# From 6th April 2006, the new pension rules will offer more options, and increased flexibility, for individuals taking their pension benefits.

## Options at Retirement: Key Facts

- **Unsecured Pension**

  Similar to existing pension fund withdrawal, this option will allow you to take a tax free cash sum, where available, and thereafter either draw an income from your pension savings, or use part of these savings to purchase a series of short-term annuities.

  Unsecured pension options are subject to Government limits on the maximum income that may be taken, however, no minimum income requirements will apply.

  Unsecured Pension options are only available up to age 75.

- **Lifetime Annuity (also referred to as a Secured Pension)**

  This will allow you to purchase an annuity from your pension savings in much the same way as is possible at present, although the range of available products may increase. It is expected that this option will include conventional annuities, both level and those that increase in payment, investment-linked annuities, and specially enhanced annuities. Options such as dependant's provision and guarantee options will continue to be available, whilst a new value protection' option may allow a lump sum to be paid out or death before age 75.

- **Alternatively Secured Pension (ASP)**

  Designed for individuals wishing to avoid purchasing an annuity with their pension savings, ASP is essentially a form of pension fund withdrawal. Government rules will limit the maximum income that may be taker, although no minimum income requirements will apply. ASP will only be available from age 75.

- **Phased Retirement**

  This option remains unchanged, and could allow you to take your pension benefits at different dates, perhaps whilst continuing in employment. Benefits may be taken as Unsecured or Secured Pension, but all benefits must be taken by age 75.

# Options at Retirement: Questions & Answers

**Q: If I decide to opt for alternatively secured pension at age 75, can I switch to another form of pension at some time in the future?**

**A:** Once you commence alternatively secured pension, you will normally have the opportunity to purchase a lifetime annuity at any time. You are unable to revert to an unsecured pension, as this is not available after age 76.

**Q: I am aware that any pension payments I receive will be assessable to tax. Once I begin to receive my pension benefits, how will the tax he paid?**

**A:** Pay As You Earn (PAYE) will be in operation for almost all pensions in payment on or after 6th April 2006. This means that your pension provider will deduct the appropriate amount of tax before paying your pension income to you. The exception is Retirement Annuity Contracts (S.226). PAYE will not apply to these contracts until 6th April 2007. Until then, your pension provider will normally deduct income tax at the basic rate. Non and starting rate payers will normally be entitled to a refund of tax, whilst higher rate taxpayers will have a further liability, payable via self assessment. Non taxpayers can request that their local inspector of taxes instruct their pension provider to pay their pension income gross.

**OPTIONS AT RETIREMENT: CASE STUDY**

Helen is 55 in May 2005, at which time she opts for unsecured pension. She uses the tax-free cash sum and the first year's income (taken in advance) to make up a shortfall on her mortgage endowment policy. From age 56, she opts for the minimum unsecured pension income (£0 a year), because she is still in full time employment, and does not require additional income.

At age 60, Helen retires and continues in unsecured pension, with no income being taken. A year later, she reads that there is a possibility that the stock market will fall significantly in the short term. As a result, she decides to use part of her income from her unsecured pension to purchase a short term annuity contract. She leaves the remaining fund invested, but decides to also take the maximum income allowed from that fund.

When the temporary annuity expires at age 66, Helen opts to continue to take an unsecured pension. At age 70, she begins to buy annuities on a phased basis, aiming to reduce the investment and annuity rate risks. By age 75, all her income is provided by secure pension.

## Important Information

Please note that the information provided in this document is based on Stirling House Financial Services' understanding of existing and proposed legislation and HMRC practice, all of which may be subject to change in the future. The information is based on the assumption that tax legislation is not changed.