CURTIS BANKS

CASE STUDY
DISQUALIFYING PENSION CREDITS

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This case study is from Meet the Joneses – Series 1. Information about the family and further case studies can be found on our website, www.curtisbanks.co.uk. All characters in the Jones family are fictional and intended for demonstrative purposes only.

The Challenges

Julia Jones (47) has recently dissolved her civil partnership with ex-partner Sara (56). A pension sharing order formed part of the split, giving Julia a pension credit of £250,000 to add to her existing £600,000 pension. Sara took all of her PCLS (tax free cash) shortly after turning 55, so the pension credit Julia receives will be from crystallised funds.

Julia has always been a diligent saver but is not too clear on some of the more complex pension rules and feels a little out of her depth having received the pension credit. Julia knows that at 47 she is not old enough to access her own pension, but isn't sure how the pension credit is treated considering that Sara had already crystallised the funds.

Julia is also a little concerned about the lifetime allowance. She has been contributing generously over the past few years with a view to maximising her pension before retiring as soon as she reaches normal minimum pension age. Julia's osteoarthritis is gradually worsening, making it more difficult for her to continue running her boutique clothing store. Additionally, Julia currently jointly owns a commercial property with her brother Dan and father Fred, which they are thinking of moving into their SIPPs. The property will likely undergo significant development over the next few years, which in turn is likely to increase its value.

Julia is also aware that she has not changed the other investments within her pension since deciding that she will most likely retire at the earliest opportunity, and they may not be appropriate.

Julia decides to contact a financial adviser, Debbie, for help.

The Actions

Firstly, Debbie talks to Julia about the pension credit. She explains that when pension credits are from crystallised funds, they are known as 'disqualifying pension credits'. In Julia's pension, the funds will be treated as being uncrystallised again, but when she decides to access the pension she will not be entitled to any PCLS from those funds.

The news that the pension credit will be treated as being uncrystallised again makes Julia even more concerned about the lifetime allowance, as this seems to confirm that the money will need to be tested again when she retires. However, Debbie explains that as Sara had already crystallised the funds, Julia will be eligible to apply for a 'lifetime allowance enhancement factor' – a form of lifetime allowance protection which is designed to increase Julia's lifetime allowance by the value of the pension credit.

In effect, this means that her lifetime allowance position shouldn't be significantly affected by the pension credit.

Debbie then turns to the question of Julia's investments. Julia's share of the property purchase, including fees and a float of cash, will account for approximately £200,000. She then requires some funds to be readily accessible ready for the possible development works for the property. It's unclear at this stage exactly how much this will cost, but as Julia is still also making large contributions and there's no firm development plans in place yet, Debbie isn't too concerned. While Julia plans to retire early, her outgoings are relatively low. Debbie will be planning for Julia's pension to last her for a long time, and it will still be appropriate to invest much of the money for the long term.

As Julia needs a mix of accessible funds and long term growth, Debbie recommends putting £85,000 in a fixed term bank account (FTBA), with the remainder (approximately £565,000) being invested with a discretionary fund manager (DFM). The FTBA will have a three-month term, leaving the funds relatively accessible for the property development while achieving a better rate of return than they would sitting in a standard bank account. If the property development is delayed, Julia can choose to roll the funds over for another fixed term until they're needed.

The chosen DFM will risk-profile Julia and invest her money according to her risk rating. Julia will continue to contribute to her pension, and she can arrange for her SIPP provider, Curtis Banks, to automatically send the contributions to the DFM. This means neither Julia nor Debbie will have to manually request that new monies are invested, and the DFM will be able to invest without delay. Once the property development has completed, any surplus funds can also be sent to the DFM for investment.

The Results

Julia is much more comfortable about the pension credit following her conversation with Debbie. She uses HMRC's APSS 201 form to apply for her lifetime allowance enhancement factor. Once she receives her certificate from HMRC, Julia sends a copy to Curtis Banks so that they have a record of her enhanced lifetime allowance.

Julia appoints Debbie as the financial adviser for her SIPP, and they work together to implement Debbie's investment strategy to help Julia to prepare for her retirement.

Important points to consider

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55, although this is due to increase to 57 in 2028.

Contact details

If you'd like to speak to us about anything in this case study, please contact us on:
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We may record and monitor calls. Call charges will vary.
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Please remember not to send any personal, financial or banking information via email as it is not a secure method of communication.