Case Study

Title: Pensions & Health

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The Problem:

A new client, aged 47, has a degenerative illness and needs to know whether to maintain his personal pension funding or consider accumulating wealth via an alternative method.

Issues to look out for:

- A degenerative illness does not necessarily mean reduced life expectancy.
- Access to capital and flexibility of options is highly desirable so the relative inflexibility of a pension will be a frustration.
- The pension may have waiver of contribution benefit.

The solution:

We need to ensure the client's level of pension understanding is sufficient in terms of access to capital restrictions, income structure choices, tax implications and death. It is easy to mistakenly assume that because the client has held the plan for many years he is fully aware of such aspects. In addition, we need to ascertain what our client's retirement aspirations are and in this case we need to seek accurate understanding of his illness, including to what extent his mobility is expected to be affected, how his working ability will be affected, the predicted timescales for these impacts and the potential effect on life expectancy.

Next we need to fully understand the structure and features of the personal pension. In addition to the usual factors such as charges, fund selection and guarantees; of particular importance will be whether the plan includes waiver of contribution benefit. We need to obtain detailed information in writing from the pension provider and because this is often an arduous task we need to manage our client's timescale expectations.

The client is certain he will be crystallising benefits no later than age 65. His mobility and broader lifestyle will very likely be affected before that age and certainly his ability to work. Whilst his quality of life will be affected, his life expectancy is not predicted to be affected significantly.

The plan does indeed have waiver of contribution benefit which significantly affects our recommendations. Without it, it is fair to conclude that the relative inflexibility of a pension vehicle is not appropriate for his circumstances and as such the advice would be to cease contributions and redirect them into an Investment ISA. Of course the client would be losing the benefit of tax-relief on his contributions but nonetheless agrees that the flexibility which ISAs provide is great attraction.

Waiver of contribution benefit in broad terms means that his pension contributions are waived should he be medically deemed unable to work, after as deferred period of six months. This would mean index-linked contributions until retirement age, which for this client is a very high probability. The occupation definition is crucial. An '**Any Occupation**' definition means he is only eligible for waiver benefit should he be unable to undertake **any** occupation. This is vastly inferior to '**Own**' or '**Suited Occupation**' definitions. Fortunately this plan has a 'Suited Occupation' definition which means he is eligible for the waiver benefit should he be unable to undertake work for which he is **suited via experience or education**. He has always had the same manual job so if he is unable to do his current job there would be no other to which he would be suited.

Like many people living with an illness, our client is very knowledgeable about his condition and as such an explanation of the merits of the waiver feature facilitated a frank discussion about its relevance to his circumstances. We concluded that despite the inflexible frustrations of the pension, the probability of the waiver benefit providing index-linked contributions until age 65 was very likely and outweighed the access to capital desires, therefore the pension funding should be maintained.