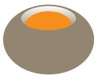

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Annuities

The rules for annuities (from April 2015)

- Annuity income can go down as well as up, as long as it is specified at outset.
- Lump sums may be taken from the annuity. The reason for taking the lump sum has to be specified at outset – for example the lump sum will be paid out when the annuitant is admitted into care.
- The guarantee period can be of any length (there is no maximum length).
- Joint-life annuities can be paid to any nominated individual when the main annuitant dies (there are no restrictions on who the dependant can be).

Although these new rules were introduced with effect from April 2015, there have been very few, if any, annuity providers to offer the new-type 'flexible annuities'. It remains to be seen if these options will grow in popularity or not.

If you only read one thing read this

- Longer guarantee periods and lower tax on benefits, means clients (and their families) will be more likely to be able to achieve a return of their original money on death of the annuitant.
- With clients' desire to have some guaranteed income, it's likely annuities will still play a part in retirement income planning, especially for clients with smaller fund sizes. They may consider buying an annuity with a proportion of the funds or buying an annuity at an older age.
- Trustees and pension providers can choose whether to offer these new flexibilities.

Contributions

Clients who are taking annuity income are still allowed to pay pension contributions up to the annual allowance. In other words the money purchase annual allowance (MPAA) is generally not triggered. However, some contracts that allow a decrease in income – 'flexible annuity contracts' (see above) – may invoke the MPAA.

Death benefits

There is no maximum length for a guaranteed period, and instead annuity instalments can be paid out after the member's death for any defined period. If the value of the remaining annuity instalments under the guarantee is £30,000 or less, then they may be commuted and paid as a lump sum instead.

For annuities set up on a joint life or guaranteed term basis, if the annuitant dies before age 75 the beneficiary will receive the annuity payments tax free. But if the annuitant is over age 75 when they die, then the instalments will be taxed at the beneficiary's marginal rate. Joint-life annuities can also be paid to any beneficiary the member chooses – it does not have to be a dependant.

Any value protection lump sum will also be tax free if the annuitant dies before age 75, and taxed at the beneficiary's marginal rate if the annuitant was over age 75 at the date of death. If the lump sum is paid to a trust there will be a 45% tax charge.

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