

CASE STUDY – SCHEME PENSIONS

This case study refers to a SIPP but the same principles apply equally to a member of a SSAS.

Michael Walker has a SIPP with a value of £600,000. He has some personal savings and receives a state pension. His outgoings are modest and he lives comfortably. He is married and both he and his wife have some health issues and are unsure of their future life expectancy.

Michael turned age 75 a few years ago and decided to continue with income drawdown as he felt that an annuity might not take full account of his medical condition. He is drawing Alternatively Secured Pension (ASP) from his fund. He wants to leave sufficient in the fund to provide a pension for his wife on his death, so he draws 80% of the full ASP figure of £51,300 p.a. This is more income than he needs, so he makes gifts of surplus income to his grandchildren. These gifts from income are exempt from Inheritance Tax and his grandchildren use the money to make pension contributions into SIPPs of their own.

Unfortunately, the health of Michael's wife deteriorates and after a short illness she dies. Michael finds that he is not fit enough to look after himself and he decides that he needs to move into a private nursing home. He now needs to maximise his income and there is no longer any need to keep funds back in the SIPP, as there are no other dependants who can receive a pension on his death. His requirement is to use the SIPP funds to provide a full pension for him.

Michael asks us about the Scheme Pension option. We obtain information from his GP which enables us to assess his individual life expectancy. Using this information, our Actuary calculates that Michael could receive a Scheme Pension of £92,300 p.a. This is substantially more than the maximum ASP of £51,300 p.a. and the pension which could be obtained from an annuity purchase. With the help of independent financial advice, Michael increases his pension to the full Scheme Pension level. He has more than enough income to pay for the nursing home, so he continues to make gifts out of surplus income to his grandchildren.

Michael dies at age 85, leaving only a small fund remaining in his SIPP. Tax is paid on this and the balance is paid into his grandchildren's SIPPs.

The Scheme Pension option has allowed the SIPP to adapt to Michael's changing circumstances and pay out benefits suited to his needs.

Curtis Banks PLC

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