Fact Sheet - Retirement Options

Fact Sheet | March 2010

This fact sheet is for information only and does not in any way constitute advice or recommendation. You should consult your financial adviser prior to making any decisions. Its contents are not to be used as legal, financial or tax advice. The tax treatment and tax benefits are based on our understanding of current tax legislation.

There are several retirement options open to you, designed to offer flexibility on how and when you draw your benefits.

It is generally possible to start drawing benefits from a pension fund from age 55, although in certain circumstances and for those with certain professions this may be earlier.

When you purchase an annuity, enter unsecured income or your fund is converted to alternatively secured pension, these are benefit crystallisation events and a lifetime allowance test has to be carried out (please discuss this with your financial adviser). See www.suffolklife.co.uk/pslta.

Pension commencement lump sum

Pension commencement lump sums (PCLS) are paid at the time you designate your fund to unsecured income or purchase an annuity. You can generally take a maximum of 25% of the fund which is paid free of tax.

Annuities

Suffolk Life does not provide annuities. You can use all or part of your pension fund to buy an annuity from an insurance company. In the case of protected rights the whole fund must be used. An annuity provides you with an income for life, but in most cases at the expense of your capital. The facility by which you purchase an annuity is an 'open market option'. Once you have taken advice you can choose a provider for your annuity.

The level of income you can expect to receive will depend on a combination of different factors, including but not limited to your age, health, size of pension fund and interest rates at the time of purchase. You can also choose to ensure that income continues to be paid to your spouse or civil partner and/or dependant(s) in the event of your death.

The Suffolk Life MasterSIPP is divided into 1,000 units, all of which may be crystallised separately. This means that annuities can therefore be purchased in phases for non protected rights, allowing for phased retirement. The funds used to purchase an annuity cannot continue to be invested by you.

Unsecured income

Unsecured income (UI), sometimes referred to as drawdown, is a flexible way of taking income from your pension fund without having to buy an annuity.

Because of the unit structure of the Suffolk Life MasterSIPP, you can take UI from individual units. This allows you to decide when you take your benefits whilst still giving you the choice of how your fund will continue to be invested. Income may be deferred until a later date if you wish to only take your PCLS. For tax efficiency, you can take a target level of income made up of pension income and the tax free PCLS.

You can choose what level of income to take under UI - between nil and 120% of the Government Actuary's Department (GAD) rate. This rate is used to determine the basis amount for calculating the maximum income from UI and ASP funds. '120% GAD' is broadly equivalent to the amount you could expect from an annuity, and this figure is also affected by your age, size of your fund and gilt yields.

UI allows additional options in the event of your death, including but not limited to allowing a spouse or civil partner and/or dependant(s) (for children this is generally up to the age of 23) to continue taking income, or the remaining fund less a 35% tax charge to be paid out to a chosen beneficiary.

Whilst in UI, you can still choose to buy an annuity at any time with all or part of your fund, although all protected rights benefits must be used to purchase an annuity at the same time. UI must cease at age 75.

Alternatively secured pension

This is similar to UI, but it is available only to those over 75 who do not wish to purchase an annuity.

ASP, unlike an annuity, still allows you to retain control over how your funds are invested. However the maximum income (90% GAD) you are able to take will reduce compared to UI, and you must take a minimum amount of income (55% GAD). If you have not taken your PCLS entitlement by age 75, you will lose this right under ASP.

Upon death, as with UI, it is still possible for a financial dependant to continue taking an income. The fund, however, cannot be paid out as a lump sum to a financial dependant. If you have no surviving financial dependants then the fund can either be paid to a registered charity without tax charges or paid to other beneficiaries with significant tax charges.

Whilst in ASP, at any time you can still elect to purchase an annuity if you wish.

Number crunching

1,000	the number of units in a Suffolk Life MasterSIPP
50	the age from which you can commonly start to draw benefits from your pension until 5 April 2010
55	the minimum age you can commonly start to draw benefits from your pension after 6 April 2010
75	the age from which you must either purchase an annuity or enter alternatively secured pension
25%	the maximum amount of PCLS you can normally take out of your pension
23	the maximum age your unsecured pension can pay to a dependent child in the event of your death
35%	the tax charge due when an unsecured income fund is paid out in the form of a lump sum to your spouse, civil partner or any other beneficiary in the event of death
1	the minimum number of financial advisers you should consult before taking a decision!

Jargon busting

GAD	Government Actuary Department
PCLS	pension commencement lump sum, also known as tax free cash
UI	unsecured income
ASP	alternatively secured pension
BCE	benefit crystallisation event
LTA	lifetime allowance
SIPP	self-invested personal pension
A-day	6 April 2006 - the date for 'pension simplification'
FSA	Financial Services Authority - the government appointed regulator for UK financial services firms

	Annuity	Unsecured income	Alternatively secured pension
Minimum age to start	55	55	75
Maximum age	None	75	None
Retain investment control	✗	✓	✓
Available to protected rights	✓	✓	✓
Provided by Suffolk Life	✗	✓	✓
Fund paid out to spouse or civil partner	✗	Option (but 35% tax charge)	✗
Income paid to spouse or civil partner	Option	Option	✓
Pension commencement lump sum	✓	✓	✗

SUFFOLKLIFE
THE INTELLIGENT APPROACH