

# Talking Points

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## Dear Test

In this Talking Points:

### Flexible Drawdown: now the dust has settled and the Finance Bill is law

When Flexible Drawdown was announced there were two very different reactions: many saw this as a valuable additional option, whilst some (concerned about pension funds being emptied) almost demonised the idea.

The reality today differs quite dramatically from some of the speculation. At the time of writing several dozen Suffolk Life investors have entered flexible drawdown, but only one investor has completely withdrawn their fund.

Demand is strong though, and advisers are now preparing their investors ready to take advantage of Flexible Drawdown in the 2012/13 tax year.

#### What you need to do to get ready?

We may be 9 months away from the next tax year, but it will pay to prepare early to get your clients ready for Flexible Drawdown as there are important actions to take and points to consider:

Stop contributing. If your client makes a contribution they won't be able to enter Flexible Drawdown in the same tax year. You'll need to ensure they stop before 6 April 2012.

Evidence their income how much and when. To qualify for Flexible Drawdown your client will have to be in receipt of £20,000 or more (acceptable sources of income are listed below) within the 2012/13 tax year.

#### How is Flexible Drawdown being used now?

The short answer is as it was probably intended. Over 90% of our flexible drawdown investors are taking income within the limits of Capped Drawdown. Translate the same percentages to your own clients and at present you could probably expect a handful to be ready for flexible drawdown, but many more that you could be getting ready for it.

#### Reducing costs

One of the main reasons investors are using Flexible Drawdown is to reduce costs. Most providers generally charge for triennial reviews and with limit-free flexible drawdown these reviews do not apply. It is particularly useful when clients have multiple tranches of income, either from pre and post A-day or just because they originally had multiple schemes.

#### Death benefits

Phasing into Flexible Drawdown allows the client to keep the majority of their fund uncrystallised and therefore not subject to the 55% tax charge on death (provided they are under age 75 of course).

The client / adviser decides on how much income will be required and then designates that amount into Flexible Drawdown, taking the crystallised part either immediately or throughout the year. A provider may well charge for each crystallisation however these charges could be dwarfed by the potential taxes levied on the fund on death if fully crystallised.

Suffolk Life allows you to illustrate variable income for your client right up to the chosen annuity conversion age [try now for yourself on our website.](#)

#### Minimum Income Requirement [some changes](#)

Some late (and in our view sensible) clarifications have been made to the list of acceptable income sources to meet the MIR. These can now be confirmed as:

- State pension
- Lifetime annuity (RPI-linked or variable provided they can not decrease are now allowed)
- Defined contribution scheme pension, even if the scheme has less than 20 pensionable members provided the income is secured by an annuity contract
- Overseas pensions that are equivalent to the above

#### Conclusions

For those clients in receipt of the MIR of £20,000 or more who have no need to make any further contributions, Flexible Drawdown presents a compelling solution one that is likely to be increasingly recommended from 2012/13 onwards.

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The value of your client's pension fund is not guaranteed and can go down as well as up.

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