HARWOOD
FINANCIAL PLANNING

Miss K M Murray
2 Holes Farm Cottages
Winder Lane
Flookburgh
Grange over Sands
LA11 7LE

Date 10th January 2025

Dear Kath,

Re: Annual Review 2025

This report aims to summarise your objectives and then provide recommendations in order to keep your financial plan on track to meet these objectives.

At our meeting on 10th January, we conducted your annual review for 2024. Our advice provided to you is based upon the information you have disclosed and therefore if this letter does not coincide with your view of the situation, or you require any further clarification, please let us know at your earliest convenience. It is important to emphasise any information in relation to your circumstances that has not been disclosed could have affected our advice to you.

Following on from the objectives and recommendations there is supporting information in the appendices including analysis that you may find useful.

<u>Objectives</u>

You are now in receipt of your Scottish & Newcastle pension of £108.50 gross per month, approximately £1,302 net per annum, but the rest of your personal allowance is currently unused. You would like to take advantage of this situation, by drawing cash from your pension in order to utilise your personal allowance, as required. The money drawn will be used for living expenses as outlined below.

Your essential living expenses total approximately £10,500 per annum at present with a further £19,500 p.a. needed for discretionary expenditure e.g. leisure, nails, eating out etc…

Thus, you would like £30,000 to cover your total living expenses over the next 12 months. Furthermore, you require additional funds to upgrade your mini which may be in the region of £15,000. Following this there are no more planned spending events on the horizon.

Below is an extract from last years report:

We have adjusted your cashflow forecast (see attached) to take account of your latest investment values and your predicted income and spending patterns. Based on this forecast your plans remain on course to achieve your income objectives. However, it should be noted that to stay on track you should avoid any future large ad hoc withdrawals.

We believe this is important information which we will comment on in the rationale section.

Recommendation

- Take the remainder of your available tax-free cash of approximately £27,000 from your Fidelity Pension Savings Account.
- Take a lump sum income payment from your Fidelity Pension Drawdown Account of £11,000 from the funds held in the money market fund.
- Once the withdrawals have completed, we recommend switching the remaining funds in your Fidelity Drawdown Account to the following funds:

  - Royal London Short Term Money Markey Y Acc – 27%
  - Vanguard LifeStrategy 60% Equity Acc – 73%

Rationale

Withdrawing your funds in this manner is the most tax-efficient method of withdrawal, realising the £38,000 you require. This will be sufficient to cover livings costs and some of your car upgrade. We will await your instruction on the full need for the car.

The remaining funds suit your attitude to investment risk, with the main aim of achieving capital growth until the funds are required. Moving three years' worth of future income to a money market fund means you will not require any further sale of your stock market funds (Vanguard Lifestrategy 60%) for 3 years.

Coming back to the commentary on large ad hoc withdrawals. There is a concern that you may be withdrawing funds at a faster rate than your plan will be able to sustain. We would strongly recommend that you make the withdrawal for the car your last ad hoc purchase and stick to the cashflow forecast attached. **If you do not follow the cashflow plan there is a strong probability of running out of capital before you die.**

We trust that this letter provides an accurate summary of our discussions, and our recommendations are clear; however, should you have any concerns or wish to discuss any of the issues raised in more detail please do not hesitate to contact us.

Yours sincerely,
For Harwood Financial Planning

Ryan J Woodhouse
Independent Financial Adviser/Director

Once you have read this report, please confirm your understanding and whether you wish to proceed with our recommendation via email, or a message on your Personal Finance Portal (PFP).

Appendix 1: Disclosure

The scope of our service is explained in the client agreement we provided you with on 23rd June 2019 and you confirmed you did not wish to place any restrictions on the types of products or investment strategy when making our recommendation.

Our recommendation has been limited to your retirement objectives as this was the only financial planning area you wished to review at present. Therefore, you may have other financial planning needs that are not addressed by this report.

Appendix 2: Your Attitude to Investment Risk

In order to understand what would represent an acceptable level of risk for you we follow a 3-step process. Firstly, we assess your psychological approach to risk through a risk questionnaire. Secondly, we assess your circumstances including your capacity for loss and investor experience and the final step is to combine the first two steps to arrive at a suitable level of investment risk.

There has been no change regarding your risk profile which is mapped to a 4 on a scale of 1 to 10 (a Cautious Growth investor). A description of which can be seen below:

Cautious Growth Investor

As a cautious growth investor, you are happy to take on investment risk and understand that this is crucial in terms of generating long-term return. You are willing to take risk with most of your available assets. This would typically mean a portfolio invested in a combination of bonds, property, UK and International shares – the share component for a cautious growth investor would be between 20% and 60% of the portfolio value.

It is important to note that a cautious growth investment can fall as well as rise in value and it would be quite common for this type of investment to rise or fall by 15% over a 12-month period. Although your investment is unlikely to fall by more than 15% over a 12-month period it is still possible.

Your risk profile will continue to be reviewed on an annual basis or if you inform us of a change in your circumstances.

Appendix 3: Plan Information

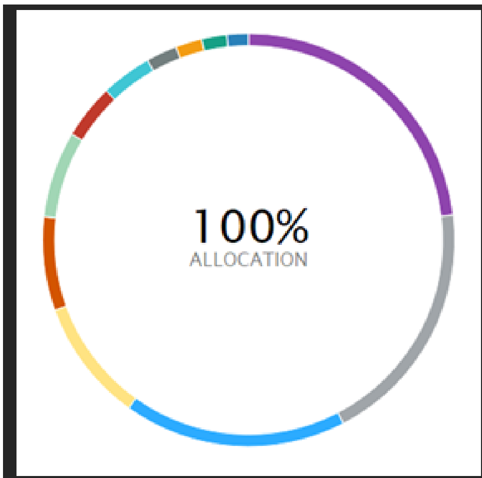
Your pension funds after processing the withdrawal will be as follows:

Plan	Fund Value
Fidelity Pension Drawdown Account	£374,192
Total	**£374,192**

Your Fidelity pension will be invested in the following portfolio of funds:

Investment	Provider	% Invested
Royal London Short Term Money Market Fund Y Acc	Royal London Unit Trust Managers Ltd	27.00
Vanguard LifeStrategy 60% Equity Fund A Acc	Vanguard Investments UK, Limited	73.00

Which has the following asset allocation:



ASSET ALLOCATION	NET %[1]	SHORT %	LONG %
North America Equity	23.06	0.00	23.06
Global (ex-UK) Fixed Income	19.34	-0.01	19.35
Cash - Short Term Money Market	17.48	-1.72	19.20
UK Equity	9.60	0.00	9.60
UK Government Bonds	7.34	0.00	7.34
Other	6.75	0.00	6.75
UK Corporate Bonds	4.28	0.00	4.28
Europe (ex-UK) Equity	3.99	0.00	3.99
Emerging Markets Equity	2.42	0.00	2.42
Developed Pacific (ex-Japan) Equity	2.06	0.00	2.06
Japan Equity	1.98	0.00	1.98
UK Index Linked Bonds	1.69	0.00	1.69

[1] Due to rounding there may be a discrepancy between the Long/Short % and the Net %.

We believe this portfolio to be suitable as it has the potential for the capital growth you require and is also compatible with your agreed risk profile.

Appendix 4: Risks

All the risks associated with this investment are detailed in the product literature provided to you when you started your plans. You should refresh your understanding on this information. In addition, you should take note of the following risks:

- You should remember that unit prices and the value of your investment can fall as well as rise and there is no guarantee you will receive a return of your original capital.
- Past performance is no guarantee of future returns.
- You should note that, whilst your switches are taking place, there could be movements within the stock-market; that is to say that the stock-market could rise or fall in value. If the market rises in value between the date of realising your existing funds and the purchase of your new funds, you could be financially disadvantaged insofar as the cost of buying your new fund could be greater. Conversely, if there is a fall in the market between the date of realising your existing funds and the purchase of your new funds, you could be financially advantaged insofar as the cost of buying your new funds could be lower.
- There is no guarantee the return on the new funds will be greater than that of your existing funds and could possibly be lower.
- If withdrawals from the plan exceed the growth being achieved your capital will be eroded.
- Any tax-free cash and indicative annuity or drawdown pension income amounts quoted on the illustration are based on many assumptions listed on the illustration. The actual benefit payable will be based on what happens in reality. You could receive lower or higher returns than the illustration indicates.
- In most circumstances pensions typically do not form part of the estate for inheritance tax purposes, however executors must report a pension transfer if death occurs within two years from the date of transfer. In these circumstances an inheritance tax charge may apply to the value of the transfer, especially if you were in ill health at the time of transfer. We understand that you are in good health; therefore, if this scenario arose, it is unlikely to pose you a problem.
- When you retire, your pension may be lower than illustrated if:

  - Investment performance is lower than illustrated
  - You start taking your pension earlier than the illustrated retirement date
  - Tax rules change
  - Charges increase above those illustrated.
- Following an active approach means you take the risk of underperforming the stock market as a whole.

Accessing your pension

It is important to consider that using Income Drawdown with a specific purpose of releasing the tax fee cash lump sum from your pension plan, clearly has some disadvantages which we highlight as follows:

- By withdrawing the available Tax-Free Cash (TFC), the remaining funds will be transferred into your Fidelity Drawdown Plan. Any subsequent withdrawals will be subject to taxation at your marginal income tax rate. Please note that no additional TFC will be available from your Fidelity pension unless further contributions are made in the future.
- Taking the pension now will affect your retirement provisions; by taking the pension early you will have a reduced pension fund compared to what would have been available when you would have normally taken the pension.

By crystallising all of your pension, these funds will move into Flexi-Access Drawdown, therefore you will be able to draw any amount (including the whole pension fund in a single withdrawal should you so wish) over whatever period you choose. The sums withdrawn (over and above the tax-free cash amount) are taxable as income during the tax year in which they are drawn. We recommend you consult us and your accountant prior to taking withdrawals in order to draw your funds in the most tax efficient manner.

However, as soon as any income withdrawal is made under Flexi-Access Drawdown you will be subject to a £10,000 annual allowance for money purchase pension contributions (rather than the normal £40,000 annual allowance) should you wish to make any further pension contributions from the current tax year onwards. You are already subject to this restriction.

All the risks associated with this investment are detailed in the product literature provided to you. You should read this document carefully.

Once you enter into Drawdown there are specific risks involved, the main ones are detailed below:

- Sequence of returns risk – (also known as reverse pound cost averaging) where withdrawals during a market downturn can lead to a rapid reduction in the value of a fund.
- Volatility Drag – the risk inherent where a portfolio falls in value and then needs to work harder to get back to its original value.
- Inflation risk – appreciating how long a portfolio might need to last and taking a considered view on the effects of inflation. For example, 5% inflation reduces real income by two thirds over a 20-year period.
- Longevity risk – an assessment of average life expectancy and helping you understand the probability of living beyond this.

In addition, there are more general warnings associated with pension planning:

- You should be aware that whilst you do not currently require a lifetime or short-term annuity, you may find that should you require one of these in future, the rates may be lower at that time. (Annuity quotes provided in appendix 7)
- In withdrawing capital from your pension, you are losing its valuable tax efficient benefits of potential growth and inheritance tax exemptions.
- When you enter drawdown as opposed to purchasing an annuity you are exposed to investment risk. If there is a fall in the value of your plan this could lead to lower future income than an annuity purchase would have provided. You also face the risk that your funds may be exhausted before you die.
- You should also note, if incorrect information has been provided a penalty of up to £3,000 may be due where that incorrect information has been negligently or fraudulently provided.

Appendix 5: Estimated Fee's/Charges (next 12 months)

We believe it is important to review your investment strategy at regular intervals to ensure it continues to meet your aims and objectives. Full details of our service proposition are contained within our client agreement. We will review your plans annually.

The fees on your Fidelity Pension Drawdown Account will be as follows, based on a value of **£374,192**:

Type of Charge	Charge (%)	Charge (£)
Fund Charges	0.22%	£823
Product Charge	0.20%	£748
Ongoing Adviser Charge	0.50%	£1,871
Total Charge	**0.92%**	**£3,442**

Appendix 6: Miscellaneous

<u>Product Documentation</u>

The documentation provided at outset is important and contains information regarding the product which we have recommended, particularly with regards to how the product works, its aims, risks and charges, together with its legal status, tax treatment and your cancellation rights. Therefore, please ensure you have read this document carefully. If there are any points on which you are unsure, or require further clarification, please contact us and we will be pleased to explain these in greater detail.

<u>Tax Treatment and Law</u>

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and His Majesty's Revenue and Customs (HMRC) practice. Levels and basis of tax relief are subject to change.

Lump Sum Allowance (LSA)

The LSA is the limit on the amount of certain tax-free lumps sums that you will be able to receive from all of your pension arrangements before marginal rate taxation applies.

Where the amount exceeds this allowance, income tax may be payable on the excess.

Lump Sum and Death Benefit Allowance (LSDBA)

The LSDBA is the limit on the amount of certain tax-free lump sums that can be paid in respect of an individual from all of their pension arrangements before marginal rate taxation applies.

LSDBA will be used up where a member takes a relevant lump sum, such as Pension Commencement Lump Sum (Tax Free Cash), Uncrystallised Funds Pension Lump Sum, Serious Ill Health Lump Sum or Lump Sum Death Benefits (except trivial commutation).

A check is made against these allowances when benefits are paid. This will apply to your new pension savings account only when you withdraw benefits in the future.

You have previously taken tax-free lump sums from your Fidelity pension of:

- £930.40 on 20th February 2020
- £29,000 on 4th March 2020
- £33,500 on 2nd February 2021
- £40,000 on 2nd February 2024

To date (including recommended withdrawal) the total amount of Tax-Free cash withdrawals you have received is £103,430.40.

Annual allowance

Contributions into the scheme are limited by the annual allowance. The Annual Allowance is currently a maximum of £60,000 per annum 2024/2025. High earners may have a lower annual allowance. There is also the facility to potentially carry forward up to 3 years' worth of unused allowances. You should note that if an individual has flexibly accessed other pension benefits though, their Money Purchase Annual Allowance may be restricted to £10,000 with no Carry Forward allowed.

Contributions exceeding the annual allowance would trigger a tailored tax charge of up to 45%. Tax relief on any personal contributions made is limited to £3,600 per annum or 100% of salary if higher.

Money Purchase Annual Allowance (MPAA)

You have flexibly accessed your pension funds at this time; therefore, you have triggered the Money Purchase Annual Allowance (MPAA).

Financial Services Compensation Scheme (FSCS)

You may have full rights to the Financial Services Compensation Scheme (FSCS). The FSCS provides compensation should your chosen provider become insolvent and be unable to honour a claim under your policy. The levels of compensation vary depending on the type of contract concerned and the limits for each type of category are available at www.fscs.org.uk.

Wills and Lasting Powers of Attorney

You have confirmed that you have a valid will. This should be reviewed whenever there is a change in your circumstances.

You also confirmed that you have Lasting Power of Attorney's in place for both Property/Financial affairs and Health and wellbeing with Alison Mallinson & Phil Lancaster as the named attorneys.

Nomination on death

You have previously completed a nomination of beneficiary/expression of wish form and named the following as your beneficiaries:

- Alison Mallinson – 50%
- Ann Waugh – 30%
- Michael Proudfoot – 20%

In the event of your death the policy proceeds, subject to the trustees' discretion, are paid to your chosen beneficiaries.

What happens when you die?

Should you die before age 75, the nominated beneficiary can receive a lump sum, drawdown an income or purchase a dependents annuity. All these options are paid free of tax.

Where you die after the age of 75 the same options are available, but tax is paid at the beneficiary's marginal rate of tax.

Following the budget on 30th October, it is the intention of the current Government to introduce Inheritance Tax (IHT) on pensions from April 2027. There will be a consultation period prior to this proposal receiving Royal Ascent. Assuming this measure comes into effect, this may have an impact on your circumstances.

Cashflow Forecast

This document has been updated, and we would ask you to read this in order to ensure that our understanding of your future income requirements is correct.

State benefits

You are currently not in receipt of, or entitled to, any means tested state benefits.

We confirmed your state pension will commence at age 67 and the value of this will be confirmed by the DWP if you request this, which we highly recommend. A state forecast can be generated by visiting the webpage https://www.gov.uk/check-state-pension

Appendix 7: Pension Options

When accessing your pension, you have a number of options available which we discussed in some detail. These include:

- Drawing your benefits via an annuity from your existing provider.
- Purchase an annuity with a different provider on the Open Market.
- Move to flexi-access drawdown (third way pension)
- Move to a fixed term annuity (third way pension)
- Use the uncrystallised fund pension lump sum rules (UFPLS)
- Move to phased retirement
- Move into a hybrid arrangement
- Move to a combination of the above
- We have provided you with a detailed explanation of these options which are confirmed in the **'retirement options booklet'**. Each option was considered before making our recommendation to you.

The above options (excluding your chosen option- flexi-access drawdown) were all discounted as they do not have the flexibility to meet your objectives, as per your cashflow plan. What you are effectively doing by opting for flexi-access over an annuity is 'favouring' a higher income in the short term whilst your health permits, whilst accepting your longer-term income is likely to be lower in the future.

<u>Annuity Comparison (Based on total funds remaining in Drawdown after TFC withdrawal)</u>

	Value Protection (Level)	**Value Protection (Escalating)**
Provider	Scottish Widows	Scottish Widows
Purchase Price	£374,192	£374,192
Income Provided	£26,932.20 p.a.	£19,673.52 p. a.
Escalation	N/A	3%
Enhanced Rates	N/A*	N/A*
Guaranteed Period	N/A	N/A
Value Protection	100%	100%
Spousal Benefit	N/A	N/A
Payment Frequency	Monthly in advance	Monthly in advance

We have provided quotes based on the total of your pension plans combined, after payment of any - tax free cash. The above table shows a comparison of the different levels of income available when factoring in different options on the annuities.

*These quotes are on an enhanced basis due to your smoking status.