

## Private Client eNews – 13 July 2007

### Reaching the watershed

The decision to purchase an annuity can be staved-off until the age of 75, when the Government insists that personal pension funds must either be applied to purchase an annuity or be converted to a variant of income drawdown known as Alternatively Secured Pension ('ASP').

Both income drawdown and ASP permit income to be drawn from the fund, within limits which are higher for income drawdown than ASP. However, the main differences relate to death benefits. Under income drawdown, a lump sum death benefit is available on the death of the pension owner, but under ASP the benefits must be applied to provide pension benefits for dependants; and if there are no dependants, payments from the plan (except payments to charities) are subject to both Inheritance Tax and 'unauthorised payment' and other charges, resulting in a total tax bill of 82%!

There are, therefore, two clear courses open to pension investors at age 75:

- Those with smaller pension funds and those whose primary concern is security of income for themselves and their spouses or civil partners and who wish to minimise risk are likely to elect to purchase one or more annuities at age 75.
- Those for whom security of income is not paramount and who feel comfortable with the riskier and administratively more complicated option of ASP may choose this option in order to be able to defer annuity purchase until rates might improve or personal circumstances might change, while also enjoying the benefit of being able to vary the income withdrawals and possibly also improve on the benefits available from annuities through superior investment performance. One ASP variant is what the Americans call '5 for life' products, which mimic annuities by guaranteeing that income levels will be maintained (up to the prescribed limit) even if capital values should fall.

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 [rodsmith@boltburdon.co.uk](mailto:rodsmith@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'.