

## Are You Heading for the Pensions Crunch?

Approaching 75 and looking forward to the straight jacket of an Alternatively Secured Pension (ASP) and a reduction in your maximum pension? Or, perhaps you are already in receipt of an ASP and are looking for a more flexible alternative.

Unfortunately, ASP is the only choice members of conventional SPPs and most insured personal pension plans have in preference to buying an annuity.

The amount of ASP is calculated by reference to the Government Actuary's Department Rates (The GAD Rates). The maximum ASP is 90% of the GAD Rate for a 75 year old. Furthermore, as you get older your pension stays at the rate for a 75 year old and does not change unless the GAD Rates applicable to a 75 year old alter.

Those under 75 can choose an Unsecured Pension (USP) and the maximum is 120% of the GAD Rate. Therefore, for those already drawing the maximum USP, the compulsory switch to ASP at 75 will mean a drop in income of 25%. For many the only alternative is to buy an annuity.

Let us look at an example. A male member with no dependants is approaching his 75th birthday. His USP was formally reviewed on his 74th birthday when he had an Unsecured Pension fund of £300,000. Based on the GAD Rates applicable to a 74 year old male he was entitled to a maximum USP of £34,560 p.a.

On attainment of age 75 his fund, after allowing for the payment of one year's USP and fund growth of 6% is worth £ 281,366. Under a conventional SPP arrangement, his options are:

- To elect for an Alternatively Secured Pension of £25,323 p.a.
- To purchase a Lifetime Annuity, for example
  - A level annuity of £30,013 p.a.
  - An annuity guaranteed for 10 years of £27,236 p.a.

Whichever of the above options is selected the member will suffer a significant fall in his pension income, not a particularly attractive result.

Members of conventional SPPs are at a disadvantage in the choice of pension benefits available to them on attaining and prior to age 75 when compared to the members of Small-Self Administered Schemes and certain special types of SPPs, who may have access to a Scheme Pension.

Scheme Pensions are calculated by an Actuary and not by reference to the GAD Rates and although the Actuary will take into account similar factors that determine the GAD Rates there is considerably more flexibility in determining the level of Scheme Pension.

When an ASP is reviewed (and it has to be reviewed annually), no matter what age the member has reached the level of pension he receives is determined by reference to the GAD Rates for a 75 year old. Therefore, unless annuity rates have changed generally and the growth in the Alternatively Secured Pension Fund exceeds the return required to pay the ASP the member will not receive any increase in pension. By contrast, when a Scheme Pension is reviewed the Actuary can take account of the actual annuity rates for the age the member has reached and thus all other things being equal his pension should increase. Furthermore, the health of the member can be taken into account and higher pensions awarded to those with impaired lives.

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Recognising the lack of choice that members of conventional SIPPs have, Taylor Patterson is introducing the Taylor Patterson Personal Retirement Plan with all the features of a conventional SIPP but with the added benefit of offering a Scheme Pension.

In the example given above, if that member had a Personal Retirement Plan he could have a choice of:

- A level Scheme Pension of £32,232
- A Scheme Pension guaranteed for 10 years of £29,959

A further advantage of the Taylor Patterson Personal Retirement Plan is that should the member choose a Scheme Pension with a 10 year guarantee and die before the end of the guarantee period, the remaining pension can be paid under the discretion of the trustees to any person nominated by the member. The remaining payments will be subject to income tax but not inheritance tax.

The Personal Retirement Plan is the ideal vehicle for those who have accumulated sizeable pension funds in conventional SIPPs or other personal pensions and who require the investment flexibility of a SIPP but at the same time would like access either now or in the future to a Scheme Pension. Taylor Patterson believe it will be the preferred choice of many already subject to the straight jacket of an Alternatively Secured Pension and those approaching age 75 and facing the choice between an Alternatively Secured Pension and buying an annuity.

Further details of the Personal Retirement Plan will be published shortly on the Taylor Patterson SIPP-SSAS Division website at <http://www.taypat.co.uk/sipps/> or call David Bradbury on 01772 555073.