

Pensions Update

Asps may still bite

Our intention is to distribute notes such as these when a matter needs urgent comment and we believe it has not been well covered in the mainstream media. Just now it seems that this criterion is satisfied on an almost weekly basis. Will trusts, stock market volatility, accumulation and maintenance trusts and so on.

No matter. Pensions and ASP are the subject of this update. This will be relevant for anyone with a money purchase pension plan who has not yet purchased an annuity.



Alternatively Secured Pensions have been on the Revenue's agenda since 2004. Before 6 April 2006 pension scheme members of money purchase arrangements were forced to purchase an annuity by the age of 75 at the latest. From 6 April onwards clients have been able to select a new option at 75 known as Alternatively Secured Pension (ASP). This is really a form of income drawdown. Income drawdown pre 75 has been available for many years.

The key advantage of ASP for many clients is that if their withdrawals (pension payments) from the fund are not too great, the remaining fund can be left to heirs or heirs' pension funds. Many clients find this an attractive concept by comparison with the purchase of a conventional annuity.

We have discussed this concept with many clients and contacts – subject to a host of conditions, undrawn pension funds are inheritable – they can be passed to another pension fund rather than swallowed by an insurance company. This facility has been widely discussed in the professional journals for two years.



But on 4 July in Parliament Ed Balls stated that ASP should only be used in the "...specific and narrow case of individuals with such principled religious objections...." who believe that the purchase of annuities represent gambling or the receipt of interest and therefore may be incompatible with their religious beliefs.

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This is serious stuff. Many clients are looking forward to not purchasing an annuity at 75. It seems the government is concerned about a loss of tax revenue. This is not the whole story. At the margin our clients will suffer 40% income tax on withdrawals from the pension whether it be by annuity or drawdown. On death if an annuity has been purchased the income payments so far received will be liable to 40% inheritance tax at the margin but if ASP has been used the fund will suffer a 40% charge as it passes to the next generation's pension fund.

So where is the loss? The potential deferment arises if clients take small withdrawals while in ASP. But this means more to inherit and a bigger tax take on death. So there is a minor deferment problem for the Revenue.

Most commentators including lawyers believe it would be impossible / very difficult / madness to make a pension facility only available to a group with particular religious beliefs. Many pension providers have launched ASP facilities and I presume that many individuals with 75th birthdays that occurred after 6 April 2006 are now enjoying ASP. At the time of writing not one pension provider has withdrawn or altered their ASP product.

Conclusion

There is more to come on this. Budget Note 26 does make reference to ASP being "specifically designed for those...with a religious objection". But how does this sit with human rights – can tax legislation and advantage only be available to certain religious groups? Expect some more debate and some ill informed weekend newspaper commentary.

We cannot advise unequivocally – perhaps a court case is needed. As long as the ASP facility exists we will have clients that wish to use this facility and we will continue to assist them in doing so. While our clients may not object to purchasing an annuity on religious grounds, many of them object very strongly on moral grounds.

BS
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P.S. Who remembers Equitable Life's "Managed Annuity" which was launched before income drawdown legislation existed? Bottle of Bubbly for the first to recount the short initial history of this product!

If you would like a fresh perspective on your financial position from genuinely independent professionals please contact Ben Sherwood on 01442 220713 or email ben.sherwood@hllp.co.uk

For more information on any of the issues raised your current Hillier Hopkins contact will be happy to assist you. Alternatively, please call us on 01442 220788 to speak to one of our advisers. Hillier Hopkins LLP are registered to carry on audit work by the Institute of Chartered Accountants in England & Wales and authorised and regulated by the Financial Services Authority.

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