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NEWSLETTER - JANUARY 2011

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Happy New Year from SSASPractitioner.com

New Drawdown Rules & Changes to Death Payments from April 2011

The government has announced a number of important changes to the rules for converting pension funds into income. From 6 April 2011, there will be new rules for pension drawdown. These will give SSAS members more flexibility and control over their pension options when they retire, and will provide the opportunity to defer taking a pension plus tax-free cash beyond age 75.

From 6th April 2011, SSAS Members will have the option of continuing normal drawdown and potentially taking tax free cash beyond age 75. This will be known as **'Capped Drawdown'.** A new option of **'Flexible Drawdown',** subject to maintaining a secure income of £20,000 p.a., will also be available from 6th April 2011, allowing members to draw as much income as they choose from their SSAS. In both types of drawdown, the income taken is of course subject to income tax at the member's marginal rate.

Capped Drawdown. Capped drawdown is an option to draw an income for life from the SSAS, within an annual limit, without having to purchase an annuity. It is similar to drawdown under the current rules in that it can start at any time from age 55, but can now continue beyond age 75. Those who are currently in drawdown via an alternatively secured pension (ASP; the current drawdown option for those over age 75) will automatically be converted into Capped drawdown after April 2011.

The tax rate on lump sum death payouts is currently 35% for death prior to age 75, and 82% for those drawing an ASP; under Capped drawdown, a single tax rate of 55% will apply, irrespective of age. There will continue to be no tax on pension funds where death occurs before age 75 and no benefits have been taken, or on sums left to charity.

Capped drawdown allows a pension to be paid up to a maximum amount every year. The new maximum will be set at 100% of the GAD (Government Actuary Department) rates, compared with the current maximum of 120%, so there will be a reduction in the maximum amount payable. The maximum income limits will be reviewed every 3 years before age 75 (this is currently every 5 years) and annually after age 75. Under the current rules, there is no minimum requirement to the income that can be drawn under age 75, and that remains the case. However, in future there will also be no minimum income requirement after age 75, substantially enhancing the flexibility of drawdown for the over 75s.

Flexible Drawdown. Those with secure incomes from elsewhere of over £20,000 p.a. will have no limit on the income they can take from their SSAS via drawdown. Like Capped drawdown, Flexible drawdown can start at anytime from age 55, and a single tax rate of 55% will apply upon death, irrespective of age. There will continue to be no tax on pension funds where death occurs before age 75 and no benefits have been taken, or on sums left to charity.

Flexible drawdown is an option that will give those with large funds more flexibility than everyone else. The £20,000 income required to satisfy the new minimum income requirement (MIR) can include the basic state pension, additional state pension, level annuity income and Scheme Pensions. The latter are available from a SSAS via SSAS Practitioner.com. The lump sum required to purchase an annuity sufficient to satisfy the MIR, assuming the full state pension is also payable, will be about £200,000 under prevailing annuity rates.

SSAS members considering Flexible drawdown should bear in mind that transferring a large amount of money from their pension fund into their estate, possibly at a top tax rate of 50%, might not make a lot of financial sense. Leaving it in a tax-exempt SSAS, taking annual pension withdrawals at maybe a lower rate of tax and having a 55% tax rate (but no IHT) on any residual lump sum upon death may be more attractive. SSAS members should seek financial advice before deciding upon Flexible drawdown. Those who are considering Flexible drawdown may be put off by the idea of buying an annuity to cover their minimum secure income requirement, maybe costing £200,000 or more. Fortunately, Scheme Pension (a form of income drawdown similar to an annuity) counts as secure income. Scheme Pension can be set-up for a SSAS member by SSAS Practitioner.com. Scheme Pension creates a situation where flexible drawdown is available without having to buy an annuity. Only a handful of providers (ourselves included) currently provide Scheme Pensions under SSASs, but we can see this becoming a more popular option, particularly with those SSAS members who are opposed to annuity purchase.

Conclusions. These new rules, with the exception of the increased tax on death under age 75, will benefit those who do not want to buy an annuity by age 75 or who want more flexibility and control over their pension. They also mean that investors will be able to commit long term savings to a pension, knowing that they will be able to retain control over that money right up to the day they die.

Unlike many pension providers SSAS Practitioner.com anticipate being able to provide Capped and Flexible drawdown via our SSASs from 6th April 2011. Our website and associated literature will be fully updated by then to provide our clients with as much information regarding the new rules as possible. We will also have updated administrative systems in place to ensure that our clients benefit from the increased flexibility and large potential tax savings these new rules will bring.

In case you missed our October 2010 newsletter.........

Reduction of Annual Allowance from April 2011 The Treasury is to cut the annual allowance for pension saving from £255,000 to £50,000 from 5th April 2011. Individuals will be able to claim full tax relief at their marginal rate, up to and including 50%. Pension savings above this level will be subject to a 55% tax charge, but individuals will be able to offset unused parts of the allowance over a three year period to allow for one-off spikes in contributions over the £50,000 limit. This change in the Annual Allowance is not as draconian as some in the pensions industry anticipated and the new rules go a long way towards simplifying a system which over the last 30 years had become too complicated and out of touch.

Reduction of Lifetime Allowance from April 2012 The Treasury also announced that the lifetime allowance for the amount that can be built up in a pension fund, and continue to receive full tax relief, has been decreased from £1.8m to £1.5m from April 2012. Those clients who feel that they are likely to exceed the £1.5m limit by April 2012, or already do exceed this figure can apply (via SSAS Practitioner.com) to HMRC to have their Lifetime Allowance ring-fenced at £1.8m. However, clients who take this route cannot make any pension contributions after April 2012. This application needs to be made prior to 5th April 2012.

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