

## Cuts in income for drawdown investors

There was a surge in drawdown business post pension simplification, and this as well as the need to recalculate existing benefits in the second half of 2006 means that a large number of drawdown investors are likely to be facing significant and imminent cuts to their income.

We believe that a large percentage of the UK drawdown book is currently in full drawdown with the investor taking maximum income. The changes to drawdown rules, which came into effect on 6 April, will reduce the maximum income from drawdown plans from 120% of GAD to 100% of GAD. Furthermore the new GAD table shows a reduction of around 5-8% on factors.

However, this is not the only factor which could give rise to falling incomes. The fall in gilt yields and the likelihood that a fund has been eroded due to taking maximum withdrawals could also conspire to give total cuts in income in excess of 30%.

Taking maximum income from drawdown is never likely to be sustainable and most clients facing a cut in income would probably benefit from a reality check on where they are going with their retirement pots, which is where our retirement modelling system can be highly effective.

There are a couple of alternatives to drawdown that a client may consider if they remain adamant about drawing the maximum possible income with little concern for future sustainability. These will be particularly relevant to those who really do have more pension than they need and wish to benefit from IHT planning.

1. 3<sup>rd</sup> Way Products – A number of these products will enable a client to secure higher income than 100% of GAD. For example, the MGM Flexible Income Annuity will allow a client to take 120% of the average annuity rate as income, albeit only 50% of that income level will be guaranteed in the future.
2. Scheme pension is another alternative which could give rise to higher income levels than drawdown and/or annuity. Scheme pension is designed around an individual's circumstances and to maximise income and minimise the residual pension fund on death – not the easiest thing to manage accurately!

Managing clients' expectations and being proactive with advice to clients who are likely to face a cut in income is probably a sensible approach. Alternatives do exist but remember, delivering what a client thinks they want does not always constitute best advice!

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