

## Private Client eNews – 21 June 2006

### Speculate & De-cumulate

The traditional belief is that there are two distinct phases in pension planning – the accumulation phase when the fund is building up, and the 'de-cumulation' phase when the benefits are being drawn down.

However, for all but the fortunate minority with final salary pensions, increasing longevity has made it difficult to ensure that pension savings will be sufficient to meet retirement needs, and the problem has been exacerbated by the low levels of return currently available from annuities.

It is against this background that the simplified tax regime for pensions introduced by the Government in 2006 provided opportunities which assist retirees to manage the transition from accumulation to 'de-cumulation', by treating retirement as a *process* rather than an *event*.

The Government provided the precedent by announcing its plan to increase the State retirement age and to reward those who delay drawing their State pension. In the same way, it makes sense for a number of reasons for holders of private pension funds to delay committing their funds to annuity purchase for as long as possible.

One way of doing this is phased retirement, whereby instead of committing the whole of a personal pension fund to annuity purchase, the fund is realised progressively over a period of years. 75% of each segment is applied to purchase an annuity and 25% is drawn in the form of tax-free cash, to supplement the annuity income.

This enables the pension holder to take advantage of any improvements in annuity rates which may result from increases in interest rates. In addition, the longer the annuity decision is deferred, the clearer it becomes whether expensive options such as guaranteed minimum payment periods and spouses' benefits are required.

Phased retirement, however, has not proved popular, and a simpler approach is to convert the pension plan to Unsecured Pension ('USP'), which enables the holder after the age of 50 (increasing in 2010 to 55) to draw the permitted 25% of the then value of the plan in the form of tax-free cash to cover income needs, while maintaining the remainder of the value of the plan as an on-going tax-efficient savings medium.

If you have any queries you can phone or email Glenn Smyth or Rod Smith on [glennsmyth@boltburdon.co.uk](mailto:glennsmyth@boltburdon.co.uk) or [rodsmyth@boltburdon.co.uk](mailto:rodsmyth@boltburdon.co.uk) or phone 020 7288 4700. Our full range of services includes Financial Planning, Trusts Wills & Probate, Property, Matrimonial and Family Law, Commercial Law, Commercial Dispute Resolution, Debt Collection, Compensation Claim Litigation. Visit our web site at [www.boltburdon.co.uk](http://www.boltburdon.co.uk). To stop receiving this bulletin, reply stating 'unsubscribe'.