



RETIREMENT OPTIMISATION

Our client, a self-employed professional aged 60, married with no dependents, runs a successful small business making consistent profits, with earnings exceeding £100,000. He owned the business premises, worth approximately £190,000, on which there was a small commercial mortgage. He had three personal pensions dating back some years and a retirement annuity contract, with a combined value of approximately £270,000.

Requirement

The client was keen to maximise his pensions and, with retirement approaching, provide the liquidity to make the most of the tax relief pensions offer. He envisaged selling the business in the next few years, with the property retained to provide an income for himself and his wife in retirement.

Using a SIPP provided the following benefits:

- Future growth free from Capital Gains Tax.
- Part of the purchase funded by tax relief.
- Future rental income free of income tax.
- Attractive rental income to fund future retirement.
- Property detached from the business.

Recommendations

The client consolidated two of the personal pensions into a SIPP, giving a value of £140,000. The retirement annuity contract, worth approximately £60,000, remained outside the SIPP so the client could take advantage of the valuable guaranteed annuity rate (GAR) in retirement. We also kept the third

personal pension outside the SIPP initially, as it was invested in with-profits and had a large market value adjuster (MVA).

The client paid a net pension contribution of £78,000 into the SIPP, which was then grossed up to £100,000 with higher tax rate relief, obtained via his tax return, significantly reducing tax for the year. The SIPP was then in a position to purchase the property from the client. He repaid the outstanding mortgage and used some of the excess for his pension contribution the following year to reduce tax further. The MVA was removed on the third pension at a later date and the pension was then transferred into the SIPP.

The client now has a sizeable retirement fund worth approximately £400,000 providing an attractive return. The balance of the fund is invested, leaving enough liquidity to provide a tax-free lump sum of around £100,000 when required, which the client could use to redeem his personal mortgage if he does not sell his business.

If you would like to discuss efficient retirement planning, please contact your LighthouseCarrwood adviser.

Before

- Business premises owned personally with small mortgage
- Retirement fund of approx £270,000

After

- Business premises owned by SIPP
- Retirement fund of approx £400,000