

NEW PENSION INCOME OPTIONS: THE UNSECURED ROUTE

April 06 brought Changes to Pension Income via Drawdown

The Changes:

- ✓ **Formula for calculating maximum drawdown income has changed**
- ✓ **No requirement to take income**
- ✓ **Review period changed from 3 to 5 years.**
- ✓ **No eventual obligation to buy an annuity—new option (ASP) available from age 75**

Drawdown is an alternative route for pension savers who don't want to purchase a traditional annuity on retirement.

It offers income taken directly from the pension fund, and includes an entitlement to a tax-free lump sum. The disadvantage of this route is that, unlike an annuity, income drawdown doesn't guarantee an income for life.

During drawdown, the unused portion of your pension fund benefits from investment growth throughout the drawdown period.

Alternatively Secured Pensions (ASP)

Until April 06, there was a requirement for investors in drawdown arrangements to purchase an annuity before they reached age 75.

However, under the new rules, a new form of income drawdown has become available from age 75—the Alternatively Secured Pension—which can be used for those who either have an objection to the annuity route, or for whom the new vehicle has benefits in terms of retaining their assets to pass on to their heirs—although this benefit can be seriously diluted by restrictions on the way it can be passed on and by the impact of Inheritance Tax.

Death during Drawdown/ASP

Drawdown funds that have not been used as income can be used to provide a dependant's pension—using an annuity, scheme pension, another drawdown arrangement or (if age 75 or over) an alternatively secured pension. Alternatively, the remaining funds can be paid out as a lump sum subject to a 35% income tax charge.

Funds remaining in an Alternatively Secured Pension can only be passed down in the scheme rather than being paid as a lump sum.



Maximum Yearly Drawdown Income per £10,000 Pension Fund	
Male 55	£672
Male 65	£744
Male 74	£840
Female 50	£648
Female 65	£708
Female 74	£780

Maximum Income from a Drawdown Arrangement

The maximum income you can take from a drawdown arrangement is based on an expected annuity level calculated by the Government Actuarial Department (GAD), based on age, sex and expected return on investment.

Until April 2006, the maximum income you could take from drawdown was 100% of the level set out in these tables, but this has been increased to 120% of the GAD annuity rate. This means that the maximum income from drawdown can be about a fifth higher than the best annuity you could buy.

Review Periods:

Drawdown arrangements are now reviewed every 5 years. This review allows the maximum income levels to be re-calculated. A review of maximum income can only be reviewed within the 5 year period if further funds within an arrangement are designated to unsecured pension.

Minimum Income from a Drawdown Arrangement

There is now no minimum income requirement for income drawdown.

This gives greater flexibility to anyone considering entering a drawdown arrangement, as it offers the chance to take a tax-free lump sum without being obliged to take an income from that point onwards—the remaining fund can continue to benefit from investment growth until the income is needed.

For more information, contact:

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