

Private Client Enews – 14 June 2006

Decisions, decisions!

A previous e-newsletter described how the traditional pension annuity has had to make room for other forms of pension income, particularly income withdrawals from SIPP pension funds. The correct term is the *Unsecured Pension route*. Though income withdrawals can continue indefinitely the current rules provide that important changes must occur at age 75. At this age the *Alternatively Secured Pension* will become a consideration.

This is similar to Unsecured Pension, but with two major disadvantages: the income which can be drawn is lower; and on death the fund (which cannot be drawn as a lump sum) is subject to inheritance tax unless it is applied to provide pension benefits to surviving spouse or dependants or is gifted to charity. Of course the traditional fixed income annuity route also remains an option and, for many, annuity rates at age 75 will look a better prospect than investment returns in most years.

Previous complicated limits on pension contributions have been removed and replaced by a system which permits tax relief on contributions up to 100% of salary subject to a maximum of (initially) £215,000 p.a., with more allowed in the final year before retirement.

It continues to be the case that anyone (even a child) can contribute £2,808 a year to a pension plan and have this topped-up to £3,600 by the Government, whether or not they are earning. Contributions can be made from any source (*though the line has been drawn at the practice of applying tax-free cash from one pension plan to make contributions to another, and thereby receiving a double dollop of tax relief*).

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