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Finance Bill could bring boost for big savers

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From April 2011, new annuity rules are going to mean a boost for those with higher pension savings, with the implementation of the 2011 Finance Bill.

Increased flexibility in how a policy holder manages his or her savings upon retirement will come into play with the advent if the Bill.

In the past, the 75th birthday – changing to the 77th on the same date that the Bill comes into force – has been the legislator-imposed deadline for buying an annuity from a life insurance company.

Under the new legislation, anybody who can show they already have a pension income of at least £20,000 per year, from such sources as state and company pension plans, will be able to draw more down from their personal pots.

Some people will find they do not need an annuity at all, and will simply draw down from their pension savings.

The relaxing of annuity rules means savers who meet the £20,000 threshold will be able to withdraw any additional personal pension fund money in one move.

In essence, it sounds great that these changes are going to happen. However, it would be an unwise person who chooses to take advantage of some of the things they offer without significant consideration and professional financial advice.

There are, as always in matters of finance, pitfalls which need to be avoided.

For example, there could well be tax owed when savings are drawn down, meaning the simple maths of taking lump X from pension pot Y does not necessarily mean that the remaining sum will be the difference between the two.

The Government also intends to increase the tax rate, from 35 per cent to 55 per cent, on any lump sum left over to inheritors from the pension pot when the policy holder dies.

As great as increased flexibility sounds, and can be, this isn’t the end of the annuity as we know it. Indeed, for many, this will be far from the case. Most people have modest pensions and it is expected that they will continue to take heart from a guaranteed income for life and continue in the present manner.

However, for those with large pension funds and other sources of income, the enhanced flexibility that the Finance Bill offers will be very appealing and ultimately more rewarding.

Options will include the drawing down of funds, as described above, and even continued investment.

It is these better off pensioners who will benefit from the changes, due to the minimum income requirement rule, stopping those who would wipe out their pensions and become dependent upon the State.

It is anticipated that an initial 50,000 people could initially benefit from the rules, with a further 12,000 a year expected to follow.

Those not meeting the £20,000 per annum figure would still be allowed to cash in some of their pension pot, but only up to the amount that their annuity would have paid them.

The divide in the flexibility afforded to those with higher and lower value pensions is there for a reason. It is to tackle the fact that too many people are saving too little.

In the current climate, there will still be people who are unable to increase their savings, but for those who can, the incentive of a greater freedom in later life is certainly one that will appeal.

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