
UK pensioners brace for new retirement drawdown rules

By Editor Test *Wed, Dec 8, 2010*

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The UK pensions industry waits in suspense this week for the publication of a new set of annuitization and drawdown rules. Any changes could immediately affect the 12 million people who hold a “money purchase pension,” the British version of a 401(k) plan.

Retirees will probably be allowed to spend their savings at the rate they wish as long as they can demonstrate that they have enough guaranteed income from state pensions, private pensions, and annuities to keep themselves from needing public support in retirement.

That is, they would be eligible for this method, called “flexible drawdown,” if they could assure the government that they could provide themselves a lifetime income of at least £10,000-£15,000 a year, the equivalent of \$15,800 to \$23,600 at current rates.

Those with less savings would be required to ration their savings to some extent in retirement, in a process known as “capped drawdown.” At age 75, they would have to purchase a life annuity with their remaining tax-deferred savings, as they would have in the past.

The British Treasury has proposed a new flat rate estate tax of 55%, instead of the current 82% for those dying after their 75th birthday and 35% for those younger than 75. These changes were scheduled to go into effect in April 2011 under the Treasury’s original proposals, but some insurance companies have been lobbying for a delay, arguing that they would be unable to update their systems in time.

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