

BENEFITS

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These guidance notes outline the benefits which can be taken from a Curtis Banks SIPP or SSAS and the issues to take into account. Professional advice should be obtained if you are unsure which route to take.

We aim to keep jargon out of our literature as much as possible, but in the case of benefits there are some HM Revenue & Customs expressions which occur frequently and we have shown them in bold type.

In addition to the rules below, further rules apply if the total value of all your pension arrangements exceeds a government **lifetime allowance** (£1,500,000 for 2012/13) and you should refer to our [Lifetime Allowance](#) guidance notes if you think you may be affected.

1. Your own benefits

Timing

You can take benefits from your fund at age 55 and it is not necessary to retire or stop working. Benefits can be taken earlier on ill-health grounds.

Tax Free Cash

Up to 25% of your fund can be taken as a tax free lump sum. This can be done at any time after age 55 and the lump sum can be taken in stages.

Pension

The remainder of your fund is used to provide a pension, in one of 2 ways:

- buying an annuity from an insurance company of your choice – your fund is paid over to the insurance company and in return they pay you an income. Most annuities pay out for the rest of your life and are guaranteed, but there are other types linked to investment performance or payable for a fixed term. It is essential that you obtain financial advice in choosing the best type of annuity for you; or
- keeping the funds invested in your scheme and taking an income from the scheme itself. There are a number of options:
 - income drawdown in the form of **Capped Drawdown**
 - Income drawdown in the form of **Flexible Drawdown**
 - **Scheme Pension**

These options are all described in more detail below, and you are recommended to take independent financial advice before taking any of them up.

All pensions are subject to income tax at normal rates but not National Insurance ("NI") contributions.

Capped Drawdown

This is the most common way of drawing a pension from the fund. The way in which it works is:

- a factor from a government table is applied to your fund when you start income drawdown, to produce a **basis pension**. This factor depends on your age and financial conditions at the time, and is similar to the annuity your fund would provide.
- you can then draw anything between zero and 100% of the **basis pension** each year. You could decide to draw your tax free lump sum and then no pension for a period of years.
- the **basis pension** is then reviewed every 3 years up to age 75 and annually thereafter (or annually at any time if you prefer) based on the fund value and revised age and financial conditions at the review date. The new **basis pension** could be higher or lower than the previous figure.

Flexible Drawdown

If you have a **Minimum Income Requirement** of more than £20,000 p.a., you can take the rest of your pension fund whenever you choose without any government limits applying. You will pay income tax on any amounts drawn, in the normal way.

There are special rules for **Flexible Drawdown** and these are set out in our [Flexible Drawdown](#) notes. You should carefully consider whether **Flexible Drawdown** is suited to your needs, particularly if you are planning to draw a large part of your fund through this route, as the normal aim of a pension is to provide an income for life for you and your dependants.

Scheme Pension

This is a fixed income which must be paid to you at the full rate for the remainder of your lifetime. It will be individually calculated for you, not based on a government table, and can take account of your state of health. Normally it is slightly higher than the income you would receive from purchasing an annuity.

There are certain rules for **Scheme Pensions**, and in particular if they are being provided in a SIPP this must be in your own SIPP product. In practice the advantages over other types of pension income are limited and their main uses are:

- A **Scheme Pension** can be guaranteed to be payable for up to 10 years, i.e. if you die within this period the pension instalments will continue to your next of kin for the remainder of the guarantee period. They will pay income tax on these payments, but this may be lower than the normal 55% tax payable on lump sums on death in a pension scheme.
- As a way of taking account of your state of health. Anyone who has a reduced life expectancy may be able to draw a significantly higher pension through **Scheme Pension** than other routes.

Taking Benefits from part of the Fund

You can take benefits from only part of the fund and leave the rest untouched. For example, you could draw on 20% of your fund (taking up to 25% as a lump sum and the rest as a pension) and leave the other 80% untouched. A few years later you could draw on another 20%, leaving 60% still untouched, and so on.

Another way of looking at this is to say that you want to receive a specified amount from tax free cash and net pension, and we would then calculate how much fund you need to draw each year to produce this. For example, you might want to receive an amount of £3,000. Our calculations might show that you could achieve this by drawing on £10,000 of your fund, producing a tax free lump sum of £2,500 and a net pension after basic rate tax of £500 p.a. The following year you could draw on more of your fund, depending on what you wanted to receive that year, and so on. NB these calculations depend on your age and the above example is only for guidance on the principle involved.

Each time you take benefits you have the option of annuity purchase or income drawdown – in the example above you could, say, take income drawdown from the first 20% and buy an annuity from the second 20%. Each time you take benefits any income drawdown pension already being paid will get reviewed.

Transitional Rules

The rules for income drawdown were different before 5 April 2011 and this may affect you. We can supply more detail on individual cases, but the main issues are:

- If you were under 75 and taking income drawdown on 5 April 2011, you were in a 5 year period before the pension was next due for review. The new rules will apply when that 5 years expires, but if you transfer to a new pension scheme before then, the new rules will take effect from the next anniversary date in your current review period, i.e. transferring may result in the new rules applying earlier than expected.
- If you were over 75 and taking income drawdown, the new rules will take effect on the next anniversary date
- If you had only drawn on part of your fund before 5 April 2011, further drawings within the 5 year period will be partly based on the old rules and may be more favourable than if the new rules applied

2. Benefits on death

The fund will be used to provide one or more of the following:

- a tax free lump sum
- a pension to a dependant by payment from the fund
- an annuity for a dependant

The lump sum is tax free if you die before age 75 and before drawing benefits, but otherwise is taxable at 55%. If you were only drawing on part of the fund, the lump sum from that part would be subject to 55% tax and the lump sum from the remainder would be tax free.

The lump sum can be paid out to a wide range of beneficiaries, but pensions can only be paid to dependants. A dependant is your spouse or civil partner, a child under 23 or someone who is financially, mentally or physically dependent on you.

The pension option for the dependant from the fund could be any of the 3 forms of payment set out above for yourself. The rules for paying the pension are the same as for yourself as set out above, but calculated by reference to the dependant's age.

The beneficiaries of lump sum benefits will be decided by the trustees of the scheme, taking account of any nomination you make and all other information available (our [Expression of Wish Form](#) allows you to nominate beneficiaries) The trustees are not bound to follow your nomination but would normally do so unless there are good reasons not to.

The lump sum must be paid out within 2 years of your death.

3. Issues to consider

Annuity or Income Drawdown?

The basic choice here is between keeping control of your pension fund under income drawdown, and accepting that the future pension is not guaranteed, or passing the money over to an insurance company in return for a guaranteed income. Most SIPP and SSAS members opt for income drawdown,

but it is important to consider all the issues **and you are recommended to seek independent financial advice:**

- keeping the funds in your scheme gives you the opportunity to maximise future investment performance. Good investment performance can significantly improve the future pension from income drawdown, but the reverse applies for bad performance. The combined effects of drawing a full pension and poor investment performance can rapidly deplete the fund, leading to a much lower pension at the next review. Annuities can guarantee the pension regardless of future investment conditions.
- it is important to have a suitable investment strategy for income drawdown:
 - keeping the fund in fixed interest stocks may produce a pension no better than buying an annuity, and large cash deposits may produce even worse results.
 - an element of equity or property investment, where the returns are potentially higher, is usually recommended in order to out-perform annuity rates, but this type of investment may produce negative results.
 - too heavy an investment into equities or property can mean having to sell investments when markets are low in order to pay the pension.Good independent investment advice is recommended.
- income drawdown has much more flexibility than annuity purchase, both in terms of the benefits which may be drawn and the position on death. The terms for an annuity are fixed at the outset and usually the pension is fixed and there are limited options on death. By contrast, income drawdown allows varying pension payments each year and the full range of benefit options on death. Income drawdown also allows an annuity to be purchased at a later date, though future rates cannot be predicted and could be worse.
- there may be little point buying an annuity if your health is poor, as the odds are that you will not get a full return on your money. It is possible to get "impaired health" rates from some insurance companies, but they may not fully reflect your state of health.
- if you opt for income drawdown, your funds will need to be checked against the **lifetime allowance** when you subsequently buy an annuity or reach age 75 (see our notes on the [Lifetime Allowance](#) for more detail). This could be a problem if your fund is much higher at that time, either through high investment performance or because you have delayed drawing your pension.
- an insurance company bases its annuity rates on a large number of lives and makes allowance for some dying early, which reduces the average cost. An individual drawing a pension from a fund will not have the benefit of this factor and will need to earn more on the fund to compensate for it and maintain the pension. This factor is called "mortality drag" and typically requires an extra 1-2% p.a. return on the fund.
- income drawdown means that you need to keep your scheme going and continue to pay fees. If you are the only member, it may be simpler and more cost-effective to wind it up and buy an annuity, particularly if the fund is small.

We will send you a "critical yield" calculation when you take benefits and at annual intervals thereafter. The "critical yield" is the investment return you will need to earn on your fund, allowing for the "mortality drag" above and the expenses of the fund, to produce a pension which matches that from an annuity. This will help you in judging whether income drawdown makes financial sense.

4. Other Points

Pension Payments

Income drawdown pensions are usually payable monthly, but can be paid quarterly, half-yearly or annually. Curtis Banks PLC operates a pension payroll and deducts tax at the appropriate rate. We will need to deduct emergency tax (usually basic rate) until we have a tax code for you, and then will adjust future payments.

If you are resident overseas it is possible to agree with HMRC that the pension can be paid gross from the UK. The HMRC guidance notes for this are IR304.

Cancellation Notice

When you take income drawdown from your scheme for the first time, you will have a 30 day period in which to cancel the drawdown. This will not apply to subsequent drawdowns from your fund.

Liquidity

All benefit payments are subject to sufficient liquidity in the fund, both the initial payments and the ongoing pension. You or your advisers are responsible for ensuring that arrangements are in place for providing sufficient liquidity. Curtis Banks PLC cannot pay benefits unless sufficient cleared funds are in your scheme's bank account and we accept no responsibility for delayed payments. A charge may need to be made for late payments of benefits.

Serious Ill-Health

If you are under age 75 and your life expectancy is less than one year, any funds you have not already taken benefits from can be paid out as a lump sum, part of which will be taxed. A doctor's letter confirming your life expectancy is required.

Trivial Pensions

If the total value of all your pension arrangements is less than £18,000, you can take all of the fund as a lump sum. 25% of the fund will be paid tax free and the remainder is subject to income tax.

Tax Free Cash Recycling

There are complex rules aimed at preventing you from taking a tax free lump sum and then paying this back into your SIPP as a pension contribution, thereby permitting a further 25% lump sum and so on. Further details can be supplied, but it should not be your intention to use your lump sum for this purpose.

Our Fees

Our fees for processing benefits are:

Calculating benefits and paying lump sum	:	£120
Pension payments	:	£125 p.a.
Pension reviews	:	£100
Processing annuity purchase	:	£75
Ad hoc pension payment	:	£75
Processing death benefits	:	Time cost

Additional fees apply to **Flexible Drawdown** and **Scheme Pensions**.

In addition, the standard scheme fees continue to be payable and you will need to pay fees to any other advisers you use.

Curtis Banks PLC

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