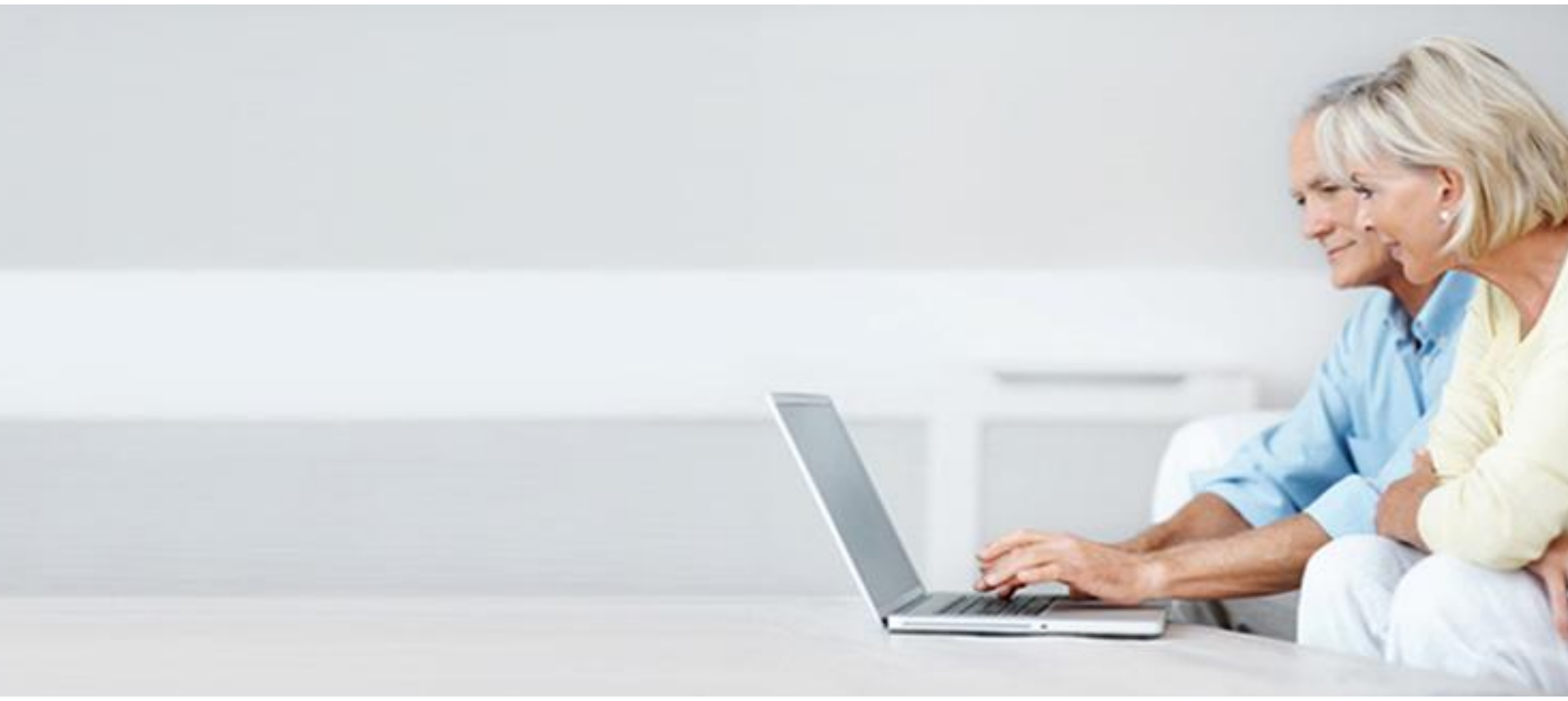
Retirement Rules Changes

December 2010



0800 043 6701
www.retirementsolutions.co.uk

Retirement Solutions Limited is authorised and regulated by the Financial Services Authority. Registered Office: Centrix House, Crow Lane East, Newton Le Willows, WA12 9UY. Registered in England and Wales No: 06006741. Tel: 01925 321 421 Fax: 0844 358 0271

Changes to Retirement Rules

In early December 2010, the UK Treasury released draft legislation that will change the existing retirement rules. These changes are widely expected to come into effect in April 2011. These changes will mostly apply to retirees already in or considering entering into Income Drawdown.

What Does it Mean for Retirees?

The key points of this draft legislation are:-

- There will no longer be compulsory annuitisation
- The ASP (Alternatively Secured Pension) will no longer exist.
- There will be a new "flexible drawdown" which will come with unlimited withdrawals.
- Retirees will be permitted to use Income Drawdown indefinitely.

All of this essentially means that retirees now have the option of more flexibility right throughout their retirement.

You'll find more information about the changes in this document.

Age 75 Rule

Previously, retirees **had to have taken an annuity or an ASP by the age of 75.** In the new proposals, this will no longer be the case, meaning that if you have enough income from alternative sources, you can continue to leave your pension untouched for as long as you like, where it can continue to grow without being subject to Income Tax or Capital Gains Tax.

You will still be entitled to take up to 25% of it tax free whenever you are ready and use the rest to set up an annuity or income drawdown plan.

Drawdown is a way of taking income from your pension without buying an annuity. Retirees who opt for Income Drawdown will be able to stay in Income Drawdown indefinitely.

Income Drawdown

Current drawdown will be replaced by two new retirement options ‘Capped Drawdown’ and ‘Flexible Drawdown’. These new options are available from age 55 and provide greater control and flexibility over how retirement income is paid.

Capped Drawdown

Capped Drawdown is very similar to the current income drawdown.

Summary of the main changes are:-

- The maximum income you can take per year before the age of 75 will be slightly lower than at present and equivalent, roughly, to the income available from a single life, level annuity.
- The maximum income you can take each year after the age of 75 will be slightly higher than at present.
- You will not be required to take a minimum income each year.
- You will not be required to enter an ASP at age 75 (ASP will be scrapped).
- Reviews before the age of 75 will take place every 3 years (as opposed to every 5).
- There will be annual reviews after the age of 75.
- With capped drawdown your exact age will be used to calculate your maximum annual income.

Flexible Drawdown

This new option is available to those aged 55 and over who have a 'lifetime income' of at least £20,000. Sources of income which count towards the new flexible drawdown include guaranteed lifetime income from state pensions, defined benefit schemes, scheme pensions and lifetime annuities. Investment income or income from Purchased Life Annuities does not count towards the 'lifetime income'. This £20,000 'lifetime income' which need not be 'inflation proof' will be the same for all ages and applies to each individual with no allowance for couples . The £20,000 level will be reviewed by HM Treasury at least every five years and changed at their discretion.

Provided the 'lifetime income' can be satisfied, retirees in flexible drawdown may take unlimited withdrawals from their funds. This income will be subject to income tax.

Flexible drawdown is indeed far more flexible in that it allows individuals to take as much income from their fund as they like each year.

Death Benefits and Tax

There are some changes to death benefits and tax rules.

- If you die while your fund is in either of the above drawdown plans or after the age of 75, the remainder of your fund can be used to provide an income for your spouse or a dependent. This income will be subject to income tax.

- Alternatively, the fund can be passed to a beneficiary you have named in the form of a lump sum. If this is passed on as a lump sum however, it will incur a 55% tax charge (still higher than many would like, but certainly an improvement on the tax before which could be as high as 82%). If the lump sum is passed on to a charity, it will be tax free.

- The Treasury has also confirmed that pension drawdown funds will not be subject to inheritance tax (IHT). Currently IHT applies to unused lump sums where an annuity has not been purchased by the time of death.

Annuities

There will be no change to the way annuities work. For most retirees, annuities will continue to be the favoured option given the guarantee of income security for life. Annuities are available from age 55.

How Will You be Affected?

Existing arrangements will come under the new regime with effect from April 2011.

- If you are currently in an income drawdown plan, you will not be immediately affected by the changes. You will, however, be required to adopt the new rules **at your next review.**
- If you have not yet retired but are considering income drawdown when you do retire, the new rules will apply to you instantly.
- Those who already have or who are considering purchasing an annuity will be completely unaffected by the changes.

Retirement Solutions Conclusion

Most retirees will still choose to secure an income at retirement. The changes, however, mean that for those who wish to leave their pension fund invested can do so. The changes offer greater flexibility for retirees.