



## Understanding Hornbuckle Mitchell's Flexible Income Pension Plan (FIPP)



## What is the FIPP?

The Flexible Income Pension Plan (FIPP) from Hornbuckle Mitchell is a new kind of Self Invested Personal Pension (SIPP) that offers a wider range of income options in retirement including, for the first time, Scheme Pension.

### These options are:

- Tax Free cash only (age 50\* – 75)
- Income Drawdown (Unsecured Pension (USP), 50\* – 75)
- Phased Income Drawdown (50\* – 75)
- Any combination of Tax free cash and Income Drawdown (50\* – 75)
- Alternatively Secured Pension (ASP, 75+)
- Annuity Purchase (50\* +)
- Scheme Pension (50\* +)

\* 55 from 2010

If you already have a Hornbuckle Mitchell SIPP, you can easily transfer to the new FIPP by completing a simple Deed.

### Advantages of Income Drawdown (USP)

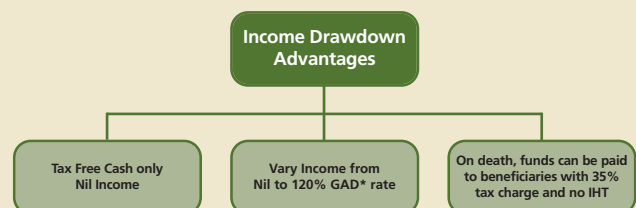
Income Drawdown is an option for people aged between 50 (55 from 2010) and 75.

Income Drawdown is an alternative to buying an annuity. It gives you control over the timing and level of income taken from your fund (within HMRC limits) whilst leaving the remainder of your fund invested.

One of the benefits of Income Drawdown is that you can take all or part of your tax free cash without having to take any income at all.

You can also take your retirement benefits in stages to give you the flexibility to alter income levels during retirement as required.

Although Income Drawdown has the potential to offer higher returns than an annuity by leaving funds invested, it does carry some risk because the value of your fund can go down as well as up.



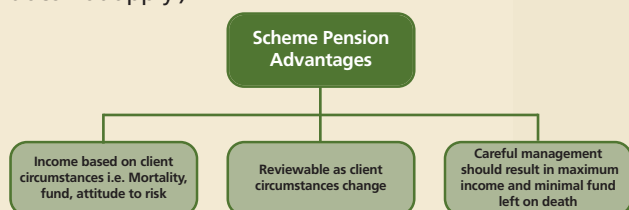
\* GAD = Government Actuarial Department

## Advantages of Scheme Pension

Scheme Pension is an alternative way to take an income and is based on a client's individual circumstances. It offers the potential for taking a higher income in certain situations because it is not restricted by HMRC limits.

Scheme Pension can be utilised at any time to provide income after age 50 (55 from 2010).

An actuary will determine the income that can be withdrawn based on the client's age, mortality and fund performance. In many situations (although not all), this will allow a larger income to be taken. This can be particularly useful for people with a shortened life expectancy, allowing them to take more money out of their fund whilst they are alive and make 'Gifts out of Income' if required. (As long as HMRC rules for 'Gifts out of Income' are met, the gifted money is not liable for inheritance tax when the client dies i.e. the 7 year rule does not apply.)



A client has two choices at outset as to how his Scheme Pension is established and these are as follows:

1. A predetermined pension for a minimum of 10 years. If the member dies within the ten year period, the remaining pension installments can continue to be paid and taxed as income, assuming that there are sufficient pension funds to continue the payments.

Or

2. A predetermined pension reviewable every 3 years by the scheme actuary until death, assuming that there are sufficient pension funds to continue the payments.

Once in Scheme Pension the member trustee may annuitise part or all of the fund at any point.

Careful management and regular reviews in Scheme Pension should result in maximum income and minimum fund left on death.

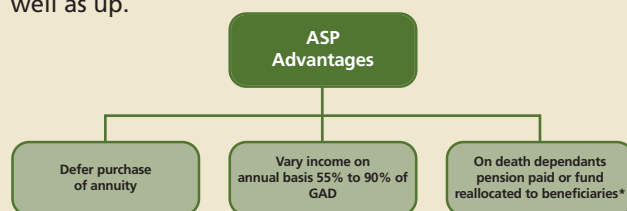
## Advantages of Alternatively Secured Pension (ASP)

ASP is an option at age 75+ for people in Income Drawdown who wish to defer purchasing an annuity.

Like Income Drawdown, it allows you to keep control over the timing and level of income taken from your fund (within HMRC limits) whilst leaving the remainder of your fund invested.

ASP offers some flexibility as income can be varied between 55% and 90% of HMRC maximum.

Although ASP has the potential to offer higher returns than an annuity by leaving funds invested, it does carry some risk because the value of your fund can go down as well as up.



\* subject to 82% tax charges

## Advantages of Annuity Purchase

An annuity can be purchased at any time after age 50 (55 from 2010).

With an annuity, your fund is used to buy an income from an insurance company which is then guaranteed for life. (Some providers offer fixed term annuities.)

When you buy an annuity, you are generally making a trade off by accepting a lower income for the security of knowing exactly how much money you will get for the period in question (usually the rest of your life).

Once you have purchased a lifetime annuity, you cannot change your mind if your circumstances change.

# Flexibility...

The following case studies help to demonstrate the flexibility of the FIPP throughout retirement:

## FIPP Case study 1 – John and Susan Robinson

John Robinson is a wealthy client who has sources of income other than his pension. His wife Susan is significantly younger than him and he wants to ensure he maximises benefits to her.

John decides to transfer an old company pension with a value of £560,000 and 3 personal pensions totalling £140,000 into a Hornbuckle Mitchell FIPP (Flexible Income Pension Plan).

He does not need to take any benefits before age 75. At age 75, he decides to take his full tax free cash entitlement and move into ASP so that he can keep control of his fund.

When John is 79, he dies. Susan at this time receives a dependants pension from John's FIPP. As she is only 52, and in good health when John dies, she decides to take a small income via Income Drawdown.

When Susan reaches 75 she wants to increase her income so that she can pass some money on to her children, reducing Inheritance Tax on her death. Susan discusses her wishes with her Financial Adviser and is advised to switch to Scheme Pension in order to maximise her income. After setting this up, Susan uses the 'Gift out of Income' rules to give away money regularly to her children.

At age 84, Susan is diagnosed with a terminal illness and new actuarial calculations therefore allow her to increase her Scheme Pension income still further. Again, utilising the 'Gift out of Income' rules she uses her spare income to set up pension funds for each of her grandchildren, gaining further tax benefit.

She passes away aged 86 with very little left in her pension fund. A combined tax charge of 82% is applied and the remainder is passed to her children.

## FIPP Case study 2 – Edward Thomson

Edward Thomson has worked as an accountant all his life. He is a family man with a wife and five adult children. He transferred his personal pensions into a Hornbuckle Mitchell SIPP a number of years ago to gain more control over his fund. Edward likes to keep a tight reign on his money and has held his investments with a discretionary fund manager ever since. The value of his portfolio is currently £450,000.

Edward has reached age 50 in good health and has decided to transfer his SIPP to a Hornbuckle Mitchell FIPP in order to enjoy the fullest range of retirement options.

Within his new FIPP, he moves into Income Drawdown. At this stage he only wants to take enough Tax Free Cash to pay off his mortgage and go on a family holiday to celebrate. As he is still working, he doesn't need to start taking any regular income.

At age 60, Edward takes semi retirement. He remains in Income Drawdown, choosing to take the rest of his Tax Free Cash and a small income. The majority of his portfolio is left untouched, with small dis-investments made every month to cover pension payments.

Edward takes full retirement at 65. Although he starts to receive a state pension, he reviews his overall needs with his Financial Adviser and decides to also increase the income from his FIPP so that he and his wife can do some travelling together.

After 10 fabulous years, he decides to move into ASP in order to keep control of his investments, which have continued to perform well. He doesn't want to buy an annuity as he is in good health and expects to live many more years. He decides to take the maximum income allowed under ASP and continues to enjoy control over his own funds.

Unfortunately, Edward's wife passes away when he is 78. Within a few years, Edward needs some help with his day to day needs. He doesn't want to be a burden on his children and decides to move into a private nursing home. At this point, following a review with his adviser, he moves into Scheme Pension, allowing him to increase his income further to cover the cost of the nursing home.

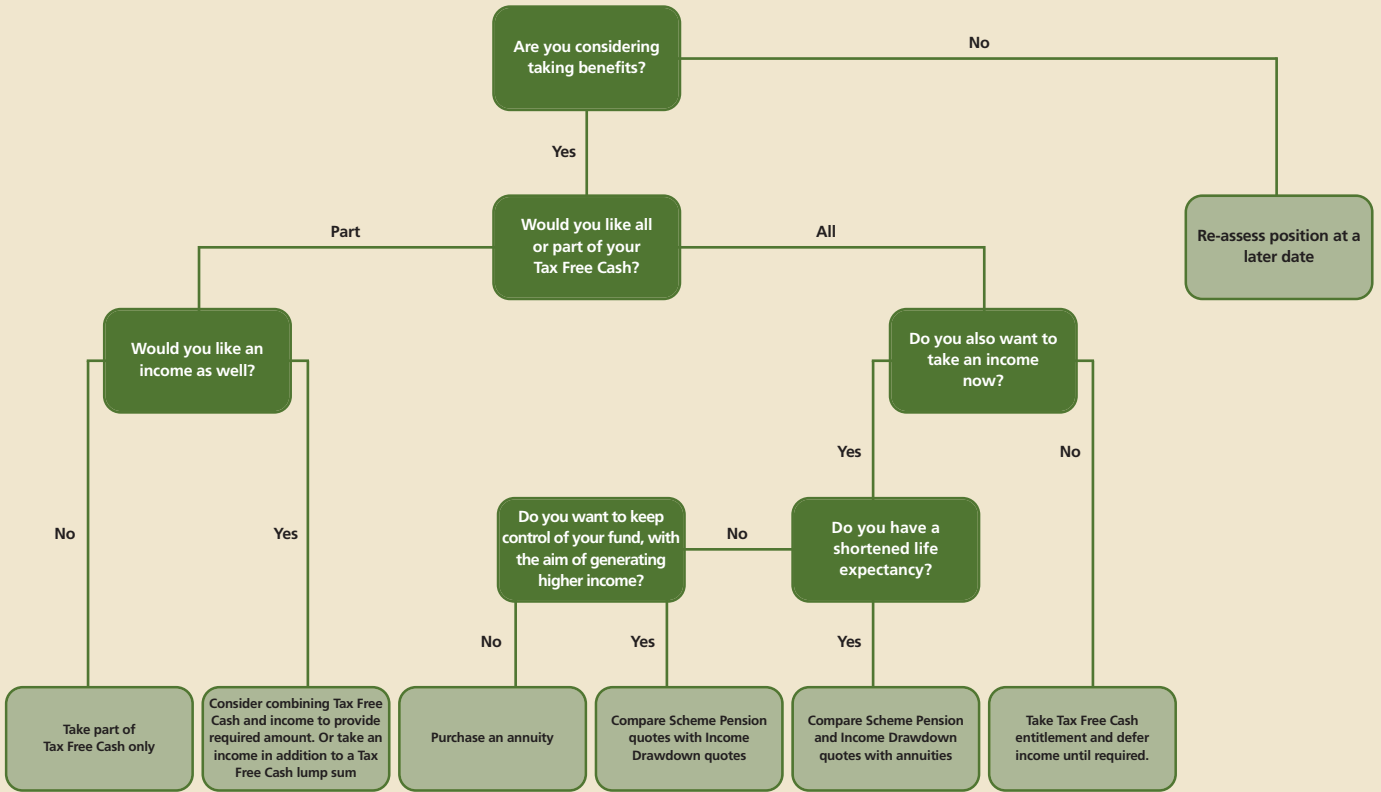
At age 85, Edward dies leaving only a small amount in the fund. A combined tax charge of 82% is applied and the remainder is passed on to his children.

# Decisions, decisions...

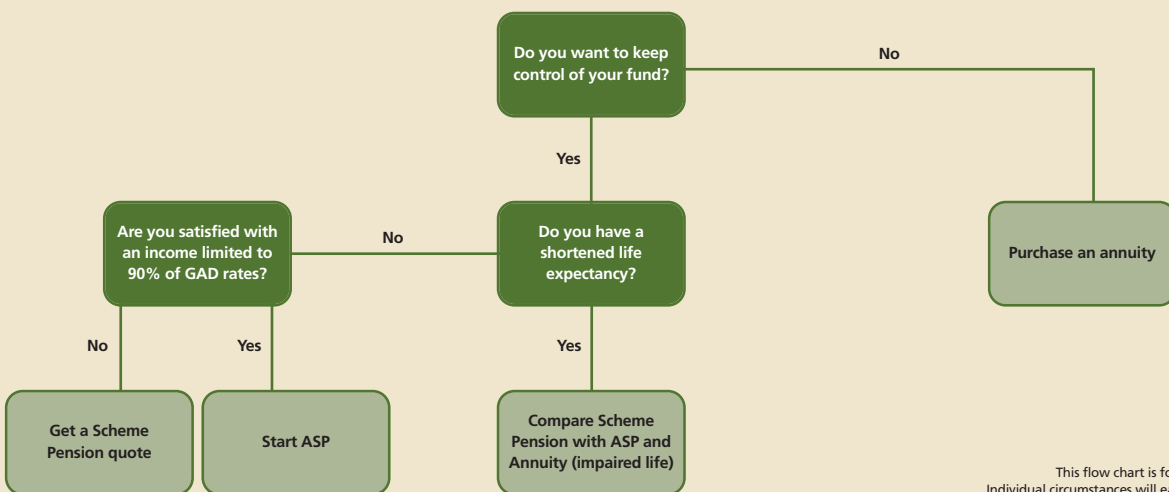
In this booklet we have looked at the flexible options available to those who open a FIPP. The decision trees below illustrate the questions that may be asked at retirement.

Please note that these are for illustration purposes only and do not constitute advice.

## FIPP Decision Tree: Age 50 – 75



## FIPP Decision Tree: Age 75 +



This flow chart is for illustration purposes only. Individual circumstances will each require financial advice.

# Important information

This booklet is intended as a guide to the different options available under our FIPP. You should consult with your Financial Adviser prior to making any decisions, taking the following into account.

- High income withdrawals may not be sustainable over the long term
- Taking withdrawals may erode the capital value of the fund especially if the investment returns are poor or a high level of income is being taken. This could result in lower income when the annuity is eventually purchased
- The investment returns may be less than those shown in the illustration and the fund may be less in the future than quoted. The illustrations make assumptions of growth rates that may not be reached
- Annuity rates may be at a worse level when any annuity purchase takes place. If you defer taking an annuity until you are 75, you may not be able to get the same annuity rates as today
- All withdrawals are taxed as earned income at your marginal rates

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If you have any questions or would like any further information, please contact us at one of the following regional offices.

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