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Drawdown, the changes and the implications

There has been much talk about the abolition of compulsory annuitisation at age 75, however most bespoke SIPP providers have not enforced compulsory annuitisation since A-day. ASP never had universal appeal, but was used by those not wanting to purchase an annuity and subsequently lock in their capital for good. The draft legislation brings sweeping changes, along with it the risk that those unadvised may slip through the net and do nothing, not necessarily out of choice. There's been some confusion over what is and what isn't possible, as advisers scramble to put their clients in the best position by 6 April. In this Talking Points we set out clear guidelines on what can and cannot be done.

New options – a summary

Unsecured income (pre age 75/77) and Alternatively secured pension (age 75 and over) will cease to exist on the 6 April 2011 and will be replaced by Capped and Flexible Drawdown, both of which are available from age 55 onwards. Capped drawdown is similar to Unsecured income with some minor changes. The maximum income is reducing from 120% of GAD to 100% of GAD, the income reviews will be at more frequent 3 year intervals as opposed to the current 5 year reviews. From age 75 when they will take place every year at which point the tax on lump sum death benefits will also increase, from 35% to 55%

Flexible drawdown really is as the name suggests – no limit on maximum income provided the eligibility requirements are met. To enter flexible drawdown the member must meet the minimum income requirement (MIR), currently set at £20,000 per annum.

For more information on both these options, please refer to our previous [Talking Points](#)

Transfers, income and review dates

A number of questions have been raised on transfers, mainly due to the fact that the new rules state that if someone currently in unsecured income transfers after April 5th, they will be forced onto the new regime at their next review date.

This has led some to believe that transfers that happen before 5 April will therefore secure a new review and a subsequent 5 more years on recalculated but old income limits (120% vs 100%).

Unfortunately, this is not the case – income limits for the remainder of the 5 year period will continue unchanged following the transfer. The ceding scheme must provide the information to the new scheme so income limits are not breached. ([RPSM14106040](#))

Additional designations, annuity purchases and pension sharing

Phased drawdown has been a concern for many advisers, as there have been discussions that further designations would force individuals into the new regime, or at least the new 100% limit. Suffolk Life has received verbal confirmation from HMRC that, provided the investor is within their 5 year review period then, the 120% limit will continue to apply on additional designations, annuity purchases and pension sharing recalculations for the remainder of that period. This is not explicitly mentioned in the legislation.

Changes to the GAD tables

Along with the changes to the actual calculations using the GAD tables, the tables themselves are due to be updated to take account of a number of things including better mortality assumptions, more akin to those used by annuity providers. This is likely to see a slight reduction in the rates themselves and hence an additional blow to those wishing to take the maximum from their pensions each year. Again, we have been verbally advised by HMRC that there is likely to be an interim period (of just a couple of months) where both sets of GAD tables are in use, so calculations may differ from provider to provider depending on whether or not they have updated their systems with the new rates.

Nearing retirement and tax on death

Some investors will be considering their options and deciding if they want to start to take benefits – immediate action is clearly required if they want to draw the maximum out of their SIPP's in the next 5 years.

There are additional considerations for tax upon death. If the investor is leaving their SIPP to continue to provide an income for their spouse then it is not so much of an issue, but with crystallised lump sum death benefits attracting a 55% tax charge, they may not wish to crystallise all their funds in one go.

Our view

Taking income from a SIPP will always require close attention to detail, and this period running up to the end of the tax year is no exception. Mistakes could lead to unauthorised payment charges being levied for drawing excessive income, and both advisers and providers will need to keep on their toes, especially for the more complex cases. If advisers ever needed a good reason to speak to their clients, now is the time.

