

Revolutionising your retirement options

Do you know how to make the right choices when taking your pension benefits?

Your pension is one of your most valuable assets but is it working as hard as it should be? The new retirement rules will revolutionise the way pension benefits are taken, making retirement more flexible.

Did you know?

1. Age 75 rule abolished

There is no longer a requirement to take pension benefits by a certain age. Historically, individuals have had to set up an annuity or move into Alternatively Secured Pension (ASP) by the age of 75.

2. Retirees can use income drawdown indefinitely

Investors can now use income drawdown or take no income at all for as long as they want. However, tax charges on any lump sum death payments will prevent this option being used to avoid Inheritance Tax. ASP, which had a number of restrictions and limited death benefits, has been scrapped.

3. Flexible Drawdown introduced

This is a new drawdown option that allows some investors to take as much income as they want from their fund in retirement. It is available to people over the age of 55 who can prove they already have a secure pension income of £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. It is not possible to make any further pension contributions to any pension scheme either in the year you move into Flexible Drawdown or any year thereafter.

4. Current Drawdown (now to be known as Capped Drawdown)

The maximum income that can be taken each year is subject to a cap that is broadly equivalent to the income available from a single life, level annuity. This is a slight reduction on the previous maximum allowed (120 per cent of annuity income). The income limits are age and sex specific, even after age 75. The maximum amount will be reviewed every three years (previously every five years). Reviews that take place after age 75 will be carried out annually. There is no minimum income, even after age 75.

5. Changes to death benefits and tax charges

If the pension member dies while the pension fund is in either form of drawdown, or after the age of 75, all the remaining fund can be used to provide an income for a spouse or dependant. Alternatively, it can be passed on to a beneficiary of their choice as a lump

sum, subject to a 55 per cent tax charge (or nil charge if paid to a charity). The previous tax charges were up to 82 per cent on lump sums paid after age 75.

6. Rules for those already in drawdown

Individuals who are already in drawdown will not be immediately subject to the new requirements; however, transitional rules apply. They will until the next review date until the income limits and review periods change.

7. 25 per cent tax-free cash

The ability for most people to take up to a quarter of the pension fund as tax-free cash is still available when the individual sets up an annuity or goes into income drawdown, even if they take no income.

8. Annuities

Annuities themselves have not been changed; however, it is now possible to buy an annuity at any age after 55. An annuity will still be the option of choice for most retiring investors because, unlike drawdown, it provides a secure income for life. Annuities are to be used to secure the minimum income requirement of £20,000 to allow investors to then use the rest of their pension to go into Flexible Drawdown.

A drawdown pension, using income withdrawal or using short term annuities, is complex and is not suitable for everyone. It is riskier than an annuity as the income received is not guaranteed and will vary depending on the value and performance of underlying assets.

Bear in mind that a pension is a long term investment. Your eventual income will depend on the size of fund at retirement, future interest rates, and tax legislation.

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