FLEXIBLE DRAWDOWN

Online links to further information are shown in underlined text below.

Summary

Flexible Drawdown is a new way of taking pension payments from a pension scheme, which came into effect on 6 April 2011. It allows you to draw your pension without the limits which apply under the normal Capped Drawdown option (this option is described in more detail in our Benefits notes).

Flexible Drawdown is available in a SSAS or a SIPP if the scheme rules allow it, and is available as a standard option in all our products, i.e. you do not need to take out a different type of pension scheme in order to qualify for Flexible Drawdown.

How does Flexible Drawdown work?

Unlike Capped Drawdown, where the pension each year has an upper limit calculated by reference to a standard government table, Flexible Drawdown allows you to take your pension each year at whatever rate you choose. At the extreme, you could take out the entire fund in a single pension payment. You will pay income tax on the pension at your appropriate marginal rates in the tax year in which you take the payment.

There are a number of conditions which you will need to meet in order to qualify for Flexible Drawdown. These are set out below and in addition to these, you must qualify for pension in the normal way, i.e. you must be at least 55 and have taken any tax free lump sum from the fund. You cannot use Protected Rights funds for Flexible Drawdown.

Condition 1 – Minimum Income Requirement

To qualify for Flexible Drawdown, you must be in receipt of the Minimum Income Requirement. This means that you must be receiving an income of £20,000 p.a. or more from a combination of the following:

- any State pensions
- lifetime pension annuities (not temporary annuities or purchased life annuities)
- Scheme Pensions from schemes with 20 or more members (this is a fixed pension being paid to you from a pension scheme, such as a large company pension scheme).

You therefore need to make sure the Minimum Income Requirement is in place before you can take Flexible Drawdown. This may mean buying an annuity with part of your pension fund in order to take your income up to £20,000 and you should seek independent financial advice to help you with purchasing an annuity.

The Minimum Income Requirement should be paid in the tax year in which you start Flexible Drawdown. For example, if you start Flexible Drawdown on 1 August 2011, you must be sure that you are going to receive the income of £20,000 by 5 April 2012. In other words, you do not have to have received the £20,000 at the time you start Flexible Drawdown, but you do have to receive it in that tax year.

Condition 2 – No further pension contributions

If you take Flexible Drawdown, then no further tax relief is available on any pension contributions from the *start* of that tax year onwards. For example, if you start Flexible Drawdown on 1 August 2011, you will receive no tax relief on any pension contributions after 6 April 2011.

This restriction also applies to any further accrual of benefits under a final salary type of pension scheme from the start of that tax year, which would be taxed if you took Flexible Drawdown. You therefore need to take care that, if you are taking Flexible Drawdown from your fund, you are not still an active member of a separate final salary pension scheme.

This Condition effectively means that, by taking Flexible Drawdown, you have closed the door on any further tax-effective pension saving.

Condition 3 - Declaration

Before taking Flexible Drawdown, you must complete and sign a declaration confirming that you meet the conditions for Flexible Drawdown. A suitable Flexible Drawdown Declaration is available on our website.

When would Flexible Drawdown be appropriate?

A particular reason for taking Flexible Drawdown might be that you want to take a higher annual income than the limit under Capped Drawdown. Reasons for this might be:

- You want to make use of your basic rate tax band. For example, if your total income from all sources using Capped Drawdown was £30,000 p.a., you might want to use Flexible Drawdown to take your total income up to £35,000 p.a. and still pay basic rate tax. You would need to be confident that the investment return on your pension fund was capable of supporting a higher level of income.

- The investments in your fund might be producing a higher return that the pension limit under Capped Drawdown, e.g. if the fund owned a high-yielding property. You might want to take out the full income return as pension each year.

Another reason for taking Flexible Drawdown is that you might want to take a large sum from your pension fund in a particular year for a specific reason, e.g. you might have a large financial commitment which you need to meet that year.

You are recommended to obtain independent financial advice before deciding whether Flexible Drawdown is suitable for you.

What are the pitfalls?

Some of the potential disadvantages are described in the conditions above, i.e.:

- You may have to commit part of your pension assets to buying an annuity, which might be less flexible for you than other forms of pension.

- You are not able to continue building up your pension thereafter in a tax efficient way.

The other obvious disadvantage is that you are reducing your pension fund at a higher rate than normal, particularly if you take a large sum out. Pension funds are intended to provide an income for life, and taking significant sums out of the fund will restrict what you can take in the future. The Minimum Income Requirement of £20,000 is intended to provide protection in this respect in that, even if you take all your fund out as Flexible Drawdown, you will still have £20,000 p.a. to fall back on. However, you need to consider whether this is really enough income for your needs over the rest of your lifetime (which may be another 20-30 years) and also think about what provision there would be for your dependants on your death.

There are dangers of being lured into taking money out of your pension scheme and putting it into other investments which may be riskier or less tax-effective. You should think very carefully about whether Flexible Drawdown is right for you and take independent financial advice where appropriate.

What are our fees?

If you are simply taking Flexible Drawdown as a higher annual income than Capped Drawdown, then our fees are at the same level as Capped Drawdown, i.e. £100 initially to put the pension into payment and then £125 p.a. for the annual pension payments.

If you are taking Flexible Drawdown as a single sum, we charge a single fee of £500. This is in addition to our normal fees for setting-up and operating a pension scheme.

These fees are on the basis that you have received independent financial advice recommending Flexible Drawdown. If you have not received advice, then we will need to carry out our own checks on your position and will need to charge an additional initial fee for this, which will be quoted to you but typically will be around £500.

All fees are subject to VAT.

Actuaries & Pension Consultants

The Next Steps

If you are interested in Flexible Drawdown or require more information, please contact Curtis Banks PLC on (0117) 910 7910 or by email to enqs@curtisbanks.co.uk.

Curtis Banks PLC

August 2011