CHOICES: Hazel Brown . . . you no longer need to convert your pension fund to an annuity by age 75

Ways to minimise QE's pension impact

Retirement income: More flexibility available

BY HAZEL BROWN

Quantitative easing, where the Bank of England buys government bonds (gilts) from banks and financial institutions to help pump money into the economy, has had a devastating effect on pension incomes.

This is because the income from gilts has been driven down and this rate governs annuity rates.

Conventional annuities are the traditional vehicle used to provide an income from a pension fund and rates have fallen by as much as 25%. Fortunately there are things you can do to minimise the impact, including:

- Taking maximum tax-free cash – personal pension funds normally allow you to withdraw 25% of the value of the fund as tax-free cash. Some types of pension scheme allow even higher rates of tax-free cash and this must be checked before benefits are drawn.

There are no restrictions on how you use the money once it is out of the fund and in your hands.

A benefit of taking maximum cash is that it will reduce the amount of taxable income the pension generates. This could drop you into a lower rate of tax.

Additionally, the over-65s can qualify for an additional tax allowance provided total income is under £24,000 annually.

- Enhanced lifetime annuities – for anyone considering purchasing a lifetime annuity, it is important to consider any medical conditions or lifestyle choices. Enhanced or impaired-life annuities allow for more than 1,500 conditions including smoking, high blood pressure or high cholesterol plus heart conditions and cancers. The enhancements could increase income by up to 20% and therefore go a long way to counter the negative effect of quantitative easing on pension incomes.
- Temporary annuity – if you are in good health now, temporary annuities allow you the chance to defer "locking in" to current annuity rates now for the rest of your life. Temporary annuities offer a guaranteed temporary income (typically from 5-10 years) and provide a guaranteed maturity value at the end of the term. This can then be used to buy an annuity at a time when, being older, life events and your health may make it easier to make the right decisions.
- Income drawdown (capped) – since last April, you no longer need to convert your pension fund to an annuity by age 75. You can leave the funds invested and simply draw down an income subject to a cap. This means you can vary the amount of income drawn to suit your tax position and you are not locked in to an annuity.
- Flexible drawdown – flexible drawdown allows you to draw your entire pension fund in cash – there is no requirement to buy an annuity, so the QE impact can be avoided altogether. The catch is that to qualify you must already have in place a guaranteed income of £20,000 a year and you must still pay tax on the withdrawal as if it were income.

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