

Proposed changes to drawdown from April 2011

I have now had the opportunity to study the outpourings from the government and I set out below the key points of the changes:

Flexible Drawdown

This will be available for anyone over 55 with pensions in payment of at least £20k p.a. (the Minimum Income Requirement). There will be no limits on the withdrawals which will, of course be taxed as earned income. Although theoretically someone could take the full fund in cash they are likely to be subject to 50% tax if they do.

There is no requirement to take flexible drawdown just because you have £20k p.a. of pension, but if you do so you will not be able to make any further tax relieved contributions to pension schemes. The £20k MIR includes state pensions (for those over SPA) and also level annuities, which were excluded in the previous draft. The MIR will be reviewed every 5 years.

Capped Drawdown

This will be available for anyone with less than £20k of pensions in payment, and for those with more than £20k who do not opt for Flexible Drawdown. Maximum income will be 100% of GAD. Income will be reviewed triennially (again) except for those over 75 for whom it will be reviewed annually. Income for those over 75 will be based on their actual age and GAD will be publishing tables for those who are 75+.

Existing Cases

Existing drawdown cases will be subject to the new 100% GAD limit from the next review following 6/04/11. So a case set up this year with a 5 year review window will not be affected until 2015, but a case set up in 2006, or one which was converted in 2006 following 'Simplification' will be affected pretty soon. For those taking max GAD this could lead to a big change in their income.

Existing ASP cases will move to capped drawdown at the first review after 6/04/11, which will be pretty soon for all of them as they are already subject to annual reviews. Income limits are likely to increase as not only will they be based on actual age rather than 75, but also they will be 100% of GAD rather than 90%. There will be no minimum income.

One quirk to watch for: on drawdown to drawdown transfer the new limits will apply on the first anniversary of the most recent review. This means that if someone transfers a plan where income commenced in, say, June 2009 to another drawdown plan in May 2011 they will have new limits from June 2011 instead of June 2014.

Death benefits

The tax rate of 55% will apply on death in drawdown after 6 April 2011. The tax is based on the date of death, not the date that benefits are settled.) This rate will also apply to lump sums payable under value protected annuities (if anyone is selling them!).

On death before age 75 and before benefits have commenced the fund can be paid tax free, but note that death after age 75 will be subject to the 55% tax charge regardless of whether income has commenced.

Tax free cash

"Most lump sums" can now be taken after age 75, but NB the effect of the 55% death tax if cash has not been taken by someone who dies over aged 75.

David Trenner
Technical Director
Intelligent Pensions Ltd