

The Age 75 Question

Shadow Chancellor George Osborne has indicated that a future Conservative Government would do away with the requirement that pension funds must be 'secured' before age 75 – which for most people means committing 75% of the funds to annuity purchase.

The concern which originally prompted the age 75 rule was that if investors were permitted to draw all the funds in cash, they might blow the money and look to the State to support them. The Conservative thinking is that provided a sufficient proportion of the pension fund is applied to providing an adequate annuity income, the balance should be available for expenditure or other investment.

However, the age 75 rule was introduced over half a century ago, when the period of life expectancy after retirement was much shorter – a fact which is underlined by the announced increase in the State retirement age. Pension savers are therefore currently being required to exchange capital for annuity income which could last for many years, at a time when annuity rates are at historically low levels.

The Conservatives' announcement means that retirees now have an additional reason for delaying the decision to cash in their pension chips.

Family SIPPs Live Again

For larger personal pension funds, Self-Invested Personal Pensions ('SIPPs') have provided an alternative to age 75 annuitisation, in the form of Alternatively Secured Pension ('ASP'), whereby the fund is maintained and a pension income is drawn from the investments.

When ASP was introduced in 2006, as part of what the Government laughingly called 'pensions simplification', experts realised that it would be possible to transfer pension fund assets to family members by setting up 'family SIPPs'. However, the Government quickly moved to close what it regarded as a loophole and imposed draconian tax amounting to 82% on the death of SIPP investors who had failed to annuitise by the age of 75.

Nevertheless, some of the advantages of family SIPPs can now be achieved in a way which appears not to be objectionable to the Government. This involves an arrangement known as 'scheme pension', whereby funds contributed to a SIPP by or on behalf of different members are pooled in the same way as within an occupational pension scheme.

This enables the trustees to avoid the restrictive limits on pension payments which usually apply under ASP and instead to make payments based on the scheme actuary's view of what the scheme can afford to pay, having regard to the age, health and number of members.

Scheme pension arrangements can also facilitate the purchase and ownership of property occupied by a family business, because the ability of the scheme trustees to allocate funds according to income needs, rather than contributions, enables them to allocate the major proportion of property holdings within the scheme to the younger members, thereby permitting property to be maintained as a scheme asset of the business from one generation to the next.

Gifts out of Income

The economic downturn has made many people reluctant to pursue schemes for minimising inheritance tax by gifting capital and has highlighted the attractions of making gifts out of surplus income. If these are made on a regular basis they are exempt from inheritance tax. This exemption is in addition to the £3,000 'annual exemption'.

The sums gifted might suitably be applied to fund a life policy, written in trust, which would produce a tax-free capital sum on the death of the donor. This could be appropriate if the donor had a significant potential IHT liability and was insurable.

Alternatively, the gifts could be invested in a savings vehicle such as a Child Trust Fund or a savings account written in trust.

Two or three payments will usually suffice to establish a pattern of regularity. The payments need not be of a fixed duration and the gifts can be of varying amounts (e.g. "whatever is left over after paying out normal expenditure costs"). Furthermore the donee of each payment need not be the same person.



To qualify for the tax exemption, it is important for the donor to keep a record of income and expenditures; and it will help executors if a copy of this record is kept with the copy Will.

Structured Products Revisited

There are mixed views about 'structured' investment products, which aim to produce a fixed level of income or a fixed gain over a given period of years by the use of financial instruments. However, the better view seems to be that such products can have a valid part to play in portfolio planning, provided that they are selected with care.

A major factor is the prospects for investment markets. If markets are subdued, the prospect of a 50% gain and a restricted loss on a structured product could look attractive. Other key factors are the level of charges and the financial stability of the institution which underwrites the issue.

Structured products should not be ignored and can provide a suitable complement to mainstream investments, but they should only ever form part of a portfolio. A Financial Services Authority consultation paper has said "We would expect that if a structured investment product would best meet a client's needs and risk profile, then an independent financial adviser should have sufficient knowledge of these products to be able to recognise this and make a recommendation to buy this product."

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