



## PENSION AND RETIREMENT INCOME CHANGES FROM 6 APRIL 2011

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In this article, Mark Eedy, Managing Director of Thomas, Carroll Independent Financial Advisers, the **UK Retirement Planning Firm of the Year 2010**, discusses recent developments in the pensions and retirement income markets.

'As the pension landscape continues to evolve it is important that our clients have the information or advice that they need to make informed and appropriate decisions about how best to provide for lifetime retirement income.

### Reduction in Annual Allowance

- The Annual Allowance has been reduced from **£225,000 to £50,000** from 2011/12.
- For each subsequent tax year the annual allowance will remain at £50,000 or such other amount as may be specified by treasury order. In other words Government have the freedom to set the annual allowance as they see fit and there is no guarantee that it will increase year on year.

- Carry forward of unused annual allowance is now possible from three previous tax years.
- Unused relief cannot be carried forward from an earlier tax year unless at some point in that tax year the individual was a member of a registered pension scheme. There is no requirement to have actually accrued any pension in the earlier tax year.
- In order to qualify for tax relief the maximum individual contribution in a tax year is still 100% of earnings, or £3,600 if greater, regardless of whether or not there is unused annual allowance to be carried forward.
- The tax charge for exceeding annual allowance is based on your marginal rate rather than flat 40%

### Retirement Options Change

- Retired individuals will no longer have to buy an annuity from age 75.
- Existing Unsecured Pension (USP) and Alternatively Secured Pension (ASP) arrangements will be replaced by a new 'capped drawdown' product available from age 55.
- The maximum income under capped drawdown will be 100% of the equivalent annuity, reviewable every 3 years until age 75 and yearly thereafter.
- A recovery charge of 55% will apply to lump sum death benefits.
- A new contract, Flexible Drawdown, allows **unlimited access** to pension funds under certain circumstances.

The new '**flexible drawdown**' model will enable individuals to withdraw more than the capped annual limit provided they have a secured relevant income that meets a Minimum Income Requirement (MIR) of, currently, £20,000.

If an individual qualifies for flexible drawdown he or she will be allowed to take **unlimited income withdrawals** from their pension fund.

Flexible drawdown reduces the annual allowance to zero so further pension contributions cannot be made once this option is selected.

Flexible drawdown is not available for protected rights funds.

#### **Flexible drawdown may be suitable for individuals who:**

- Have at least £20,000 a year secure income\*.
- Have other sufficient sources of income to meet ongoing needs.
- Want to draw as much income as possible now, even if this means a reduced income later.

\* secure income includes lifetime or dependants annuities and social security benefits such as state pension and graduated retirement benefit.

It is worth noting here that an individual can only make a declaration for flexible drawdown if:

- No contributions by them, or on their behalf, have been made in the tax year the declaration is made; and
- At the time of the declaration the individual is not an active member of a defined benefit or cash balance scheme.'

## **Why Thomas, Carroll?**

We have the honour of being named '**The Chartered Financial Planners of the Year**'<sup>1</sup> the Personal Finance Society – the body which grants Chartered status to IFA firms and individuals.

Our title demonstrates the excellence, commitment to professionalism, training and development of our people which our clients and professional colleagues have come to expect from us.

We have also recently been awarded **Retirement Planning Firm of the Year**<sup>2</sup> by Bankhall Group, the UK's largest supplier of IFA compliance and support services.

## **Contact us**

If you wish to discuss the content of this brief in more detail please contact Mark directly on 02920 855 245 or e-mail [mark.eedy@thomas-carroll.co.uk](mailto:mark.eedy@thomas-carroll.co.uk)

1 Awarded by the PFS in 2010

2 Awarded by Bankhall Group in 2010

*Tax and legislation are liable to change. This information is based on our current understanding of UK law and HM Revenue & Customs practise and legislation we believe may apply in the future.*

*No guarantees are given regarding the effectiveness of any arrangements entered into on the basis of these comments.*



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