust. Commonly used to transfer assets to children where the settler doesn't want the beneficiary to take control until they're 18.
- **Discretionary trusts.** Often used for children and grandchildren, trustees have discretion about how to distribute funds. As the assets are held in trust, they are not charged as part of an estate.
- **Discounted gift trusts.** In this type of trust the settlor makes a gift to the trust on condition that the settlor retains the rights to pre-agreed payments of capital. This type of trust is often used for insurance bonds where the settlor retains the right to the 5% per annum income payments.
- **Interest in possession trust.** An interest in possession trust commonly gives someone the right to live in a property or receive an income from investments, without ownership of the underlying assets, which are ultimately intended to pass to someone else. They are typically used in second marriages.
- **Loan trusts.** With a loan trust, the settlor lends money to the trust. In turn, the trustees invest the money for the benefit of the beneficiaries. The settlor can ask for part or full repayment of the loan. This is often used when someone doesn't feel comfortable about gifting capital in case they need it in the future.

> **Trusts are often used to reduce any inheritance tax liability. However, the tax treatment of trusts is complicated.**

Marital status

Death of a partner or a change in marital status can have a number of impacts. For example:

- **Expenditure.** It may be that day to day expenditure reduces on the death of a partner, though probably not by half. Some expenses are fixed – Sky subscriptions, for example. It's more likely that expenditure might reduce by about 25-33%.
- **Inheritance.** Death of a partner can mean a will and/or power of attorney needs to be revisited. It can also impact which products are used for income. For example, ISA assets can effectively be transferred on death tax-free between partners, but can't be passed on after this tax-free.
- **Lifetime annuities.** Single life annuity rates are much higher than joint life, so a degree of annuitisation could be attractive on the death of a partner, particularly at older ages when rates are higher in any event.
- **Vulnerability.** As previously discussed, someone who is grieving the loss of a loved one may find decision making more difficult than usual and this should be borne in mind. It may be beneficial to give more time for decisions or to introduce a time gap between decisions and executions to allow for further consideration or changes of plans. However, in some situations this may also be unwise, especially if funds are being withdrawn to pay for urgent expenses such as funeral costs.

Divorce can bring a similar, though different, set of issues and the nature of these will largely be driven by the terms of the divorce that defines the financial responsibilities and implications of each party. Again, vulnerability should be considered in the context that those involved may be experiencing significant stress or distress which could affect their decision-making. It can be useful to take the time to understand the impact that the situation is having on them and the reasons for any unexpected requests.

Key points

- The transition to retirement can take many forms with various twists and turns; income may often need supplementing using pensions or other savings and investments.
- Throughout retirement advisers should consider partial and phased annuitisation and the impact of extraneous factors, like inflation and investment markets, on withdrawal rates.
- Illness and disability can impact life expectancy, expenditure requirements and care needs. It may also influence withdrawal rates and the attraction of enhanced annuities.
- Declining cognitive ability can be pre-empted by ensuring a valid will and a lasting power of attorney are in place. Lifetime annuities can help mitigate the impact of mental decline.
- Vulnerability is an ongoing issue and should always be front of mind when conducting reviews. It can cover health, life events, resilience and capability.
- Structuring income to mitigate tax needs to be reviewed regularly – this includes tax on income, but also reducing inheritance tax where this is possible and desirable.
- Changes in marital status, particularly death of a partner, can impact expenditure, inheritance strategies and lead to vulnerability.

Path through retirement checklist

This is not an exhaustive list of everything that should be considered during regular reviews during retirement, but it should prove a useful guide to help structure your review or compare with any existing checklist you use for completeness.

Flexible retirement

- Does income need to be topped up?
- If yes, where from – State Pension, private pensions or savings and investments?
- Are pension contributions being paid?
- Has the MPAA been triggered?
- Has the road map to retirement changed? If so, what are the implications?

Age

- Might full or partial annuitisation be appropriate?
- Should the safe withdrawal rate be changed?
- Are changes recommended to asset allocation or fund selection?
- Is there any seminal change to life expectancy?
- Could increased equity release lending limits be helpful?
- Is downsizing something to be considered?

Physical disability

- Has there been a change in health since last review?
- If 'yes', is this likely to impact life expectancy and are any changes recommended, such as:
  - Consider enhanced annuities
  - Change safe withdrawal rate
  - Other
- Could this impact expenditure? If yes, will it increase or decrease?

Mental disability

- Has there been any deterioration in cognitive ability?
- Is a lasting Power of Attorney in place?
- Is there an up-to-date will?
- Has an expression of wish form been reviewed?
- Should a lifetime annuity be considered?
- Are there any implications for expenditure – care needs, for example?

Vulnerability

- Have you assessed the client against your vulnerability policy?
- Is there any evidence of vulnerability?
- What actions have been taken to adapt to any vulnerability?

Other important considerations

- Tax: Is there a need to review sources of income?
- Inheritance: Are any changes or actions required?
- Death of a partner: Has the client's partner died?
- If so, what are the implications? Death of children should also be explored
- Divorce: Similar considerations apply as per death of a partner

Summary

- Though it's important people make sound decisions at the point they start their retirement journey, it's likely that plans will need to be reviewed and adapted regularly throughout retirement. Indeed, the transition to retirement – covering the period when the journey begins to the point of outright retirement – may include several twists and turns that may require plans to change even before the client has fully retired.
- Many of the factors that can drive the need for change during retirement are interrelated. Age is often the catalyst for changes in physical health and mental capacity. In turn, these can lead to vulnerability. Nevertheless, it's useful to try and identify the influence of different factors independently.
- While we can define the main changes that might take place during retirement, it is difficult to predict with any confidence what changes will occur and when for any individual. This accentuates the need for regular planning reviews. Two people retiring at the same age and at the same time may experience retirement in a completely different way. One could enjoy 20-30 years of good health with an equally active partner, while another may suffer poor health, require significant care and endure the early death of a partner.
- As clients age, it can lead advisers to reappraise whether some form of annuitisation could be appropriate for their drawdown clients. And if clients haven't started taking an income from a drawdown portfolio the amount they can take will be higher the older they are.
- The performance of drawdown portfolios should be regularly reviewed based on the economic environment and the performance of the portfolio. Are changes required to asset allocation or fund selection? Could more income be taken, if required, or should income be reduced?
- Changes in physical health could impact how much can be taken from a drawdown portfolio or raise the prospect of using an enhanced annuity. Expenditure may reduce if mobility is impeded by ill health. Alternatively, costs could increase if home modifications or care needs arise.

- Decline in mental health can cause difficulties for advisers if decision making is impaired. This brings into focus the need for advisers to encourage clients to put in place a power of attorney and to regularly review their will and any expression of wish forms. A lifetime annuity can also help, in some instances, to reduce the need to review a drawdown portfolio.
- Protecting the interests of vulnerable clients is an FCA priority. It can be brought on by health issues like impaired hearing and loss of sight, life events including retirement itself, an inability to withstand financial shocks or impediments to comprehension. For example, literacy, language problems or poor digital skills.
- Other important considerations include the need to consider how income is structured to mitigate tax on income or on any legacy. Death of a partner or divorce can also require financial plans to be reviewed.
- It should always be borne in mind that retirement is not a 'one and done' event. It is essential that advisers regularly review their clients' plans throughout retirement. With retirement lasting longer than ever before, the need for regular contact is paramount.

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Important information

This document provides information and is only intended to provide an overview of the current law in this area and does not constitute financial advice, tax advice or legal advice, or provide any recommendations. The value of benefits depends on individual circumstances. The minimum age clients can normally access their pension savings is currently 55, and is due to rise to 57 on 6 April 2028, unless they have a lower protected pension age. Different options may have different effects for tax purposes, different implications for pension provision and different impacts on other assets and financial planning.

The value of investments and the income from them, can go down as well as up, so clients may get back less than they invest.

More insights on tax and pensions

We're committed to providing you with technical support to help you keep pace with the latest rules and legislation. Our range of practitioner material is designed to help you keep on top of all aspects of retirement planning. Themes covered include death benefits, pensions and divorce, the State Pension, pension withdrawals taxation and much more.

Visit the Technical matters hub on our website
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