What advisers are asking us right now

This video is intended for financial advisers only and shouldn't be relied upon by any other person.

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It's everyone's business

Learning objectives

At the end of this session, you'll:

- Discuss protection with your wealth clients, including some key areas with business owners and self-employed clients.
- Be confident in discussing the difference between beneficiary nomination and writing a protection plan in trust.
- Describe how added value support services help demonstrate real value.
- Describe the changes to pensions and how they affect your tax year end planning.
- Explain how the removal of the lifetime allowance affects your clients from 6 April 2024.

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Do I really need to consider protection advice?

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What the FCA say…

5.40 Where a firm declines to provide a customer with a particular product or service, the firm should still consider whether there is information or support it could provide to help the customer pursue their financial objectives. For example, a firm could signpost a customer to a third party that provides reliable and relevant information to such consumers. An example of information or support that may be appropriate to provide a customer that has been declined credit is the 'Money Helper' guide.

5.41 Travel insurance firms are required to signpost customers with pre-existing medical conditions to a directory of specialist insurers in certain circumstances. This approach is consistent with our expectations under the Duty, as firms signpost declined customers to a reliable source of information that can help them to achieve their financial objectives. Firms in other markets should consider a similar approach when they decline customers.

Source: FG22/5 Final non-Handbook Guidance for firms on Consumer Duty (July 2022), FCA

Signposting

Awareness

Make sure your clients are aware that protection will be discussed during your meeting or at a future meeting.

Holistic

Signposting clients to other services such as mortgages, protection, pensions, wealth planning, will writing or even solicitor services can ensure clients receive holistic advice.

Referral

If you’re not having the protection conversation yourself, the client must be signposted to a protection expert with the right knowledge and expertise of specialist providers.

For clients with pre-existing medical conditions or disabilities, it may be difficult to find cover.

Direct

If you’ve explored all options, you can direct your client to the British Insurer Broker Association (BIBA) who will find a firm that specialises in clients with health conditions via their ‘Find a Broker’ service.

Find out more at **insurance.biba.org.uk/find-insurance**

How can wealth advisers discuss protection with their clients?

Attitude to risk vs capacity for loss

Attitude to risk

Capacity for loss

How much **risk** the client is prepared to take with their money and assets in a particular timeframe.

The amount of **loss** that the client can actually afford to bear.

If any loss of capital would have a materially detrimental effect on their **standard of living**, this should be considered when assessing the risk that they are able to take.

 Source: GC17/4 Financial Advice Market Review (FAMR) Implementation part 1 (April 2017), FCA

Categorising attitude to protection risk

- Very cautious
- Cautious
- Moderately cautious
- Balanced
- Moderately adventurous
- Adventurous
- Very adventurous

What would an attitude to protection risk profile look like for a client with no or minimal financial protection cover in place?

How would this compare with their actual capacity for loss?

Don't ignore the protection opportunity

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Cash flow modelling

- Provides a detailed picture of a client’s assets, investments, debts, income and expenditure.
- Gives clients a graphic representation of their financial future.
- Allows clients to get an insight into how life events will impact their aspirations.

Can cash flow modelling help you discuss protection with clients?

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Visualising future financial objectives

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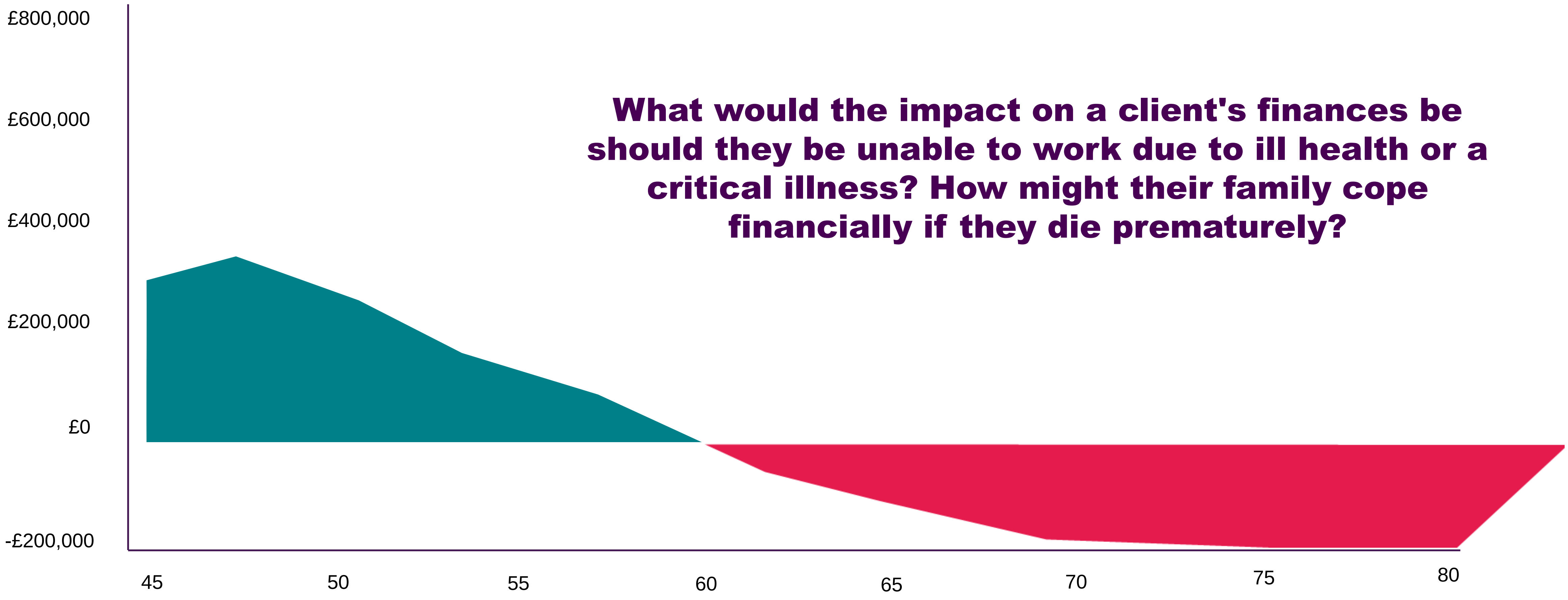
Catastrophe planning



What would the impact on a client's finances be should they be unable to work due to ill health or a critical illness? How might their family cope financially if they die prematurely?

Trust v beneficiary nomination

What does a good protection outcome look like?

Protection policy

Making sure payment goes to the **CORRECT PEOPLE**		**Right hands**
Ensuring that there are no **DELAYS** in payment from single life policies		**Right time**
Avoiding **INHERITANCE TAX** on the policy proceeds		**Right money**

The solution?

Who receives the benefit from a life policy after a successful claim?

The estate

A trust

?

Beneficiary nomination

- Beneficiary nomination provides an alternative to setting up a plan trust.

- It may be an option if your client's situation is more straightforward and they know who they currently want to benefit - the purpose of the cover is not to protect against IHT.

- Available on **single own-life** (including family income benefit), **single own-life or CI** or **whole of life** policies.

How can we demonstrate value in protection advice?

The FCA say...

7.1 Retail customers experience harm where they don't get value for their money. A lack of fair value is unlikely to be consistent with customers realising their financial objectives and firms cannot act in good faith if they are knowingly manufacturing or distributing poor value products or services.

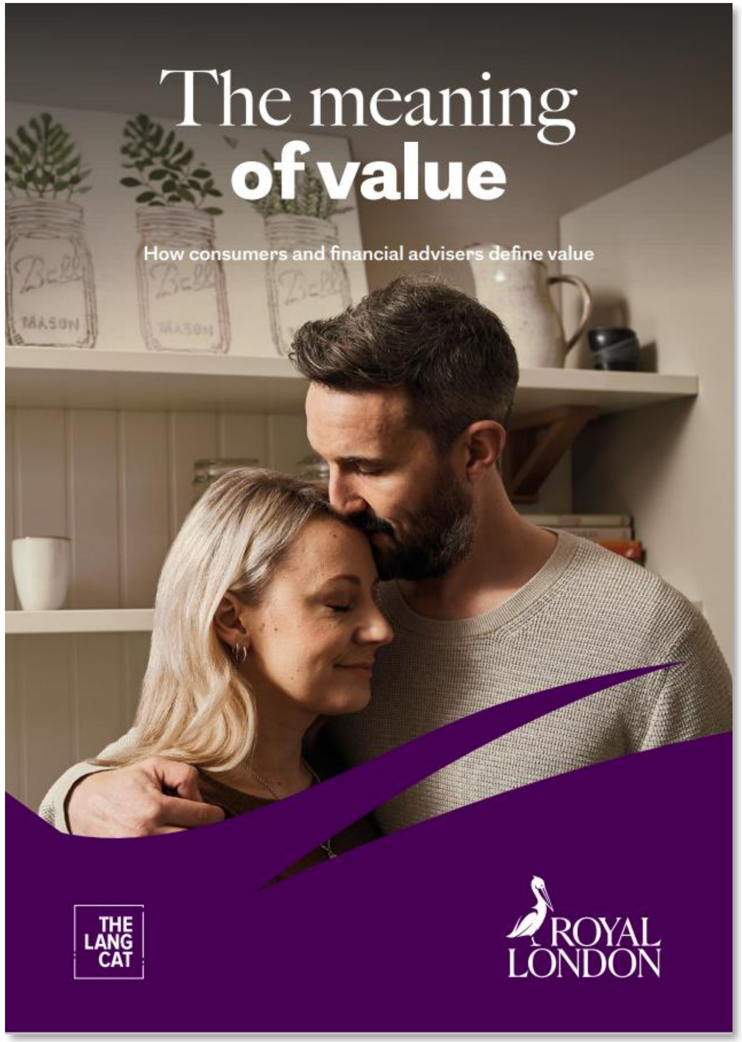
7.2 Fair value is about more than just price. The Duty aims to tackle factors that can result in products or services which are unfair or poor value, such as unsuitable features that can lead to foreseeable harm or frustrate the customer's use of the product or service, or poor communications and consumer support.

7.3 The specific focus of the price and value outcome rules is on ensuring the price the customer pays for a product or service is reasonable compared to the overall benefits (the nature, quality and benefits the customer will experience considering all these factors). Value needs to be considered in the round and low prices do not always mean fair value. We expect firms to think about price when assessing fair value but not at the expense of other factors.

7.4 Our intention is not to set prices and our rules do not have this effect. It also does not mean that firms are expected only to offer products and services at a low price. Products or services that cost more for customers may well provide value if that reflects their quality and benefits.

Source: FG22/5 Final non-Handbook Guidance for firms on Consumer Duty (July 2022), FCA

The meaning of value



- Value is not just about price.
- Advice and recommendations.
- Tailored protection that grows with your client.
- Support services.

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Are relevant life plans still relevant post lifetime allowance (LTA) changes?

A quick look

A relevant life plan is a stand-alone single life policy.

It's a **tax-efficient** way for employers to give death in service benefits to their employees outside of a registered group life scheme.

… and what business doesn't want that?

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Relevant life plans

How tax efficient are they?

- Premiums are paid by the employer
- No P11D charge on the employee (S247 FA 04)
- No National Insurance charge on employee or employer
- Probable corporation tax relief on premiums (subject to wholly and exclusively rule)

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Is now the time to talk to self-employed clients about income protection?

National Insurance changes for self-employed clients

What are the opportunities?

- Changes take place from **6 April 2024.**
- Cancelling the requirement to pay Class 2 National Insurance Contributions (NIC).
- A cut in the main rate of NICs paid by the self-employed (Class 4 NICs) from 9% to 8%.

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And finally, what do you see as an opportunity or threat for protection advisers in 2024?

Opportunities and Challenges

Opportunities

- Mortgage product transfers.
- One stop shop.
- Housing market.

Challenges

- Cost of living crisis continues.
- Claims management companies.

What advisers are asking us right now: Pensions

Planning for 6 April 2024

- Capital Gains Tax (CGT) – annual exempt amount reduces from £6,000 to £3,000.
- Dividend allowance reduces from £1,000 to £500.
- Personal allowance tax charge.
- High income child benefit tax charge.
- Remember differences in Scotland.

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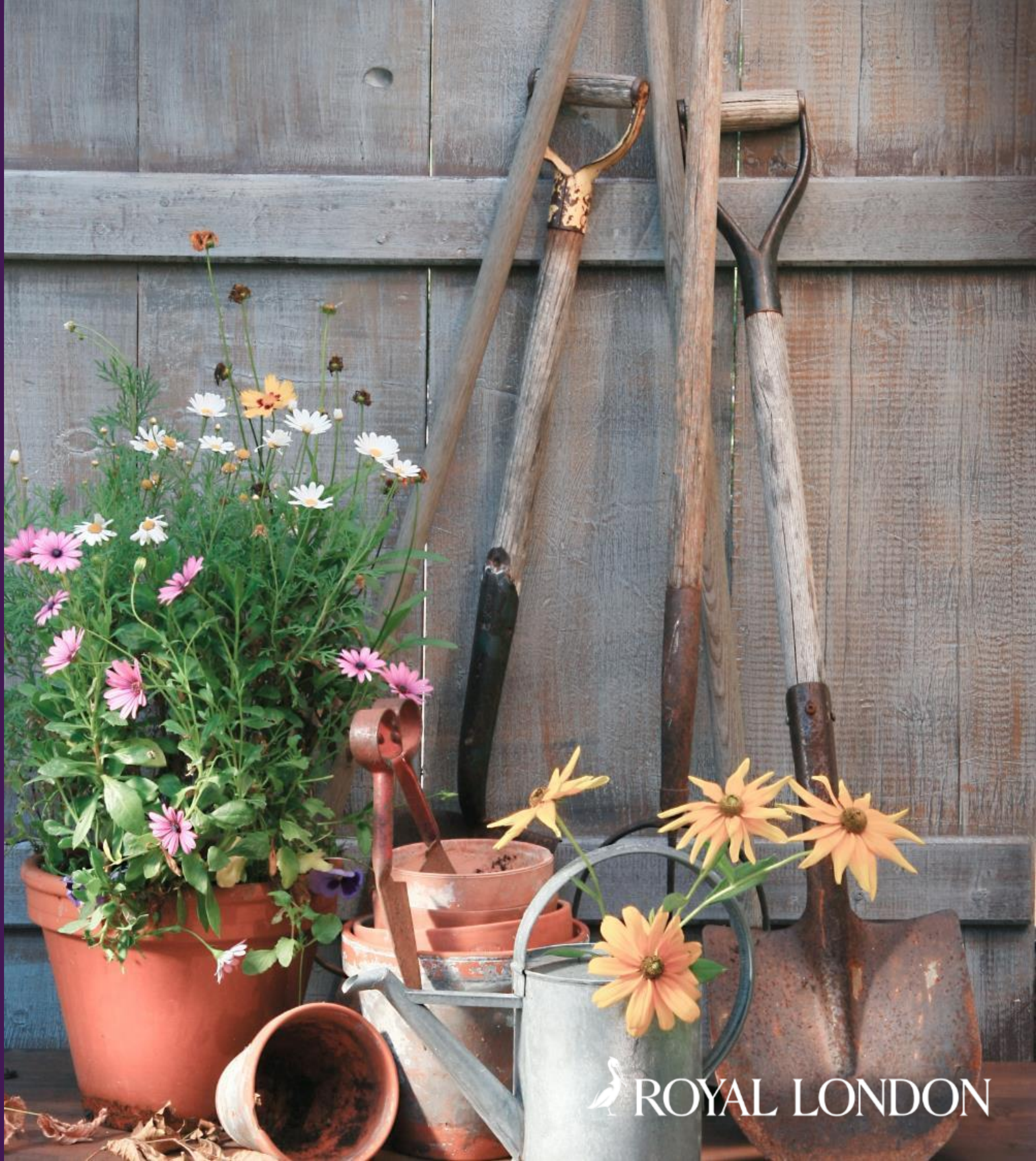
Abolition of the lifetime allowance

Lifetime allowance 2023/24

- Still exists!

- No lifetime allowance charges BUT marginal rate on full excess.

- Pension Commencement Lump Sum (PCLS) limited to 25% of the fund or standard lifetime allowance unless protection.



New allowances from 6 April 2024

LSDBA = lump sum death benefit allowance

LSA = lump sum allowance

Lump sum allowance (LSA)

What’s included?	What’s not included?
PCLS	Small lump sums
Tax free element of uncrystallised funds pension lump sum (UFPLS)	Trivial commutation lump sums
	Winding up lump sums

Anyone exceeding the LTA before 6 April 2024 will have a LSA of zero

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Lump sum and death benefit allowance (LSDBA)

What's included?	What's not included?
PCLS	Small lump sums (small pots)
Tax free element of UFPLS	Trivial commutation lump sums
Serious ill health lump sums	Winding up lump sums
Lump sum death benefits (including those paid from drawdown funds)	Lump sums from benefits crystallised before 6 April 2024
Death in service lump sums	Charity lump sum death benefit

Anyone exceeding the LTA before 6 April 2024 will have a LSDBA of zero.
Transfers overseas will not impact the availability of an individual's lump sum and death benefit allowance.

Taxation of defined contribution (DC) death benefits from 6 April 2024

Under age 75

Uncrystallised - within 2 years

Marginal rate of income tax if above LSDBA and paid as a lump sum

Uncrystallised - after 2 years

Marginal rate of income tax or **45%** for non-individual

Crystallised – within 2 years

Marginal rate of income tax if above LSDBA and paid as a lump sum

Crystallised – after 2 years

Lump sums **only** have to meet the 2 year test and will be taxable

Benefits in drawdown before 6 April 2024 will not be measured against the LSDBA

Taxation of DC death benefits

75 and over

Crystallised	Uncrystallised
Marginal rate of income tax or **45%** for non-individual	**Marginal** rate of income tax or **45%** for non-individual

Case study - Fiona

- £1,500,000 uncrystallised.
- Dies age 60 in September 2024.
- 1 beneficiary who wants lump sum.
- £1,073,100 paid tax free.
- £426,900 taxed at beneficiary’s marginal rate.

Case study - Fiona

- £1,500,000 in a personal pension.
- Takes £268,275 in May 2024 (£804,825 moves to drawdown).
- Dies age 60 in September 2024.
- £804,825 in drawdown.
- £426,900 in a personal pension.
- **What's the tax position for the beneficiary?**

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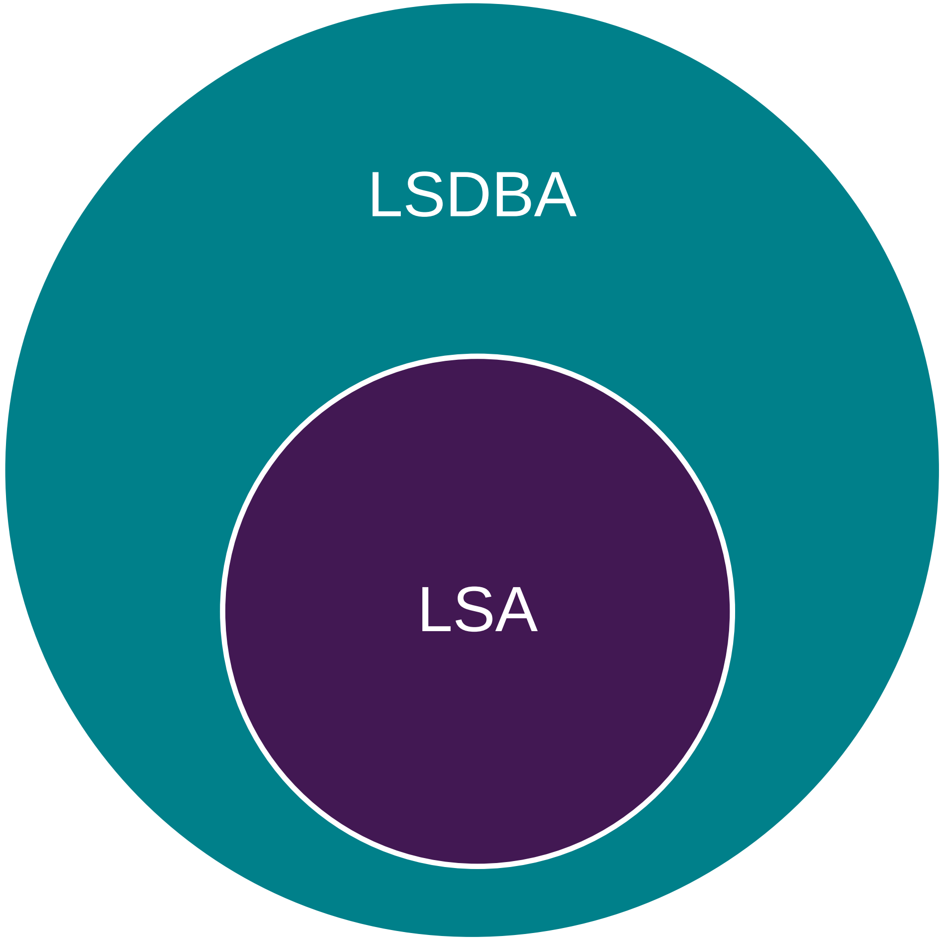
Case study - Fiona

- £804,825 in drawdown.
- £426,900 in a personal pension.
- £804,825 can be taken as a tax-free lump sum.
- £426,900 taxed at beneficiary’s marginal rate.

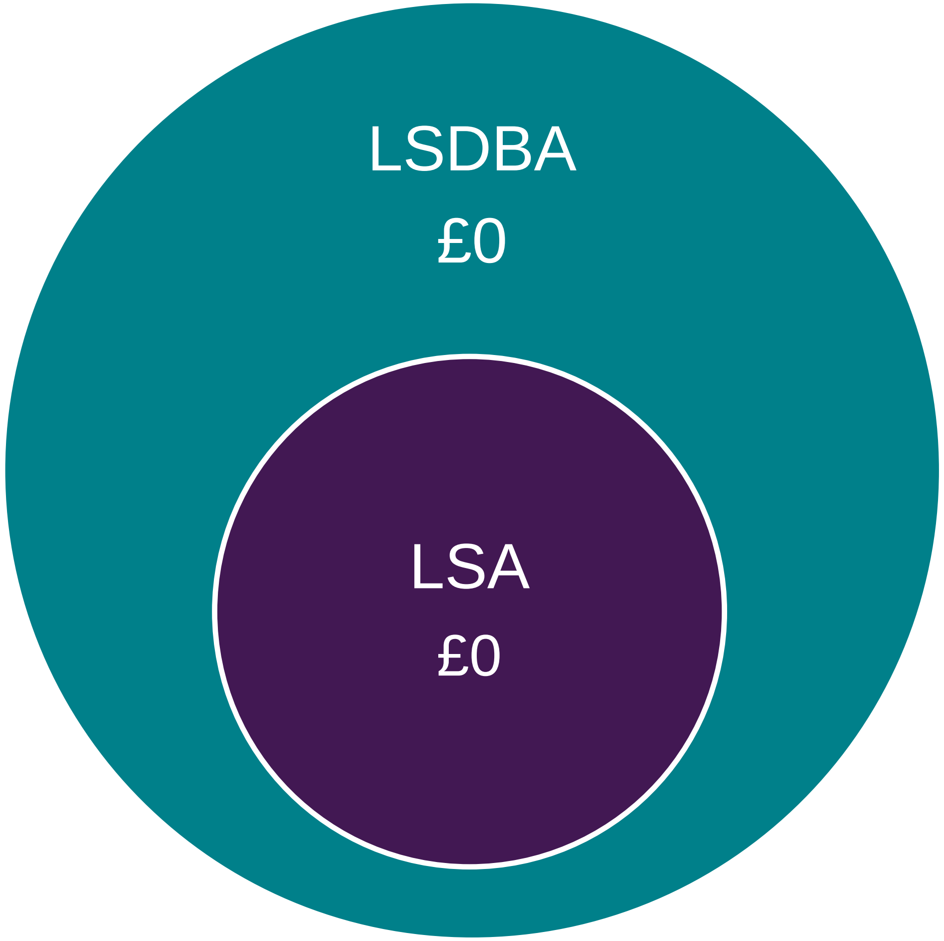
Case studies:
Transitional arrangements

Benefits taken before 6 April 2024



- Paul took benefits from his Self-Invested Personal Pension (SIPP) in 2022 which used up 100% of his LTA.
- He has £200,000 left uncrystallised.
- LSA and LSDBA from 6 April 2024?
- He has no LTA protection.

Benefits taken before 6 April 2024



- 100% of LTA used prior to 6 April 2024
- His LSA is therefore £0
- His LSDBA will be £0
- No PCLS available from £200k. Income taxed at marginal rate if crystallised.

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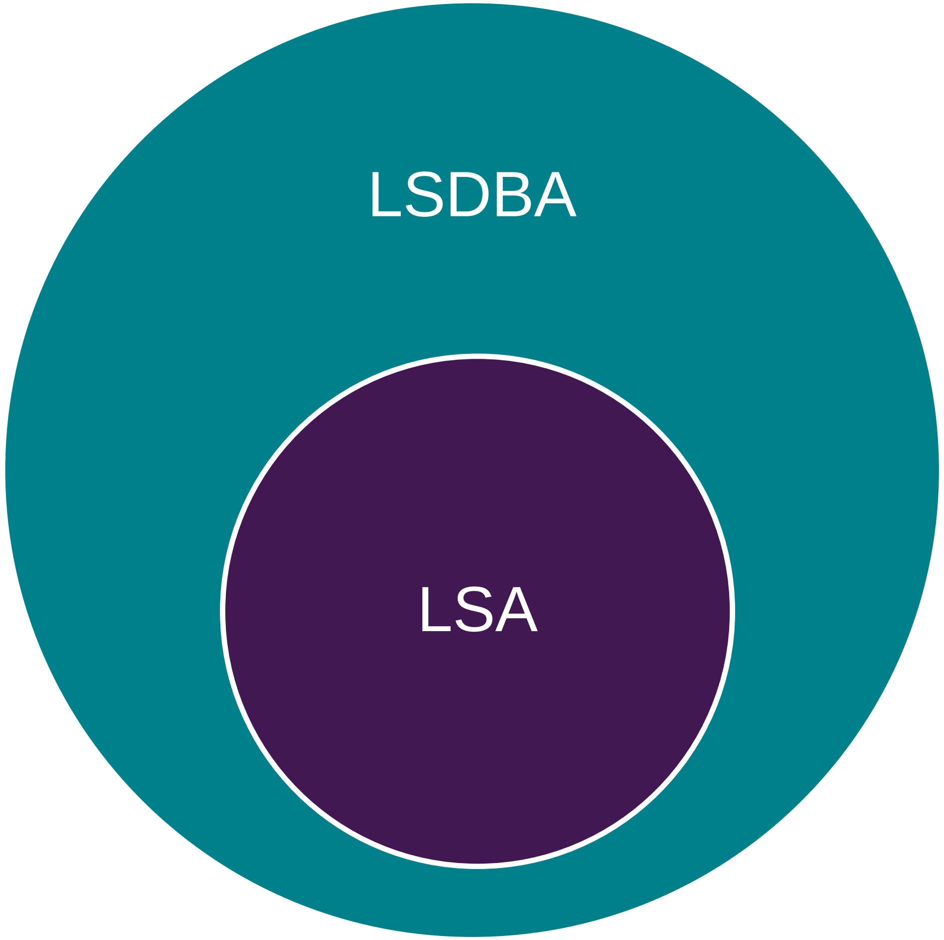
Benefits taken before 6 April 2024

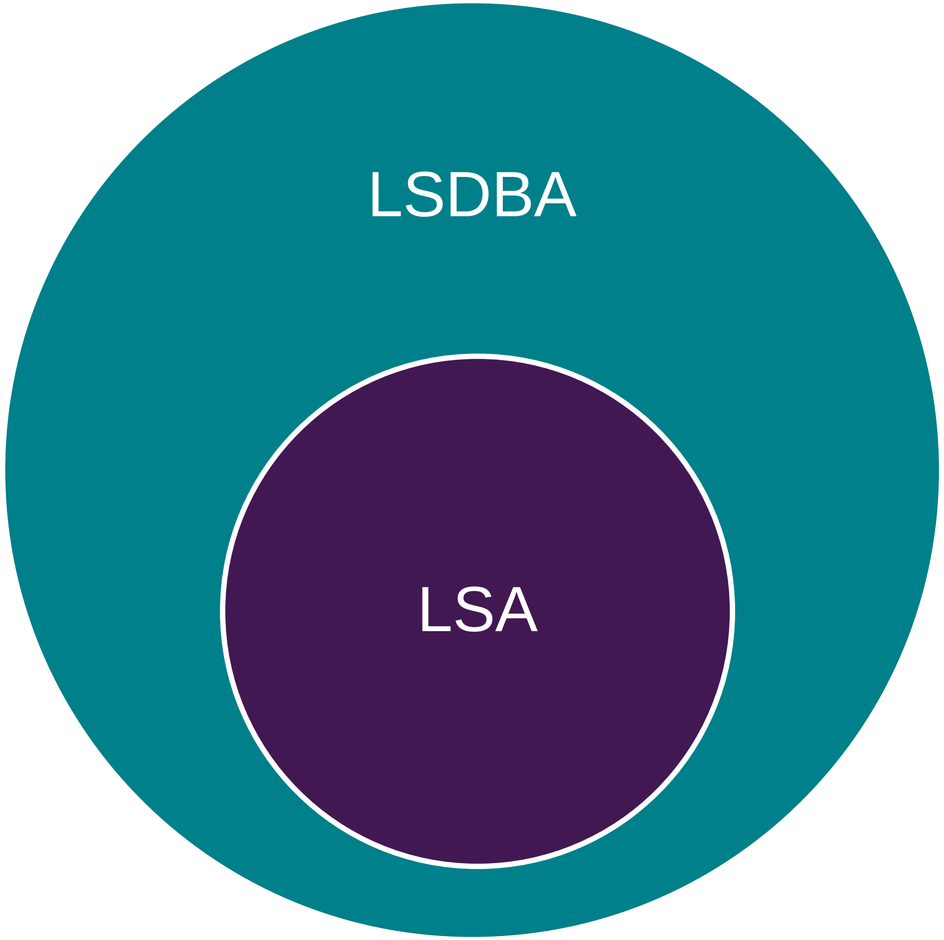


- Justin took benefits from his personal pension in 2021 which used up 50% of his LTA.
- He has £600,000 left uncrystallised.
- LSA and LSDBA from 6 April 2024?
- He has no LTA protection.

Benefits taken before 6 April 2024

- 50% of £1,073,100 is £536,550.
- Justin's LSA will be reduced by 25% of £536,550.
- His LSA is therefore £134,138.
- His LSDBA is therefore £938,962.

Benefits taken before 6 April 2024



- Meera took benefits from her personal pension in July 2016 which used up 50% of her LTA.
- She has £600,000 left uncrystallised.
- LSA and LSDBA from 6 April 2024?
- She has no LTA protection

Benefits taken before 6 April 2024

- 50% of £1,073,100 is £536,550.
- Meera's LSA will be reduced by 25% of £536,550.
- Her LSA is therefore £134,138.
- Her LSDBA is therefore £938,962.

However…

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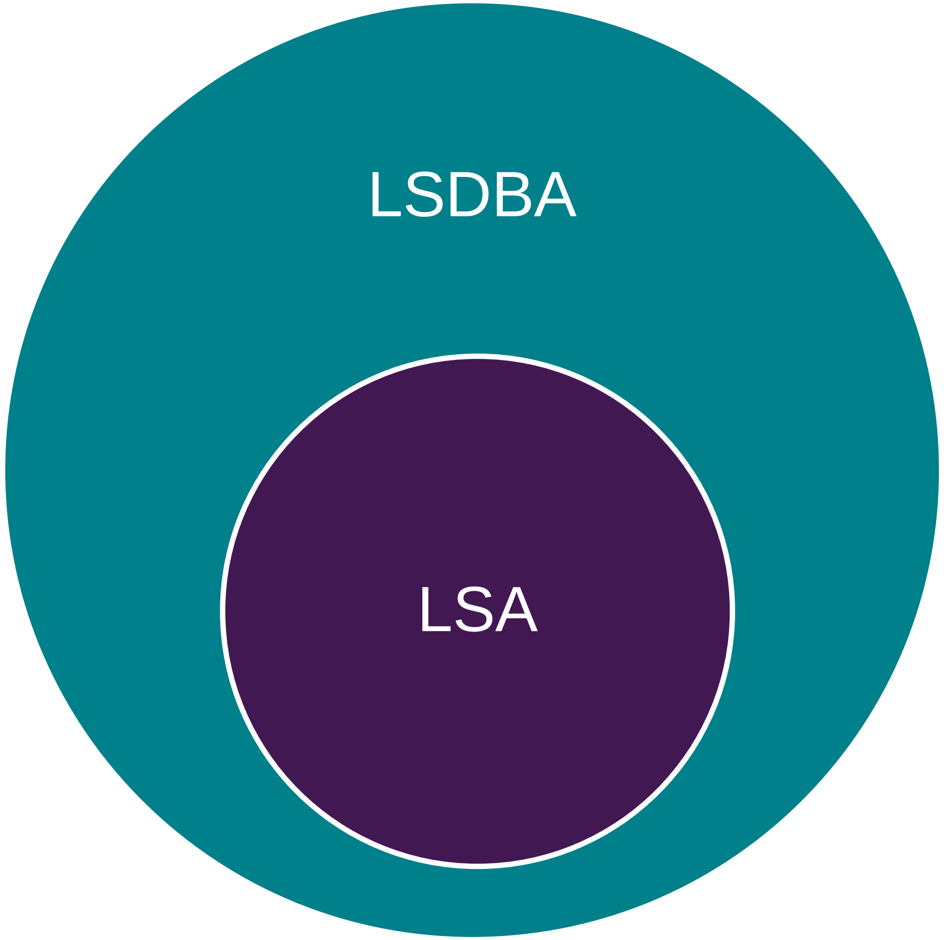
Benefits taken before 6 April 2024

- Meera applies for a transitional certificate as LTA was £1m in 2016.
- 50% of £1m is £500,000.
- Meera's LSA will be reduced by 25% of £500,000.
- Her LSA is therefore £143,275.
- Her LSDBA is £948,100.

Benefits taken before 6 April 2024



- John received £60k Defined Benefits (DB) pension in 2022 with no PCLS, this used up his LTA.
- He has £1.5m uncrystallised in a Personal Pension (PP).
- LSA and LSDBA from 6 April 2024?
- He has no LTA protection.

Benefits taken before 6 April 2024

- John applies for a transitional certificate as he hasn't taken any PCLS from his DB pension.
- He has £1.5m uncrystallised in a PP.
- LSA is £268,275.
- LSDBA is £1,073,100.

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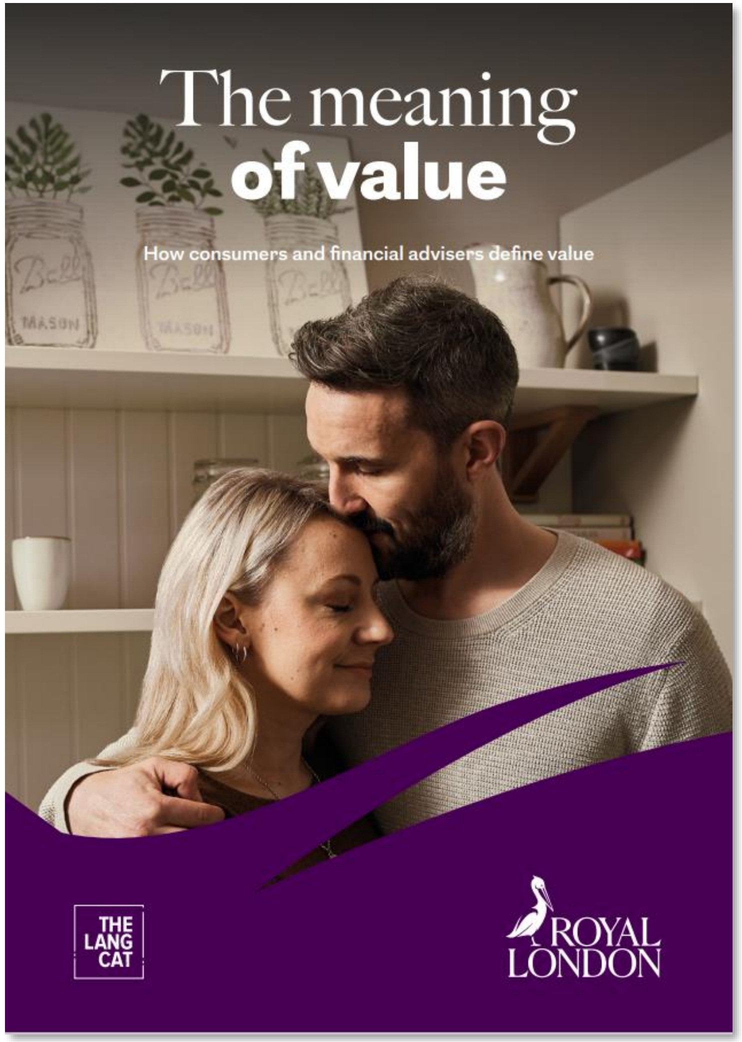
Transitional Certificate

- Shows the individual’s lump sum transitional tax-free amount and the individual’s lump sum and death benefit transitional amount.
- Need to apply before first relevant Benefit Crystallisation Event (rBCE)
- Relevant to those who haven’t taken 25% PCLS prior to 6 April 2024.

Opportunities

- Transitional arrangements
- CGT and dividends
- Tax traps

The meaning of value



"One of the resounding findings is that few people would simply equate value with price. I've always taken the view that 'value for money' better describes the equation – the benefit (value) you get for the price (money) you pay"

Jamie Jenkins
Director of Policy and Communications

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Learning outcomes

At the end of this session, you'll:

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- Explain how the removal of the lifetime allowance affects your clients from 6 April 2024.

Thank You

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