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A Guide to the 2011

RETIREMENT RULE CHANGES

Deciding how to take your pension benefits is one of the most important financial decisions you're ever likely to make

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Welcome to 'A Guide to the 2011 Retirement Rule Changes'. We understand that deciding how you take your pension benefits is one of the most important financial decisions you're ever likely to make. As part of the new 2011 retirement rules, from 6 April this year the pension annuity rules changed, meaning that UK pensioners are no longer forced to use personal pension funds to buy an annuity.

FREEDOM TO CHOOSE

Investors now have the freedom to choose when and how they take their pension, with the withdrawal of the compulsory annuity age of 75. From 6 April 2011, investors have now been given more flexibility about how they choose to use their retirement savings. You are still able to convert funds to an annuity if you wish, but you also have more options such as Income Drawdown and continuing your pension investment.

Individuals who are already in drawdown will not be immediately subject to the new requirements; however, transitional rules apply. If this applies to you, you'll need to adopt

the new rules either at the end of your current review period or earlier if you transfer to another drawdown plan.

Investors can use Income Drawdown or take no income at all from their pension for as long as they require. However, tax charges on any lump sum death payments will prevent this option being used to avoid Inheritance Tax (IHT). The rules regarding Alternatively Secured Pensions (ASPs) have been repealed; existing ASP plans convert to Income Drawdown (previously known as Unsecured Pension, or USP) and subject to the new rules.

FLEXIBLE DRAWDOWN

A new drawdown, called Flexible Drawdown, allows those who meet certain criteria to take as much income as they want from their fund in retirement. It will normally only be available for those over 55 who can prove they are already receiving a secure pension income of over £20,000 a year when they first go into Flexible Drawdown. The secure income can be made up of State pension or from a pension scheme

and does not need to be inflation proofed. Investment income does not count. Restrictions have been designed to prevent people from taking all their Protected Rights or from using Flexible Drawdown while still building up pension benefits.

The previous drawdown option after 6 April 2011 has become known as Capped Income Drawdown. The maximum income is broadly equivalent to the income available from a single life, level annuity. This is a slight reduction on the previous maximum income allowed. There is no minimum income, even after age 75. The maximum amount will be reviewed every three years rather than every five years. Reviews after age 75 will be carried out annually. Unlike ASPs, the income available after age 75 is now based on your actual age rather than defaulting to age 75.

DEATH BENEFITS AND TAX CHARGES

The changes to death benefits and tax charges mean that if you die while your pension fund is in either form of drawdown, or after the age of 75, all of your remaining fund



can be used to provide a taxable income for a spouse or dependant. Alternatively, it can be passed on to a beneficiary of your choice as a lump sum, subject to a 55 per cent tax charge (or nil charge if paid to a charity). Previously, a tax charge of up to 82 per cent applied on lump sums paid after age 75, making it now far more attractive for people to pay into their pension and consider the IHT benefit of doing so.

Previously, a pension fund which had been 'crystallised' by using Income Drawdown was subject to a tax charge of 35 per cent if the member died and any surviving spouse chose to take the fund as a lump sum. From 6 April this increased to 55 per cent, and applies to plans currently in force. It is also worth noting that, after age 75, this 55 per cent tax charge applies even to funds that have not been crystallised (from which no lump sum or income benefit has been taken).

ANNUITIES

Annuities themselves have not been changed; however, the minimum age at which you can buy an annuity is age 55. An annuity will still be

the option of choice for a lot of retiring investors because, unlike Income Drawdown, it provides a secure income for life. Annuities are expected to be used to secure the minimum income requirement of £20,000 to allow investors to use the rest of their pension to go into Flexible Drawdown.

From 6 April 2011 the maximum pension contribution limit reduced to £50,000 (down from £255,000). However, investors will benefit from tax relief at their highest marginal rate. The previous government's more complicated rules surrounding high earners and restricted tax relief are to be discarded.

From 6 April 2012 the lifetime allowance will also be reduced. The full lifetime allowance will be reduced to £1.5m, down from £1.8m.

The coalition government has also brought back the carry forward rules, enabling anyone who wishes to roll up any unused contribution allowance to do so and take advantage in a future tax year. The £50,000 allowance can be carried forward for as many as three tax years. This roll-over relief came into full effect on 6 April 2011.

Although investors are no longer required to annuitise their pension savings from 6 April 2011, and could, as an alternative, draw down income as cash lump sums, there are still rules to be followed to prevent investors running out of retirement income and becoming dependent on State benefits. ■

WE CAN WORK WITH YOU TO HELP YOU MAXIMISE YOUR RETIREMENT INCOME GENERATION, EXECUTE THE TRANSACTIONS NECESSARY AND ENSURE THAT YOU REMAIN ON TRACK. WITH THE INTRODUCTION OF THE NEW RETIREMENT RULES, NOW IS THE PERFECT TIME TO DISCUSS YOUR PARTICULAR SITUATION. FOR FURTHER INFORMATION, PLEASE CONTACT US.

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