



The Emergency Budget held on 22 June proposed changes as to how pensions will operate for those in retirement, and announced a consultation exercise.

The Budget speech included a proposal to remove the requirement to purchase an annuity, or select an Alternatively Secured Pension (ASP) at the age of 75. As an interim measure, the date for selection of annuity purchase or ASP, was pushed back to age 77, with further details to be made available in the next Budget.

Recently released details of the development of the new proposals seem to go further than expected, and, if enacted, look to greatly increase flexibility of pension options for those drawing benefits (or about to start drawing benefits).

The new proposals include:

- abolishing the current Alternatively Secured Pension and replacing Unsecured Pension (USP)
 - Currently, ASP limits drawdown to 55% to 90% of the HMRC Relevant Annuity Rate (RAR) and reviews occur annually. Any lump sum on death passed to family, or other dependants, will incur tax at a penal rate of 82%.
 - USP limits drawdown from 0% to 120% of HMRC RAR and reviews take place every five years. Any lump sum on death passed to family or other dependants will incur tax at a rate of 35%.
- introducing two new types of drawdown, available to all those eligible for drawdown
 - Capped drawdown – we do not yet know the maximum level of income, but it is likely to be lower than the current 120% of HMRC RAR for USP. If enacted, we expect that all existing USP & ASP plans will transfer to capped drawdown from 6 April 2011.
 - Flexible drawdown – there may be no limit on the level of income that can be taken, providing a Minimum Income Requirement is met. This will ensure a minimum level of income payable throughout life.

- Any lump sums left to family or other dependants on death will be taxed at a rate of 55% (continuing income to family or other dependants will not suffer this tax charge), whether death occurs before or after the age of 75.
- Up to 25% of the fund will be available to take from unvested funds as a tax-free cash sum (Pension Commencement Lump Sum), but rather than limiting this to only those aged less than 75, this option will be available after the age of 75.

The option to annuitise at any time to secure income will continue to be available and it is likely that annuities will be developed that will offer some valuable new options to investors.

You should remember that there were also proposals to remove the legislation that caps the level of pension contributions eligible for tax relief at the higher or additional rate. It is possible that the Annual Allowance will reduce to around £45,000 from next April.

These proposals, if enacted, will offer pensions investors increased flexibility and may increase the attraction of pensions. At this stage, they are only proposals, and may change (or disappear altogether) before the Government adopts them into law.

Once again, pensions are changing!

We will continue to update you as and when the final shape of these proposals becomes clearer and will discuss these issues with you at your next review.

This guide gives a brief overview of our understanding and interpretation of proposed changes to legislation and should not be relied upon as definitive.

Fiscal Engineers
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