

No requirement to buy an annuity at age 75



There is no longer the requirement to buy an annuity at age 75

There are new rules which will be introduced on 6th April 2011. The following notes provide a summary of the new rules on what is available by deferring the purchase of an annuity:

- Income Drawdown is replaced by a product known as 'capped drawdown'.
- Capped drawdown income may be taken between zero and 100% of the Government Actuaries Department (GAD) published annuity rates. These are updated to include rates past age 75. Income is taxed in the same way as salary.
- You can vary and plan in advance the amount withdrawn between the limits so that you are able to adjust income to suit personal needs and tax thresholds.
- Capped drawdown is available from age 55 onwards with no upper age limit.
- 25% tax free cash may be taken at any time with no upper age limit.
- Annual income limit assessment is every 3 years from the next review date and annually after age 75 for existing income drawdown clients ('Unsecured Pension', otherwise known as Income Drawdown or USP) and alternative secured pension (ASP) clients from 6th April 2011.
- Individuals who can satisfy a minimum income requirement (MIR) will be able to draw down unlimited amounts from their pension fund ('flexible drawdown'), subject to income tax at their marginal rate.
- The MIR will initially be set at £20,000 and reviewed by the Treasury every 5 years and can include Secure level income (guaranteed annuities). State pensions may be included in the MIR. Income drawdown payments are not included in MIR.
- Once in flexible drawdown, clients will not be able to receive tax relief on any further pension contributions.
- On death of a member before age 75 with uncrystallised funds, these will normally be paid out tax free. Lump sum payments after age 75 will be subject to a 55% tax charge, even if no benefits have been taken.
- On death of a member in income drawdown (flexible or capped drawdown), funds may pass to a spouse to continue income drawdown or the spouse can exercise the standard options available now or in the future to purchase an annuity. On the death of the member, the spouse may elect to take a lump sum less 55% tax on the value of the fund.
- No IHT (inheritance tax) will be liable on lump sum payments either before or after age 75.
- Any lump sum payments to a charity in all scenarios will not suffer any tax deduction.

Deferring the purchase of an annuity means that clients retain control of their invested pension funds without having to pass these across to insurance companies to provide annuities. There is a natural risk that income withdrawals may reduce the eventual buying power of the fund for an annuity or that poor investments may reduce the income limits from income withdrawals over time.

The options above have advantages over traditional annuities in that there is no capital cost for a joint life annuity at the start by utilising 'capped drawdown'.

These new rules represent a slight worsening of the taxation of lump sum death benefits for clients in income drawdown prior to age 75 but considerably improve the position for clients who wish to pass on pension funds to dependants and heirs. They also improve the long term tax position for HMRC from pension funds.

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