

Income Drawdown (now known as Unsecured Pension (USP)) is a retirement vehicle which will allow you to determine the level of income to be generated from the fund (subject to a maximum amount permissible under current legislation), whilst also providing immediate access to the maximum pension commencement lump sum (tax free cash) at outset (normally 25%), as well as flexibility of income in future years, should your circumstances change. This is the true alternative to purchasing an annuity and gives you the control over death benefits, income and how your money is run.

We would only consider this type of contract as suitable for individuals who are prepared to accept at least a medium risk investment profile for their pension funds.

Under current legislation and for the first five years following commencement of the Drawdown contract, the maximum income boundary is set and this is typically higher than the standard annuity option as it is based on 120% of what is known as GAD (Government Actuary Department) rates. This is then reset for a further 5 years at that point (age 75 being the maximum age) based on the prevailing annuity rates and fund value. There is no minimum income and so you can choose not to take an income if required. You can opt to increase, decrease or cease your initial level of income within these boundaries at any time.

With regard to death benefit options within Income Drawdown, your Dependants / beneficiaries would have the following options to choose from, subject to HMRC limits;

- Taking the prevailing value of the fund on your death as a lump sum (minus a one-off 35% tax charge) applicable to non-Protected Rights element only, if married, or;
- Purchasing an Annuity (this can be deferred until age 60 if required), or;
- Continuing with Income Drawdown based on their life, until their 75th birthday, when an annuity or Alternatively Secured Pension must be bought with the remaining fund;
- If you have no financial Dependants, the remaining fund, subject to a 35% tax charge, can be paid as a lump sum to your nominated beneficiary.

The risks to drawdown are clearly around the performance of the underlying funds your level of income draw and should this falter and the fund value not keep up with the annuity alternative, a lower income may result at the point of the final conversion to annuity or at the 5 year review.