

# Advantage Investment Plan

A different way of saving for retirement

For professional adviser use only

---

SELECT

**Alico**  
Wealth Management

# A different way of saving for retirement

## Advantage Investment Plan

### High earners may now need to look for additional means to fund retirement

Recent legislative change has had major implications for high earners. Punitive measures introduced by the Finance Act 2009 and Finance Act 2010 have created a real squeeze on pension planning for some clients, and advisers have had to respond by looking at additional ways for managing the tax risk of their high earner clients.

#### Summary of the changes:

Date of change	Change	Notes
From 22 April 2009	Anti-forestalling measures introduced to prevent high earners from changing pattern of pension contributions/ benefits to forestall limiting of higher rate tax relief from 6 April 2011	Applies to those earning at least £150,000 p.a. and making pension contributions or accruing pension benefits in excess of £20,000 p.a.
From 6 April 2010	Additional rate of income tax (AR) of 50% introduced on all taxable income above £150,000	Applies to statutory net income (total income less allowable deductions under s24 Income Tax Act 2007)
From 6 April 2010	Income tax personal allowance reduces at a rate of £1 per £2 of earnings on earnings above £100,000	Personal allowance for age < 65 lost once adjusted net income (s58 ITA 2007) exceeds £112,950 in 2010-11
From 6 April 2010	Cap on large pension funds with the lifetime allowance frozen at £1.8 million and annual allowance at £255,000 up to the 2015-16 tax year	Announced in November 2008 Pre-Budget Report
Proposed from 6 April 2011	Possible reduction in annual allowance to around £45,000 as alternative to restrictions of higher rate income tax relief/ Special Annual Allowance Charge	Announced in Emergency Budget on 22 June 2010. Consultation to take place before final proposals issued

### Pension plans can no longer be used to fund retirement from age 50

The recent change in the normal minimum pension age for registered pension schemes to age 55 will arguably have greatest impact on high earners as they are the individuals most likely to be able to fund for and afford early retirement.

From April 2010	Increase in normal minimum pension age for registered pension schemes to age 55	In force. Provisions contained in Finance Act 2004
-----------------	---	--

Collectively these changes have meant that for some it is sensible to look at solutions outside of the pension regime to increase the assets that they have available to fund their chosen retirement.

# A different way of saving for retirement

## Advantage Investment Plan

### The Advantage Investment Plan

One such solution, the Advantage Investment Plan from Alico Wealth Management, allows advisers to continue to plan with high earner clients (higher rate and additional rate taxpayers) to target early retirement from age 50 whilst more stringent regulations associated with pensions are introduced.

The Advantage Investment Plan (AIP) is a qualifying life policy providing tax advantages to higher rate and additional rate taxpayers offering:

- extensive investment choice with global expertise through a wide range of investment options offering different levels and types of risk and return.
- an opportunity to invest for a secure future with a strong company.
- a clear and transparent charging structure.
- an option to invest in an Alico Wealth Management Investment Bond upon maturity with retained qualifying status.
- adviser remuneration options to suit different adviser business models.
- dedicated UK-based service for all client and adviser servicing.

### Funding early retirement from age 50 with the Advantage Investment Plan

Planning for income replacement for clients from age 50 can be problematic for advisers now that pension plans can no longer be used to fund for retirement from age 50. An investment in an AIP would provide upon maturity an accessible, tax efficient capital sum for high earners that could be used to provide a largely tax-free income stream by investing part of the proceeds in an ISA up to the annual allowance or by rolling over immediately into a qualifying Investment Bond.

The principle behind using the AIP to fund for future income replacement is simply that a client invests part or all of his or her AIP maturity proceeds in an Investment Bond, and then progressively surrenders policy segments each year under the Investment Bond to provide an 'income' at a time when earnings are within the basic rate of income tax band to ensure no additional liability to the higher rates of tax is incurred.

### Case study: John Pickering

#### Scenario

John Pickering is aged 40 and employed as a senior marketing manager in a major plc. He has worked there since 2002. John is a member of his employer's group personal pension scheme (GPP). Employer contributions are 5% of salary and additionally the employer will match employee contributions of up to a further 5%.

John has paid 5% since joining, so the total contribution to his GPP plan is 15% of salary. Contributions are paid monthly and increase in line with salary increases. His current fund value is £350,000. This includes transfers-in from previous employers' pension arrangements. John's current salary is £200,000.

John had always intended to leave the company when he is 50 in July 2020 to start his own business. He intended to use the GPP to provide income whilst the new business was established. His mortgage will be paid off by age 50, so he estimates that he will need to fund for net income of around £3,250 per month in today's terms once he leaves the plc.

He had intended to use part of his PCLS to help establish the business, but following the increase in the minimum retirement age to 55, he recognises that this is no longer possible.

John does not see why he should defer starting his dream business just because the government has shifted the minimum retirement age. He feels that he can set aside £24,000 per year (equivalent of around £2,000 per month) now to help provide income from age 50 whilst he is establishing the business and to fund the business start up costs, but wants the ability to reduce the amount that he needs to pay each year in future premiums as he gets closer to the start date of the business.

#### Assumptions:

Inflation	3% p.a.
Earnings increases at plc	4% p.a.
Pension fund growth	7% p.a. net of charges
Life fund growth rate	6% p.a. net of tax and charges

Whilst John works for the plc, his income level will mean that he does not benefit from a personal allowance.

Current tax rates are maintained and income tax thresholds and allowances increase in line with inflation.

# A different way of saving for retirement

## Advantage Investment Plan

### Solution design

John starts saving £24,000 per year into an AIP in July 2010. This premium reduces after 6 years to £12,000 per year, allowing John to accumulate £12,000 per year from mid-2016 to fund the business start up costs.

In July 2020 the AIP will mature with an estimated value of £279,674, based on an assumed growth rate of 6% p.a. net of charges and these proceeds will be rolled over into an Alico Wealth Management Investment Bond to be used to provide John with his required income before his pension funds become available. As the AIP is a qualifying life policy, no tax is payable on the maturity proceeds, and John invests the full £279,674 into the Investment Bond.

John expects to receive a modest amount of investment income each year from his share portfolio, and he hopes that his new business will start showing a small profit in its first year of trading. He is therefore likely to be a higher rate taxpayer after he leaves his job at age 50.

John has stated that his target additional income required from July 2020 is £3,250 p.m. (£39,000 p.a.) in today's terms. Based on our assumed inflation rate of 3%, John's income requirement can be provided from the reinvested proceeds of his qualifying Investment Bond by encashing a number of segments at the start of each year as illustrated in the table below.

Year	Value of Investment Bond at start of year	Income required	Value of Investment Bond at end of year
July 2020 – June 2021	£279,674	£52,413	£240,897
July 2021 – June 2022	£240,897	£53,985	£198,127
July 2022 – June 2023	£198,127	£55,605	£151,074
July 2023 – June 2024	£151,074	£57,273	£99,429
July 2024 – June 2025	£99,429	£58,991	£42,864

Depending on how his business is doing, John could then consider vesting his accumulated GPP from age 55, in July 2025. His estimated pension fund at this time is around £1.725 million (based on the assumptions on the previous page).

### Benefits to client

- Allows funding for income before age 55.
- Investment in tax advantaged qualifying life policy – no further income tax or capital gains tax liability on AIP maturity proceeds.
- Allows income replacement – withdrawals from Investment Bond.
- AIP can be written in trust to mitigate inheritance tax.

### Benefits to the adviser

- Straightforward solution design for client.
- Extension of planning reach with client – enhancing client relationship and value.
- Opportunities for additional planning revenue.

### Important information about the Advantage Investment Plan

Clients should intend to hold their Plan for at least seven and half years without making withdrawals, or it will lose qualifying status and the tax advantages of the Plan will be lost.

Tax rules may change and this may mean clients have to pay more tax than they expected.

To provide the minimum death benefit of the Advantage Investment Plan, the Life(s) Assured will need to be underwritten.

Please note that if your client is not eligible for life cover, they will not be able to invest in the Advantage Investment Plan.

### For further information

The Advantage Investment Plan is part of the Select Portfolio from Alico Wealth Management. The Select Portfolio is a collection of retirement and investment products available only through recommendation from a financial adviser.

For full information about the benefits and risks of the Advantage Investment Plan, Investment Bond or any of the other products in the Select Portfolio, visit our website at [www.alicowm.co.uk](http://www.alicowm.co.uk), or contact your Regional Sales Manager.

Alternatively, please feel free to call us on 0800 013 2272 or e-mail [investments@alico.com](mailto:investments@alico.com).