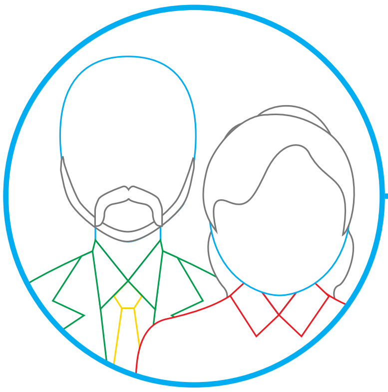
Cash Out Retirement Plan

Case study – Peace of mind by paying off the mortgage



Dipesh, 67, retired and Sonal, 63, working full-time

Dipesh and Sonal would like:

- To finish paying their mortgage
- A reliable income so that Sonal can transition to part-time work
- An income for a set time to help bridge the gap between now and when Sonal's State Pension begins at age 66

Dipesh has been retired for two years and Sonal is currently working full-time. Sonal would like to reduce her hours at work but the couple still have three years of mortgage payments to make. Dipesh receives a State Pension and has one pension pot of £95,000 and another pot of £40,000. The couple also have savings of £15,000.

Dipesh and Sonal are looking for a solution that enables them to pay off their remaining mortgage and have a reliable income until Sonal's State Pension begins. The couple describe themselves as cautious and are looking for a solution with a low exposure to risk; they would also like to ensure that they remain in the basic tax band.

Suggested action

3 years

The couple could use Dipesh's £95,000 pension pot to take out a **Cash-Out Retirement Plan** for three years to become mortgage free and have a reliable income so that Sonal can go part-time.

Please note this example is not real, it is for illustration purposes only.

Based on their circumstances, the couple's financial adviser advises that they will need an extra £1,800 a month until Sonal begins receiving her State Pension. Their financial adviser recommends using Dipesh's £95,000 pension pot to take 25% as tax-free cash to pay off their mortgage and then place the rest of the money in a Cash-Out Retirement Plan for three years, after which Sonal will begin receiving her pension.

Take 25% tax-free cash

£23,750

Place

£71,250

in Cash-Out Retirement Plan for three years

Receive an income of

£24,132

for three years

Using the tax-free cash they can pay off their mortgage (£18,200) with

£5,550

spare to add to their savings

Legal & General

Benefits for Dipesh and Sonal

- Dipesh and Sonal will have the peace of mind of having their mortgage paid in full.
- Dipesh and Sonal will be reassured by knowing that the monthly income is for a fixed term, paid automatically.
- The fixed payments will mean Dipesh and Sonal can continue enjoying the lifestyle that they're used to.
- They will be reassured by knowing that they can afford for Sonal to reduce her hours and go part-time.
- They are managing the tax that is payable on the withdrawals over the term of the policy and therefore paying less tax than if they took the whole amount as a single lump sum withdrawal.

Risks

Dipesh and Sonal's financial adviser also tells them about the risks involved with the product:

- If Dipesh wants to continue contributing to his pension savings, the maximum he can contribute each tax year is £4,000. This is known as the Money Purchase Annual Allowance.
- Once the term of the plan comes to an end, Dipesh and Sonal will receive no more income from us. There is no maturity value and there will be no other payments made. The plan does not pay an income for life.

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