THE IPS PARTNERSHIP

GUIDANCE NOTES
RETIREMENT AND DEATH BENEFIT PAYMENTS FROM IPS SELF-INVESTED MONEY PURCHASE PENSION SCHEMES

Contents: **Page Number:**

Introduction 2

At a glance 2

- Tax free lump sum
- Pension Options

Benefit Limits 3

- Pension Age
- The Lifetime Allowance
- Pension Protection

Tax Free Lump Sums 6

Annuity Purchase 6

Unsecured Pension 8

Alternatively Secured Pension 9

Scheme Pension 10

Phased Retirement 12

Pension Payroll 13

Risk, Mortality Drag and Critical Yield 14

Investment Strategy 14

Additional Features 15

- Ill Health Early Retirement
- Serious Ill Health Lump Sums
- Trivial Lump Sum Benefits
- In-Specie Payments
- Tax Free Lump Sum Recycling
- Statutory Cancellation Period
- Definition of Dependant

Death Benefits 17

1. Death Before Drawing Retirement Benefits
2. Death After Drawing Retirement Benefits – Pre Age 75
3. Death After Drawing Retirement Benefits – Post Age 75
4. Bypass Trusts

Case Studies and Summary Diagrams 21

Fees 24

INTRODUCTION

The pension schemes we operate at IPS are known as "Money Purchase" or "Defined Contribution". This means that the level of benefits payable on retirement or death is not fixed or guaranteed, but is dependent on the amount of funds available for you when you retire or die and on the factors used to calculate the level of benefits payable from these funds. There are a number of different options available and you are able to choose which is best for you.

We will write to you between four and six months before your intended retirement age or, if you have not given us proposed retirement date, before State Retirement Age. At this point we will remind you of your retirement options and the value of your pension plan with us. It is important to stress that you do not have to draw your retirement benefits from your IPS pension arrangement and are free to shop around for the best deal to suit you. This is known as the "Open Market Option".

Please note that we do not give financial advice on which benefit options are most suitable for you and we strongly recommend that you obtain independent financial advice. If you do not already have an independent Financial Adviser, information can be obtained from www.unbiased.co.uk, or telephone 0800 085 3250.

We offer an illustration facility via our website: www.ipspartnership.co.uk for Financial Advisers to produce illustrations to assist in advising you on your options.

AT A GLANCE

Benefit options consist of a tax free lump sum payable on commencing retirement benefits and a pension payable from the balance of your fund. Your pension income is subject to income tax but not National Insurance. Commencing retirement benefits is known as "Benefit Crystallisation". The following table summarises the four pension options, available to you.

TAX FREE PENSION COMMENCEMENT LUMP SUM

Up to 25% of your accumulated fund at retirement can be paid to you as a tax free lump sum.

PENSION OPTIONS

	Conventional Annuity – your fund is given to an insurance company who pay your pension from then on.	**Unsecured Pension (USP)** – your fund is held by your IPS arrangement and the pension paid from there.	**Alternatively Secured Pension (ASP)** – your fund is held by your IPS arrangement and the pension paid from there.	**Scheme Pension** – your fund is held by your IPS arrangement and the pension paid from there.
IPS product from which this option is available	a) IPS SIPP b) IPS 2008 SIPP c) IPS Pension Builder SIPP d) IPS SSAS e) IPS Corporate SIPP f) IPS Family SIPP	a) IPS SIPP b) IPS 2008 SIPP c) IPS Pension Builder SIPP d) IPS SSAS e) IPS Corporate SIPP f) IPS Family SIPP	a) IPS SIPP b)IPS 2008 SIPP c) IPS Pension Builder SIPP d) IPS SSAS e) IPS Corporate SIPP f) IPS Family SIPP	a) IPS SSAS b) IPS Family SIPP
Age from which option is available	55 onwards (from 5th April 2010)	55 – 77 (from 22nd June 2010)	77 onwards	55 onwards (from 5th April 2010)

How is pension income calculated?	Determined by the annuity provider's rates which are linked to Government Gilt yields. Also dependant on fund value, age, sex, and options such as spouse's pension and annual increases.	Determined by Government Actuary's Department (GAD) annuity rates applied to the fund value. Maximum pension is 120% of the GAD rate, minimum is 0% (i.e. nil pension).	Determined by Government Actuary's Department (GAD) annuity rates for a 75 year old applied to the fund value. Maximum pension is 90% of the GAD rate, minimum is 55%.	Determined by the Actuary appointed by the Scheme Administrator. Based on fund value, age, life expectancy, investment yield assumptions and any guarantee period chosen.
When is income reviewed?	Not reviewed. Income is fixed at outset.	Every five years.	Annually.	Every three years.
Does the pension include a guarantee period?	This can be selected at outset and can be up to ten years.	No.	No.	A ten year fixed payment period can be selected at outset.
Can the pension in payment go up or down over time?	A conventional annuity can include annual increases at fixed rates or linked to RPI. The pension does not reduce.	Yes. You can choose to vary your pension each year between the maximum and minimum. Also at each review the pension may increase or decrease depending on investment performance and Gilt Yields.	Yes. You can choose to vary your pension each year between the maximum and minimum. Also at each review the pension may increase or decrease depending on investment performance and Gilt Yields.	Yes. The pension continues at the level advised by the Actuary, but if investment yields cannot support this, it will have to be reduced at the next review date to a level the Actuary calculates can be supported by the fund.
Can the pension be converted to one of the other options?	No.	Yes. You can choose an annuity or a Scheme Pension. At age 77 you have to change option, which can include ASP.	Yes. You can choose an annuity or Scheme Pension.	Yes, but you can only choose an annuity.
Can the pension include Protected Rights in respect of contracting-out of the State Second Pension?	Yes.	Yes. Not available from an IPS SSAS.	Yes. Not available from an IPS SSAS.	No.
What benefits are payable on death?	Depends on annuity terms selected at outset. Can include the balance of a guarantee period and a spouse's or dependant's pension. Any balance of your fund is retained by the insurance company.	Either a lump sum payment to nominated beneficiaries less a 35% tax charge, or payment of a spouse's or dependant's pension (as annuity, USP, ASP or Scheme Pension)	Payment of a pension to a surviving spouse or dependant, then either a tax free payment to a charity, or assessment of the remaining fund for tax of up to 82% and payment of the balance to individuals as instructed by you.	Depends on Scheme Pension terms selected at outset. Can include the balance of a guarantee period and a spouse's or dependant's pension. Any balance of your fund is assessed for tax of up to 82% and the remainder is paid to individuals as instructed by you.

BENEFIT LIMITS

Pension Age

Your retirement benefits can commence at any age from age 55 (50 until 5th April 2010).

Benefits should be drawn no later than age 75, as a tax free lump sum cannot be paid after your 75th birthday.

Some people have what is known as a "Protected Pension Age", which is the right to commence retirement benefits before age 55, provided this right existed before 6th April 2006. Examples are sports people or the police.

In addition it is possible to take retirement benefits before age 55 on grounds of ill health.

The Lifetime Allowance

This is the upper limit on the total value of your combined pension arrangements which can qualify for tax exempt treatment. If your pension arrangements exceed this, you will pay a tax charge when you commence drawing retirement benefits in excess of the Lifetime Allowance. You may have protected your excess at A Day (6th April 2006) – see below.

The Lifetime Allowance is fixed by HM Treasury. It has been set through to the tax year 2015/16 as follows:

Tax Year	Lifetime Allowance
2009/10	£1.75m
2010/11	£1.80m
2011/12	£1.80m
2012/13	£1.80m
2013/14	£1.80m
2014/15	£1.80m
2015/16	£1.80m

Your combined pension arrangements are tested against the Lifetime Allowance applicable when you commence drawing retirement benefits. If your benefits are drawn in stages, a separate test is carried out each time to establish whether you have exceeded the Allowance.

If you already had a pension in payment which commenced before A Day, and then commence benefits from another arrangement, the existing pension is multiplied by 25 (25 times the maximum allowable pension for those receiving what was then known as income drawdown), to arrive at a fund value to test against the Lifetime Allowance.

If the Lifetime Allowance is exceeded, a tax charge will apply on the excess, known as the Lifetime Allowance Charge.

Example:

Rachel was aged 68 in May 2009. She has a pension fund (Arrangement 1) valued at £400,000, another (Arrangement 2) valued at £300,000, and is also in receipt of a pension (Arrangement 3) of £40,000 p.a. which started in November 2005. She decides to commence benefits in full from Arrangement 1 worth £400,000. The combined value of her benefits for assessment against the Lifetime Allowance at this time are:

Arrangement 1: £400,000
Arrangement 3: £40,000 x 25 = £1,000,000
Total: £1,400,000

N.B Arrangement 2 is not taken into account as benefits are not commencing from this plan.

As the Lifetime Allowance in May 2009 was £1,750,000 she has not exceeded the Lifetime Allowance.

If however she then decides to draw benefits from Arrangement 2 in August 2010, at which time its value has increased to £500,000, the combined value of her benefits is:

Arrangement 1:	£400,000 x	$\frac{£1.8m}{£1.75m}$ = £411,428
Arrangement 2:	£500,000	
Arrangement 3: £40,000 x 25	£1,000,000	
Total:	**£1,911,428**	

At this time her funds are £111,428 above the Lifetime Allowance, and a Lifetime Allowance Charge will be payable.

There are two choices of how to pay a Lifetime Allowance Charge:

- If you take the excess over the Lifetime Allowance as a lump sum, the Lifetime Allowance Charge is 55% of the excess.
- If you draw the excess as a pension which is subject to income tax, the up-front Lifetime Allowance Charge is 25%.

A lifetime Allowance Test must also be carried out where we have been paying Unsecured Pension and the fund is then used to either purchase an annuity or commence Alternatively Secured Pension or Scheme Pension (see details below). This is best explained by giving an example:

Example:

John had a pension fund of £1,350,000 in 2006, which was 90% of the Lifetime Allowance of £1,500,000. He drew a tax free lump sum of £337,500 and the remaining £1,012,500 was used to pay Unsecured Pension of £5,000 p.a. He is 75 in January 2011 and at this time decides to opt for ASP. His fund is then £1,550,000.

The Lifetime Allowance in 2011 is £1,800,000, and as he used 90% of the Lifetime Allowance in 2006, he has 10% of this left to use (i.e. £180,000). The Lifetime Allowance test is therefore:

Funds available for ASP	£1,550,000
Less funds originally put into income withdrawal	(£1,012,500)
Excess to be tested	£537,500
Less remaining Lifetime Allowance	(£180,000)
Chargeable amount	£357,500
Tax charge at 55%	£196,625

Responsibility for the Lifetime Allowance Charge falls jointly between the Scheme Administrator and the member. The Lifetime Allowance Charge is payable from the pension fund, but must be reported via the member's self-assessment tax return. We will provide you with a computation of the charge deducted.

Pension Protection

For those people with pension funds over or near the Lifetime Allowance, or with tax free cash entitlement in excess of 25% of their fund values at A Day (6th April 2006), there was an opportunity to "protect" the excess funds or tax free cash. Protection of funds in excess of the Lifetime Allowance is known as either "Primary Protection" or "Enhanced Protection".

The option to elect for protection expired on the 5th April 2009.

If you have opted for protection, you would have either received a certificate from HM Revenue & Customs for Primary or Enhanced Protection from the Lifetime Allowance, or would have received confirmation from your Scheme Administrator for tax free lump sum protection.

You must ensure that we are provided with a copy of this before your retirement benefits commence or you may be subject to tax charges or a reduced tax free lump sum. **It is your responsibility to make sure we are informed accordingly of any protection you have.**

Please also note that if you have Enhanced Protection, no pension contributions or benefit accrual can be paid for you to any pension arrangement (other than contracting-out National Insurance rebates in respect of the State Second Pension), or this protection will be automatically lost and you will be subject to a Lifetime Allowance Charge.

TAX FREE LUMP SUMS

A tax free lump sum of 25% of the total value of your pension arrangements can be paid at the point you commence drawing retirement benefits.

Please note the following points in connection with tax free lump sums:

- Tax free lump sums are also called "Pension Commencement Lump Sums" because they can only be paid at the point of commencing retirement benefits.
- A period of 12 months is allowed from benefit commencement to make actual payment of the tax free lump sum.
- The overall tax free lump sum is subject to a limit of 25% of the Lifetime Allowance (i.e. £437,500 for 2009/10), unless you have registered for protection.
- Those with an entitlement to a tax free lump sum greater than 25% at A Day were able to protect this if it had been "registered".
- In some cases, the rules of a pension scheme may restrict your tax free lump sum to less than 25%. Our rules allow 25%, but we may be required to maintain a restriction where a fund is transferred to us from another pension scheme with a restricted tax free lump sum. For example, a transfer of a fund on divorce to a new scheme for the ex-spouse, where the transferring scheme had already paid a tax free lump sum.
- If you have not drawn your tax free lump sum by age 75, the entitlement to receive it is lost.
- Protected rights in respect of contracting-out benefits can also pay a 25% tax free lump sum. This cannot be more than 25% of the accumulated protected rights fund, but in some circumstances where the individual is not entitled to a 25% tax free lump sum, the protected rights must also be restricted to the same percentage.

ANNUITY PURCHASE

Purchase of an annuity is known as "secured pension". This is because the pension is set at outset, and secured with an insurance company.

Annuities can be purchased from all the pension arrangements operated by us at any time after age 55.

A cash sum is paid from your IPS pension fund to an insurance company of your choice – this is known as the Open Market Option. The amount paid does not need to be the full value of your fund.

The amount used to purchase the annuity, together with the amount of any tax free lump sum you receive, is the amount assessed against the Lifetime Allowance at that time.

The amount paid is used to purchase a pension based on the rates available at the time. The insurance company will then pay your pension for the balance of your lifetime. Responsibility for payment of the pension lies with the insurance company, and we are no longer accountable for these funds.

The level of pension paid by the insurance company is secured by using your fund to purchase Government Gilts. For this reason the underlying level of pension is determined by long term Gilt yields, but with additional factors taken into account depending on the features you select. The pension must be paid at least annually, but other more frequent payments are available, such as monthly, quarterly or half yearly.

There is a range of features you can select:

- **A guarantee period** – this can be up to ten years (five years for Protected Rights), and means that if you die within the guarantee period, the balance of the guarantee will continue to be paid.
- **A spouse's or dependant's pension** – on your death, the pension can continue to be paid to your spouse or dependant(s). The level of pension they receive must not exceed your own. A Protected Rights fund must pay a 50% spouse's pension which is calculated using unisex annuity rates.
- **Annual increases** – these can be at a fixed percentage or linked to increases in the Retail Prices Index (RPI), but the rate of increase must not exceed the higher of 5% p.a. or the annual increase in RPI.
- **Annuity protection** – a lump sum on death before age 77 calculated as the annuity purchase price minus the pension payments made minus 35% tax. This is paid to your nominated beneficiaries.

The most common type of annuity is the conventional annuity, which guarantees the pension payments until your death. There are however other types of annuity available:

1. **With profits annuities** – the level of pension can fluctuate in line with the performance of an underlying with-profits fund.

2. **Unit-linked annuities** – the level of pension can fluctuate in line with the performance of underlying unit-linked funds.

3. **Temporary annuities** –
   - They have a maximum term of five years
   - They must cease by age 77
   - They cannot include annuity protection

4. **Enhanced or Impaired Life Annuities** – in cases of poor health an increased level of annuity may be payable due to a shorter life expectancy. These are assessed on an individual basis and require medical evidence.

Once you have purchased an annuity, you are deemed to have secured your pension income and

you cannot convert to the other pension options described here.

UNSECURED PENSION

Unsecured Pension (USP) is also known as "income withdrawal". This is available from all the pension arrangements we operate by IPS at any time after age 55 (age 50 until 6th April 2010). With USP, your pension is paid from the self-invested pension fund rather than being given to an insurance company. The amount of fund used to pay USP, together with the amount of any tax free lump sum received, is the amount which is tested against the Lifetime Allowance.

The main features and method of calculating USP are as follows:

- The Government Actuary's Department (GAD) has tables for calculating the level of pension payable. The "GAD rate" is determined by your age and sex, and the fifteen year Gilt yield published in the Financial Times for the middle of the previous month (five year yield for minors). The maximum annual Unsecured Pension is calculated using your fund value (less tax free lump sum) and 120% of the GAD rate applicable to you at the time you start to draw benefits.

- The minimum annual pension is nil, which allows you to draw your tax free lump sum and defer the pension.

- You can select the level of pension you wish to receive between the minimum and maximum, and you may vary this each year.

- The maximum annual pension must be reviewed every five years and re-set based on the fund value and GAD rate at the time. We will contact you in advance of the review date to arrange this. Once you reach age 75 the GAD rate for a 75 year old is used until you reach age 77.

- You can request an interim review at any pension anniversary date if you wish. This will re-set the five yearly review date to five years hence.

- If you transfer to another provider, the five yearly review date and anniversary date remain fixed.

- Interim reviews are also required in certain circumstances:

    1. when in phased retirement, at the point that an additional portion of your fund is used to start payment of retirement benefits.
    2. when a portion of your fund is used to purchase an annuity
    3. where part of your fund is transferred-out in the event of a pension split on divorce.

- You must be warned that where maximum income is taken and / or investment returns are poor, the value of your pension fund will be eroded meaning your pension income will reduce over time.

- USP must cease by age 77. Before 22nd June 2010 this was 75 so anyone who was already 75 before 22nd June 2010 must continue with the annuity, Alternatively Secured Pension or Scheme Pension they were already receiving.

- Income payments can be made annually, half yearly, quarterly or monthly, in advance or in arrears. One-off ad hoc payments can also be arranged. We can pay pensions via foreign currency accounts, but these are only paid annually.

- You can convert from USP to an annuity or Scheme Pension at any time, or to Alternatively Secured Pension from age 77.

Example:

John commences USP with a fund of £150,000 at age 60 (he has already received tax free cash of £50,000 from a total fund of £200,000). At this time the long term gilt yield is 4.25%, meaning the Government Actuary's (GAD) rate is 6.2%. His maximum income withdrawal is therefore:

£150,000 x 6.2% = £9,300 x 1.2 = **£11,160 p.a. for five years**

John decides to withdraw £10,000 p.a. on a monthly basis. After five years, his maximum pension must be reviewed. His fund is then £130,000, and the gilt yield is still 4.25%. The GAD rate for a 65 year old male is 7.0%, meaning his new maximum pension is:

£130,000 x 7.0% = £9,100 x 1.2 = **£10,920 p.a. for five years**

He is still therefore able to continue with a pension of £10,000 p.a. but if he had wanted to receive the maximum pension, this would have to be reduced.

ALTERNATIVELY SECURED PENSION

Alternatively Secured Pension (ASP) is available from all the pension arrangements we operate but is only payable from age 77. Your pension is paid from the self-invested pension fund rather than being given to an insurance company.

The main features and method of calculating Alternatively Secured Pension are as follows:

- The maximum pension is reduced to 90% of the GAD rate for a 75 year old each year.
- A minimum pension is 55% of the GAD rate for a 75 year old each year. This means that you can no longer opt to receive a nil pension.
- You can select the level of pension you receive between the minimum and maximum and vary this each year.
- The maximum and minimum pension must be reviewed at every pension anniversary.
- At each annual review, the GAD rate for a 75 year old is used regardless of your actual age.
- Where maximum income is taken and / or investment returns are poor, you must be aware that the value of your pension fund will be eroded meaning your pension income will reduce over time.
- Income payments can be made annually, half yearly, quarterly or monthly, in advance or in arrears. One-off ad hoc payments can also be arranged. We can pay pensions via foreign currency accounts, but these are only paid annually.
- You can convert from ASP to an annuity or Scheme Pension at any time.

Example:

Jane is 77 years old and has a fund value of £200,000. She commenced retirement benefits ten years ago when she was 67 and received her tax free lump sum then.

The long term Gilt yield is 4.25%, meaning the GAD rate for a 75 year old female is 8.7%. Her Alternatively Secured Pension limits are therefore:

Maximum: £200,000 x 8.7% x 90% = **£15,660 for one year**
Minimum: £200,000 x 8.7% x 55% = **£9,570 for one year**

She decides to draw the maximum pension on a monthly basis. After one year, her pension must be reviewed. Her fund is then £190,000 and the Gilt yield is still 4.25%. This means the GAD rate applicable to Jane has not changed because the rate for a 75 year old is used throughout.

Her new pension limits are therefore:

Maximum: £190,000 x 8.7% x 90% = **£14,877 for one year**
Minimum: £190,000 x 8.7% x 55% = **£9,091 for one year**

Her maximum Alternatively Secured Pension has therefore reduced.

SCHEME PENSION

This is an alternative method of having your pension paid from the pension arrangement you have with us. **It is only available from the IPS SSAS and IPS Family SIPP**. Scheme Pension is payable from age 55, but may be particularly useful for those over age 77 or in poor health. The level of pension is calculated by an Actuary appointed by the Scheme Administrator, rather than using tables provided by the Government, or an insurance company.

Payment of scheme pension may enable a higher level of pension to be paid from the fund than the alternative options, especially after age 77. This may help to use-up all your pension fund for payment of retirement benefits rather than have a residual fund which is assessed for tax. Scheme Pension **MUST NOT** be used as a device to avoid Inheritance Tax.

The test against the Lifetime Allowance when Scheme Pension is selected is different to the other pension options. It consists of the amount paid as a tax free lump sum (25% of the fund value) together with the level of scheme pension payable at outset multiplied by 20. This does not apply if you are converting to Scheme Pension from another of the options (Unsecured Pension or Alternatively Secured Pension), because your test against the Lifetime Allowance will have already been carried out.

How it Works

If you are a member of an IPS SSAS or IPS Family SIPP, you are allowed to exchange your share of the fund for a promise to pay a certain pension for life direct from the scheme. This is called "Scheme Pension", and can be done at any time at the Trustees' discretion. There is no defined benefit guarantee whilst you are accruing benefits but at the time you decide to accept a Scheme Pension you exchange your fund for a Trustees' promise to pay a pension directly from the scheme for the remainder of your life. Scheme Pension is one of the "Secured Pension" options as defined in legislation. This means that on opting for a Scheme Pension your fund is effectively removed from your control and placed in a Scheme Pension pool which is controlled by the Trustees of your pension plan. You may however be one of the Trustees yourself.

It is compulsory that you are offered the alternative of securing a lifetime annuity with an insurance company of your choice before the scheme pension option is considered.

The rules of your IPS pension arrangement allow a Scheme Pension to be taken at any time whether you are commencing retirement benefits for the first time, or you are receiving USP or ASP. This is achieved by the surrender of your fund to the Trustees of the scheme. You will be entitled to a Scheme Pension, payable for life. **Upon "purchase" of the Scheme Pension you cease to be a "member" of the Scheme. The decision to convert to a Scheme Pension cannot be reversed and on commencement the only other option is to "buyout" the scheme pension from the self-invested fund by purchase of an annuity with an insurance company on the same terms.**

It is also important to stress that the Trustees of your IPS pension arrangement can choose to

secure your Scheme Pension by purchase of an annuity at any time.

Please also note that Protected Rights cannot be used to pay Scheme Pension.

How your Scheme Pension is Determined

The Scheme Administrator of your IPS pension arrangement, will appoint an Actuary to calculate the level of Scheme Pension. The Scheme Administrator provides the Actuary with your relevant details, including a questionnaire where you select the terms of your Scheme Pension. This includes your age, state of health, attitude to risk, fund value, choice of guarantee period and spouse's/dependant's pension.

These factors are then used to calculate the level of Scheme Pension payable to you from your fund and a certificate is provided to the Scheme Administrator by the Actuary. The level of Scheme Pension is then set by the Trustees. As part of the process of accepting Scheme Pension, you will also be agreeing to be bound by the advice of the Actuary.

- The Scheme Pension can incorporate a spouse's/dependant's pension to be paid on your death.

- An initial guaranteed period can also be included. This can be for five or ten years and means that on your death, the pension will continue being paid to your nominated beneficiary(ies) for the remainder of the guaranteed period at its existing level (assuming it does not have to be reduced for one of the reasons outlined below).

- If the Scheme Pension is a spouse's/dependant's Scheme Pension, no guarantee is permitted.

- You are also able to select options for payment of benefits on death.

- Income payments can be made annually, half yearly, quarterly or monthly, in advance or in arrears. One-off ad hoc payments can also be arranged. We can pay pensions via foreign currency accounts but these are only paid annually.

Where these features are included, your initial pension will be correspondingly lower to reflect the "cost" of providing them.

Unlike USP there is no drop in income when you reach age 77 and convert to ASP.

Scheme Pension Reviews

The level of Scheme Pension is reviewed every three years. At that time the Actuary will calculate whether the Scheme Pension fund allocated to you is of sufficient size to continue paying the level of pension last calculated. If it is not, the pension will have to be reduced.

If the Actuary calculates the fund is greater than required, the Trustees have the option of increasing the level of your Scheme Pension, letting a reserve build-up, or even reallocating the growth in the fund to other scheme members who have "uncrystallised" funds (i.e. funds from which retirement benefits have not commenced being paid). A decision on which option to select would be made after receipt of the Actuary's advice, and would have to be made unanimously by all the scheme Trustees. Caution should be taken when considering reallocation, to ensure there are sufficient funds to continue paying the Scheme Pension. Otherwise the Trustees could be challenged by HM Revenue & Customs that pension rights have been assigned to other individuals, which is in breach of legislation.

Any increase must not exceed the higher of 5% p.a. or the annual increase in RPI over the three year period, or there will need to be a test against the Lifetime Allowance.

Reduction in Scheme Pension

The level of Scheme Pension cannot be reduced, fluctuate annually or stop, apart from in specific circumstances as outlined by H M Revenue & Customs ("HMRC"). The Scheme Pension has a relevant 12 month period. This would normally be the 12 month period from the starting date of the Scheme Pension.

The seven specified reasons for reducing or stopping the Scheme Pension are:

1. The Scheme Pension stops because the member recovers from ill health (this applies only where Scheme Pension was being paid on early retirement due to ill health).

2. The reduction in the rate of the Scheme Pension payable is applied to all members in receipt of a Scheme Pension.

3. The Scheme Pension is a bridging pension which is being reduced or stopped at state retirement age by an amount that does not exceed the state pension entitlement arising at that time.

4. The Scheme Pension is being reduced as a consequence of a pension sharing order.

5. The rate of Scheme Pension is being reduced due to the forfeiture of entitlement, in a manner consistent with the circumstances prescribed by regulations laid down by HMRC.

6. The rate of Scheme Pension is being reduced as a consequence of a court order.

7. A Scheme Pension payable under a public service pension scheme is reduced due to abatement.

In practice, if your Scheme Pension is reduced, it is likely to be under category 2, because your fund is running down at an unacceptable rate. This is determined by the Actuary who calculates your Scheme Pension.

If more than one member of your IPS pension arrangement is in receipt of Scheme Pension, if one of your pensions has to reduce following advice from the Actuary at a three-yearly review, then all Scheme Pensions in payment must be reduced by the same proportion at that time.

There is always a risk with Scheme Pension that the level of pension received proves to be too high, and adverse investment performance could mean your fund is reduced to nothing. If this happens there would be unauthorised payment tax charges imposed because regulations state that Scheme Pension must be payable at least annually for the rest of your life. It is for this reason that we carry out regular reviews of the level paid.

If your Scheme Pension is reduced other than in the above circumstances, HMRC will impose unauthorised payments charges at a rate of 40%. This payment is in addition to the unauthorised payments charge imposed on the actual continued payment of pensions made in that or subsequent years.

Reallocation of Investment Growth

As described above, a Scheme Pension review may result in the Actuary calculating that there are excess funds allocated to you than are required to support your level of Scheme Pension as set at the last calculation date. Following advice from the Actuary, the Trustees may then decide to reallocate some of this excess to other scheme members. This can only be done at the three yearly review dates, or on death or transfer-out. Reallocation of excess growth can only be made to members with uncrystallised funds who do not have Enhanced or Primary Protection from the Lifetime Allowance, and cannot be made with Protected Rights. As mentioned above, reallocation must be treated with caution to ensure there is no challenge from HM Revenue & Customs of assigning pension rights.

PHASED RETIREMENT

This is a variation on the method for drawing retirement. With phased retirement, benefits are drawn each year from only a part of the fund (otherwise known as "vesting" part of the fund), and the remainder stays untouched.

There are two methods of taking phased retirement:

1. The benefit is taken as part tax free cash and part annual pension, i.e. the member's "income" from the pension scheme in the first year consists of a tax free payment and a taxable pension payment.

   In the second year, the process is repeated by taking benefits from a further "segment" of the fund. The income in the second year is therefore the tax free cash and annual pension from this segment, plus the second annual installment of the pension from the first segment. This process could be repeated each year.

2. The amount of annual "income" required is specified at outset. Initially this is made up of tax free lump sum by vesting a sufficient portion of the total fund each year so the tax free lump sum matches the required income while a nil USP is paid, until all your tax free lump sum has been used up. For subsequent years the income consists of pension payments from the already vested fund.

The annual pension can be provided by purchasing an annuity or by taking USP. All funds should be vested by age 75 at the latest so that tax free cash has been taken from the whole fund. It is possible to opt out of phased retirement before then, by drawing benefit from all the remaining untouched segments as a single lump sum and pension top-up.

Phased retirement has the advantage that the tax paid on your income each year will be less, as part of the income consists of a tax free lump sum. However, many people will prefer to take a single large tax free lump sum on retirement in the traditional way, rather than taking their lump sum in annual installments.

When an IPS pension arrangement is in phased USP and another segment is vested, the combined vested funds must have their maximum USP reviewed at that time to arrive at a new combined maximum pension.

PENSION PAYROLL

Your pension must be subject to income tax, but not National Insurance.

We operate a pension payroll system used by many of our clients, for which there is a small fee. The tax is initially paid at basic rate until HMRC advise us of the tax code applicable, which is used from then on. Any additional tax / tax reclaimable by you must be dealt with via your tax return. It is your responsibility to ensure that sufficient cash is available to cover ongoing pension payments.

Pension payroll can be paid monthly, quarterly, half yearly or annually, in advance or in arrears. Ad-hoc payments can also be made if required.

We will issue you with payslips and a P60 annual summary after the end of each tax year.

Overseas Residents

If you are a non UK Taxpayer who is resident in another country, then provided it has a double taxation treaty with the UK, you should be eligible to receive your UK pension gross, without deduction of UK income tax. You will need to complete a double taxation agreement claim form with the tax authorities in your country of residence and once approved by them, this should be

submitted to HMRC in the UK for authorisation. The HMRC guidance notes and paperwork to apply for gross payments are known as IR304.

We will need a copy of the HMRC authorisation to commence making gross pension payments. There are bank charges involved with making foreign payments which are deducted automatically from your cash account. It should also be noted that payment of pensions abroad can be affected by currency fluctuations.

For this reason we offer foreign currency options to pay pensions to overseas residents. These payments can only be made annually. If the required HMRC agreement has not been obtained to pay the pension gross, the income tax element must be calculated and paid in sterling. This still leaves some exposure to currency fluctuations.

RISK, MORTALITY DRAG AND CRITICAL YIELD

Choosing income withdrawal from a pension arrangement by USP, ASP and Scheme Pension involve an understanding and appreciation of these three concepts.

Risk - An insurance company guarantees the level of pension payable from a conventional annuity, but on death any residual fund is kept within the insurance company's annuity pool. Pension income withdrawal however, is paid from a pension fund which is still subject to fluctuation in investment values and long term gilt rates. This means the level of pension is not guaranteed, but the fund is not passed to an insurance company so any residual fund on death is kept within the pension fund.

In addition, as higher interest rates mean the cost of an annuity is cheaper, and buying an annuity means fixing the investment return at the interest rate available at that time, some individuals take the view that long term rates will eventually increase and defer annuity purchase to get more for their money, while taking income withdrawal in the meantime. However, if interest rates do not increase over time, deferring an annuity purchase may eventually reveal that the total benefits received are less than they would have been, had a conventional annuity been purchased at outset.

Mortality Drag - An insurance company bases its annuity rates on a large number of lives and makes allowance for people steadily dying, thereby reducing the long term cost. An individual drawing a pension from the fund does not have the benefit of this factor and will need to earn a higher return on the money (typically around 1-2% p.a. higher) to compensate for it and maintain the level of pension. This concept is known as "mortality drag". The required rate of return is the critical yield.

Critical Yield – This is a measure of the level of investment growth a fund paying income withdrawal must achieve so that the pension paid matches that paid from a guaranteed annuity. It illustrates that income withdrawal is only really an effective way of maximising retirement income if the fund achieves growth on its investments in excess of the critical yield.

INVESTMENT STRATEGY

Paying a pension from your fund provides the opportunity to maximise the future investment growth and also to choose the best time to buy an annuity. This can significantly improve the future level of your retirement benefits. It also allows your pension fund to continue holding existing investments. It is however, important to hold suitable investments during this period, if this strategy is to be of benefit. There is always the risk that, depending on future investment performance or annuity rates, income levels may not be sustainable.

When deciding an investment strategy, the following considerations should be taken into account:

- A high concentration of equity-type investments may be unsuitable, as investments may have to be sold when markets are low in order to maintain pension payments.

- Keeping all or most of your fund on cash deposit could be much less cost-effective than buying an annuity in the first place.

- You might live longer than expected and your funds deplete to a level which would not support the level of pension you require.

- The investment strategy chosen by the Trustees will fail to achieve the return required to maintain your pension at its initial level (known as the “critical yield”).

- You should review your investment strategy on a regular basis, at least every three years, to assess whether the critical yield is being achieved and consult with professional advisers if necessary. You may wish to appoint investment advisers to ensure that the pension being taken is in line with the investment strategy and if not, take appropriate action.
- Investment performance can fluctuate over time, meaning the level of your pension may fluctuate.

- Some investments are illiquid and can take time to sell. You should always ensure that you have enough cash or liquid assets in your fund to meet your pension requirements for the next two to three years.

- If insufficient cash is kept available to cover the pension payable, you may be in breach of regulations which will result in an unauthorised payment and be subject to tax charges by HM Revenue & Customs. It is therefore essential that the investment strategy chosen maintains a sufficient cash deposit.

- If you were to purchase your pension via a conventional annuity, your requirement to maintain an investment strategy would end and that responsibility would pass to the insurance company. You would benefit from any future cross subsidy and mortality gain.

- It may be less costly to purchase a conventional annuity.

- There is no strategy that will guarantee your level of pension from an IPS pension arrangement is maintained. The purchase of a conventional annuity will, in most instances, be the best way of achieving this.

ADDITIONAL FEATURES

ILL HEALTH EARLY RETIREMENT

Retirement benefits can be drawn before minimum pension age of 55 on grounds of ill health. To pay ill health early retirement benefits, we must receive a letter from a registered medical practitioner confirming you are (and will continue to be) incapable of carrying on your occupation because of physical or mental impairment. You must have already ceased to carry on your occupation at this time. We also require full details of the impairment.

Benefits payable are 25% tax free cash and a pension paid either as USP or Scheme Pension from the fund or by purchase of an annuity. It is important to note that an impaired life annuity may be available which offers enhanced rates based on shorter life expectancy.

If you recover, your ill health pension must be suspended.

Commencement of ill health early retirement benefits will be tested against the Lifetime Allowance.

SERIOUS ILL HEALTH LUMP SUMS

If you are aged under 75 and have a life expectancy of less than one year, all your uncrystallised funds can be paid as a serious ill health tax free lump sum.

We must see a letter from a registered medical practitioner explaining the nature of the illness and confirming life expectancy is less than one year. This must be provided before any benefits are paid.

Payment of a serious ill health lump sum will be tested against your Lifetime Allowance.

TRIVIAL LUMP SUM BENEFITS

If the value of your fund under any pension arrangement is classed as "trivial", then it can all be paid as a lump sum. The conditions for this are as follows:

- The total value of **all** your pension arrangements, including protected rights, must not exceed 1% of the Lifetime Allowance at the time of payment.
- You must be over the age of 60 and under 75.
- Your entire fund share must be paid out in one go.
- A trivial lump sum paid from uncrystallised benefits is paid on the basis that 25% is tax free and 75% is subject to income tax. A lump sum from a vested fund will be subject to income tax on the whole payment.

IN SPECIE BENEFIT PAYMENTS

Retirement and death benefits do not have to be paid as cash. They can be paid by transferring scheme investments of the correct value to yourself/the beneficiary. The main points are:

- Your fund must be accurately valued to determine which assets to transfer.
- The value of the assets may be used to carry out a Lifetime Allowance test.
- The legal ownership of the assets must be transferred to the correct person(s).
- Where tax is payable to HM Revenue & Customs (for example income tax on a pension payment, or tax on a death benefit lump sum) cash must be made available to pay the tax due.
- We will only pay in-specie pension payments on an annual basis.
- There are additional fees for making in-specie payments.

There are three main reasons why an in-specie benefit payment may be desirous:

1. Where assets are illiquid (for example property or structured products), it may not be possible to sell them within the required timescales.
2. You may not wish to sell assets while values are low and thereby crystallise an investment loss. Assets can be paid in-specie and sold at a later date when values have improved.
3. In the case of syndicated investments (where an investment is held for the benefit of more than one pension scheme member), on the death of one member, the surviving members may not want to sell the assets to pay the death benefits. As an alternative, these benefits could be paid in-specie without having to sell the assets.

TAX FREE LUMP SUM RECYCLING

Regulations do not allow you to receive your tax free lump sum and use this to increase contributions to another pension arrangement, thereby benefiting from tax relief on the tax free

lump sum. The rules are as follows:

- where a tax free lump sum of greater than 1% of the Lifetime Allowance is paid
- and 30% or more of this is paid as a pension contribution
- if this leads to an increase in previous pension contributions of 30% or more
- the whole tax free lump sum will be treated as an "unauthorised payment"
- The whole tax free lump sum received will be taxed at up to 55%.
- In addition, the pension scheme paying the tax free lump sum can be charged a "scheme sanction charge" of 15% of the tax free lump sum
- leading to a total potential tax charge of 70%.

If you are planning to use all or part of your tax free lump sum to pay a pension contribution, you must notify us within 30 days of receipt or you will be in breach of these regulations.

STATUTORY CANCELLATION PERIOD

There is a statutory 30 day period in which a decision to commence retirement benefits can be cancelled. There is an option to waive this if desired. If not waived and a decision is then made to cancel benefits within the 30 day period, then any retirement benefits already paid must be returned. You will be offered this cancellation period when selecting your retirement benefit options.

DEFINITION OF DEPENDANT

When benefits are paid to dependants on your death, the HM Revenue & Customs definition of a "Dependant" is as follows:

- A spouse at the date of your death
- A child under age 23
- A child over age 23 who is dependent on you on grounds of physical or mental impairment
- A person who is not your spouse or child but is:
    1. Financially dependent on you
    2. Has a financial relationship with you of mutual dependency
    3. Dependent on you on grounds of physical or mental impairment

DEATH BENEFITS

The benefits payable on your death depend on which point in your life cycle death occurs, and which pension option you were receiving at the time.

DEATH BEFORE DRAWING RETIREMENT BENEFITS

Where no retirement benefits have been drawn from your plan, the whole fund consists of "uncrystallised" benefits. There are two options for payment of benefits:

1. **Tax Free Lump Sum**
    - The whole non protected rights fund can be paid as a tax free lump sum to your nominated beneficiaries.
    - The lump sum is subject to a test against the Lifetime Allowance, and a lifetime allowance charge of 55% may therefore apply, which is payable by the recipient(s) of the lump sum death benefit.

- The lump sum must be paid within two years of death to avoid being subject to Inheritance Tax.

- In addition, to avoid being paid to your estate and assessed for Inheritance Tax, your IPS pension arrangement is established as a discretionary trust whereby your lump sum is paid by the Trustees at their discretion. However, in practice they will be guided by your nomination of beneficiary, and will only deviate from this is if there is good cause for doing so.

2. **<u>Dependant's Pension</u>**

- As an alternative to paying out the fund as a lump sum, a dependant's pension can be paid, provided you have a surviving spouse or dependants.

- There is no restriction on the level of dependant's pension although it is of course subject to income tax.

- A dependant's pension can be paid by purchasing an annuity or by USP or Scheme Pension.

- The same restrictions and rules apply, although a dependant's annuity or Scheme Pension cannot include a guarantee period.

Any protected rights portion of the fund which relates to contracting out of the State Second Pension must be used to pay a spouse's pension, where your spouse has survived you. If there is no surviving spouse, the protected rights fund can also be paid as a lump sum.

For a plan in phased retirement, only the unvested portion can be paid tax free. The vested portion is treated under the following section.

DEATH AFTER DRAWING RETIREMENT BENEFITS – BEFORE AGE 77 (75 for those who reached 75 before 22nd June 2010)

1. Annuity Purchase

If you had purchased an annuity, the benefits payable on death are determined by the terms of the annuity:

- Any unexpired guarantee period.
- Spouse's/dependant's pension.
- Annuity protection lump sum where death occurs before age 77.

2. Unsecured Pension

If you were in receipt of USP, the Trustees of the pension scheme have discretion on how benefits are paid, but will be guided by your nomination of beneficiary. Your beneficiary(ies) may choose how their benefits are paid. The options are:

- A payment of the remaining fund as a lump sum less a flat rate tax charge of 35%.
- A dependant's pension paid by purchasing an annuity, by USP or Scheme Pension. The same restrictions and rules apply, although a dependant's annuity or Scheme Pension cannot include a guarantee period. Where a dependant's USP is paid, on death of the dependant before age 77, the remaining fund can be paid as a lump sum to their nominated beneficiaries, subject to a 35% tax charge.

3. Scheme Pension

Where Scheme Pension was in payment, the benefits payable depend on the terms of the pension selected:

1. Any unexpired guarantee period can continue to be paid to your nominated beneficiaries at the level of pension last certified by the Actuary. This will however continue to be subject to three yearly reviews which could result in reductions, increases or reallocation of excess funds. The amount needed to pay the guarantee is isolated by the Actuary and used to calculate this element of Scheme Pension until the guarantee period expires.
2. The balance of your remaining fund can be used to pay a spouse's/dependant's pension by purchasing an annuity, by USP/ASP or Scheme Pension. The spouse's/dependant's pension can be paid at the same time as the balance of an unexpired guarantee period. If a spouse's/dependant's Scheme Pension is paid, they must firstly be offered a conventional annuity which they actively opt not to receive.
3. The alternative death benefit option for Scheme Pension is known as an Annuity Protection Lump Sum Death Benefit. On death before age 77, a lump sum payment can be made to your nominated beneficiaries. This is calculated by taking the amount used for assessment against the Lifetime Allowance when Scheme Pension first commenced and deducting the amount of Scheme Pension payments made to the date of death. A 35% tax charge is deducted from this amount and the residual amount can be paid as a lump sum to your nominated beneficiaries.

Please note the following conditions which apply:

- This is only available for death before age 77
- It can only be selected where Scheme Pension is being chosen as the method for paying pension from outset and not where you are converting to Scheme Pension from one of the other pension options available.
- This option will override any guarantee period or spouse's/dependant's pension chosen, should you die before age 77.

DEATH AFTER AGE 77 (75 for those who reached 75 before 22nd June 2010)

1. Annuity Purchase

If you had purchased an annuity, the benefits payable on death are determined by the terms of the annuity:

- Any unexpired guarantee period.
- Spouse's/dependant's pension.

2. Alternatively Secured Pension

If you were in receipt of ASP:

- If you have a surviving spouse/dependant, the balance of your remaining fund must be used to pay them a pension by purchasing an annuity, by USP, ASP or Scheme Pension. If your spouse or dependant is under age 77 when you die, they can opt to receive Unsecured Pension rather than Alternatively Secured Pension.

- On the death of your spouse/dependant, there are two options:

  1. A tax free transfer of the remaining fund can be made to a nominated registered charity, or;
  2. Where you provide us with an instruction before your 77th birthday to pay any residual fund on death to other family members, a Transfer Lump Sum Death Benefit may be paid. If we do not receive an instruction from you we will make a lump sum payment to a charity of our choice.

- In the case of option 2, the fund will firstly be assessed for Inheritance Tax on your estate incurring tax of up to 40%, and the balance will then be an "Unauthorised Payment". This will incur a tax charge of 70%, giving a maximum effective tax charge on the fund of 82%. In this case, only 18% of your remaining fund can be paid to family members or scheme

members in accordance with your instruction. The process for making the 18% payment in accordance with your instructions is:

1. We complete the relevant IHT paperwork and arrange payment of IHT within the required timescale.
2. We pay 60% of the residual fund to the named individuals in accordance with your instructions (withholding 40%).
3. The named individuals must pay tax on the total residual fund of 55% from the amount we have paid across.
4. When we receive a copy of the HMRC receipt of the 55% payment we will pay the named individuals 25% of the residual fund, retaining 15%.
5. HMRC will then levy a tax demand on us for the residual 15% of the fund which we will pay to them direct.
6. The reason for us retaining 40% of the residual fund is that under the regulations if your named individuals do not declare and pay their 55% tax charge, we will have to pay a 40% charge rather than the usual 15%.

- In the case of an IPS SSAS, where the company is no longer owned by the member or their family, the residual fund on death can be returned to the employer subject to a 35% tax charge. An additional tax charge then applies to withdraw the surplus payment from the company, either as salary, bonus or dividend.

3. Scheme Pension

Payment options are the same as outlined above, except that an Annuity Protection Lump Sum Death Benefit cannot be paid on death after age 77.

If, once all Scheme Pension payments as assessed by the Actuary have been paid there are residual funds, these may be used by the Trustees to cover ongoing expenses for running the scheme. Alternatively, if the Trustees decide, payment could be made to other family members in which case treatment is the same as Alternatively Secured Pension, except no tax free lump sum can be paid to a charity.

Firstly the fund is assessed for Inheritance Tax, and secondly the remainder is treated as an Unauthorised Payment and taxed at 70%. This means total tax on death can be as much as 82% of your remaining fund as explained for Alternatively Secured Pension above.

HM Revenue & Customs also reserve the right to withdraw tax exemption from any pension scheme where unauthorised payments are made, or they believe the pension scheme is being used to evade tax.

BYPASS TRUSTS AND INHERITANCE TAX

A Bypass Trust is a trust which is established to receive lump sum death benefits from a pension arrangement. These benefits can then be distributed by the Trustees in accordance with the wishes of the deceased in such a way as to avoid your or your spouse's estate and therefore avoid Inheritance Tax.

There are different forms of Bypass Trust, and you will need to take legal advice to determine which is the right one for you. We provide standard Bypass Trust documentation free of charge, but we do not give legal advice. You should take advice from a Financial Adviser before deciding whether a Bypass Trust is necessary and if so, how it should be used.

How It Works

Most UK pension schemes, including those provided by IPS, provide a lump sum ("the death benefit") payable on your death before full retirement benefits are taken.

Where the death benefit is automatically paid to your personal representatives or to your spouse, there will, at some stage, be an Inheritance Tax charge as a result of the assets forming part of

either your or your spouse's estate (assuming your estate exceeds the Inheritance Tax nil rate band).

The pension arrangements provided by us allow flexibility in order to avoid this eventual Inheritance Tax charge by you nominating a trust to receive the death benefit from your pension arrangement – the Bypass Trust. The beneficiaries of this trust can be your widow/widower, children, other family members, charities etc. You can establish the trust at any time.

You provide the Trustees of the Bypass Trust with a letter of wishes specifying how you would like the death benefit to be distributed, which can be done in such a way as to ensure no Inheritance Tax is payable on the benefits paid from your pension arrangement. It is important to note that you are not permitted to assign your other pension benefit rights (tax free lump sum and pension) to a trust.

You may have more than one pension arrangement and although it is possible to declare a trust over each and every pension scheme, it is usually simpler to establish one trust into which the death benefits of the various pension funds can be paid.

Not all pension schemes allow the assignment of death benefits but the IPS pension arrangements do permit this. If you are planning to carry out an assignment of other pension plans, you should firstly check that their terms and conditions will allow this.

You must notify us and any other pension providers of your nomination. You should therefore either complete the nomination of beneficiary section of your IPS application form so that your Bypass Trust is named or provide a separate letter of wishes addressed to us to specify that any lump sum payment on your death is made to the trust.

Tax Considerations

In effect, the trust remains unfunded until your death, when death benefits are payable to the Trustees.

Following the Finance Act 2006, your Bypass Trust will be within the "relevant property" regime, which means that it will be subject to a ten yearly tax charge of 6% and exit charges of up to a maximum of 6%. However, section 58(2A)(a) IHTA 1984 confirms that, where the death benefit is settled on discretionary trusts and is paid out within two years of your death (strictly, two years from the date when the scheme administrator first knew, or ought reasonably to have known, of your death), no liability to Inheritance Tax will arise (on the basis that sections 58(1)(d) and 151 IHTA 1984 will continue to apply during this period so that the property will not be "relevant property").

This means that the Trustees of your Bypass Trust should be made aware of the need to distribute the death benefit within two years of your death to avoid any tax charges.

Bypass Trust documentation can be provided by us on request. This will consist of the following:

- Declaration of Trust – this establishes your Bypass Trust.
- Deed of Assignment – this assigns the death benefit from your pension arrangement to the Bypass Trust. A separate Deed is required for each pension arrangement you have.
- Notice of Assignment – this notifies each pension provider that the Bypass Trust has been established and the nomination of the death benefit has been made. A separate Notice of Assignment should be used for each pension arrangement.

CASE STUDIES AND SUMMARY DIAGRAMS

UNSECURED PENSION

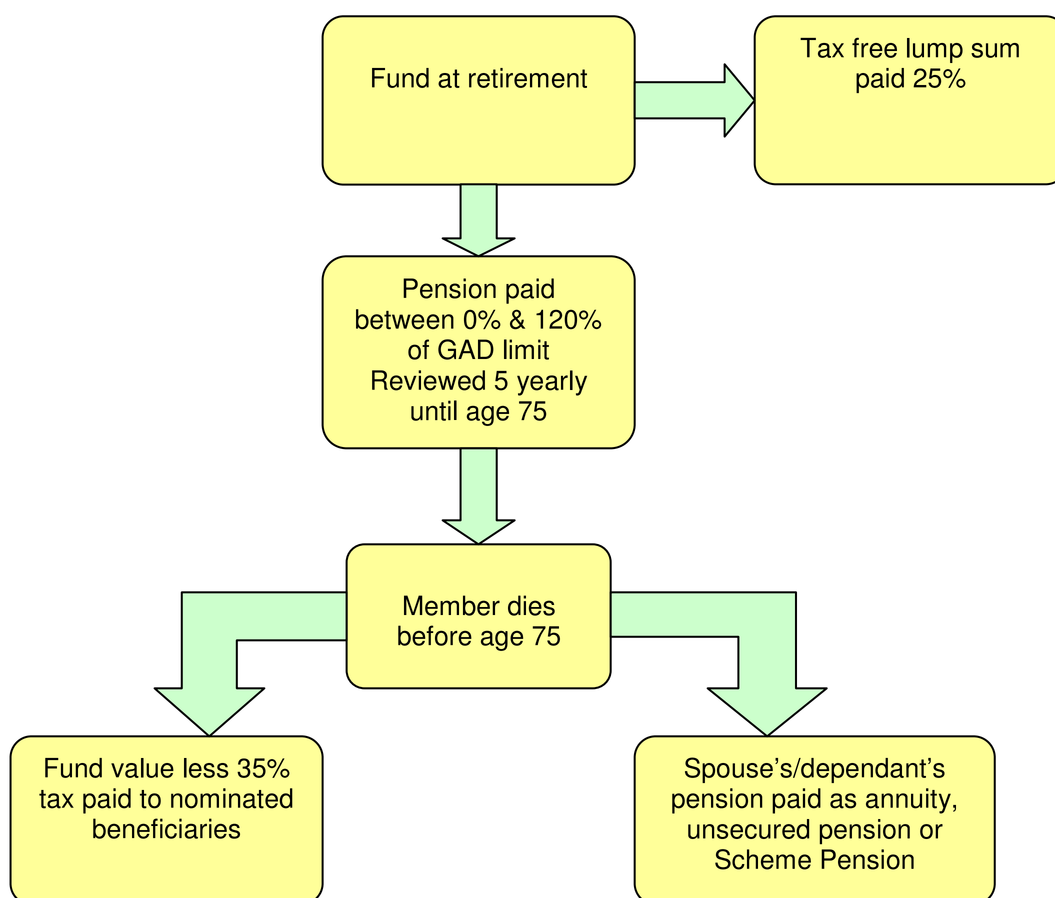
Matthew is 57 years old and runs his own business. He is married to Fiona who is 55 and has two daughters aged 27 and 35. He has accumulated a pension fund worth £450,000. He has recently

bought a house in Spain with a mortgage and wants to gradually run down his involvement in the business to spend more leisure time abroad.

He chooses USP so that he can draw the maximum tax free lump sum of £112,500 and use this to reduce his mortgage. Gilt yields are 4.25% meaning he can draw a maximum pension of £23,490 p.a. He chooses to draw only £5,000 a year for the first two years. In year three he has scaled down his income from the business and decides to draw the maximum pension of £23,490 p.a. for the next three years until the five yearly review is carried out. During this period his Financial Adviser has recommended a medium risk investment portfolio as he has other sources of income, and can withstand fluctuations in the level of pension.

USP allows Matthew to maintain control over his investments together with the timing and level of the pension income he receives from the fund.

If he dies in the meantime, 65% of his fund can be paid to Fiona as a lump sum or she can choose to receive a pension.



ALTERNATIVELY SECURED PENSION

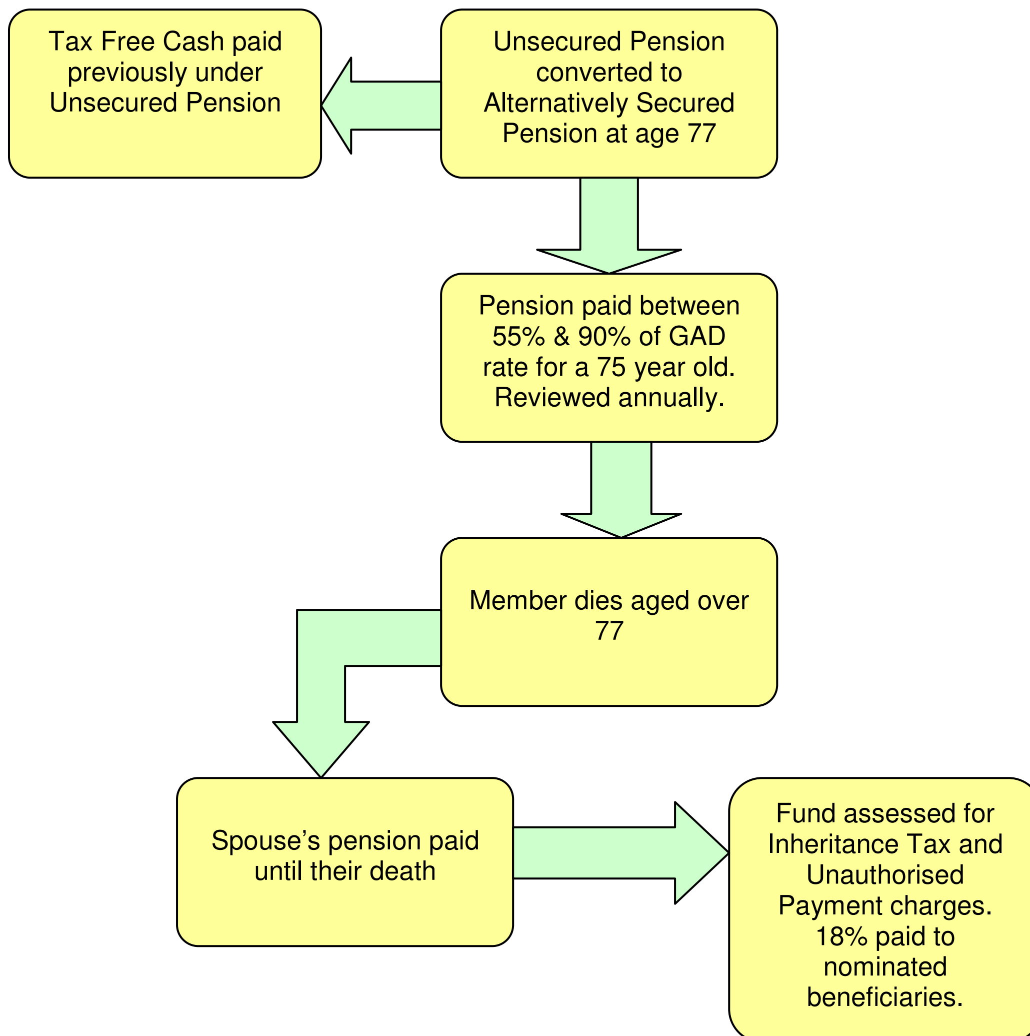
Matthew continues to receive USP until he reaches age 77. At age 65, he sold his business for a considerable sum and has used the proceeds to live on. He has therefore been drawing no pension income from the fund for the last ten years and the fund has grown to £600,000. He is in very good health and wants to draw a low level of pension while he continues to live on the proceeds of the business.

Matthew opts to receive ASP. Gilt yields remain at 4.25% meaning his maximum ASP is £53,460 and minimum is £32,670 for the first year. Matthew draws the minimum pension.

ASP allows Matthew to maintain control over his investments, together with the timing and level of the pension income he receives from the fund.

He does not need a high level of pension income and ASP allows him to draw a lower level, with the ability to vary it on an annual basis.

There is an investment risk which may affect the level of pension payable should investment performance not match the level required but this is negated by Matthew drawing the minimum pension permitted. Investment performance may also be favourable, allowing a higher pension to be drawn in future. Matthew's Financial Adviser recommends a low risk investment portfolio to maintain the capital held by the pension fund.



SCHEME PENSION

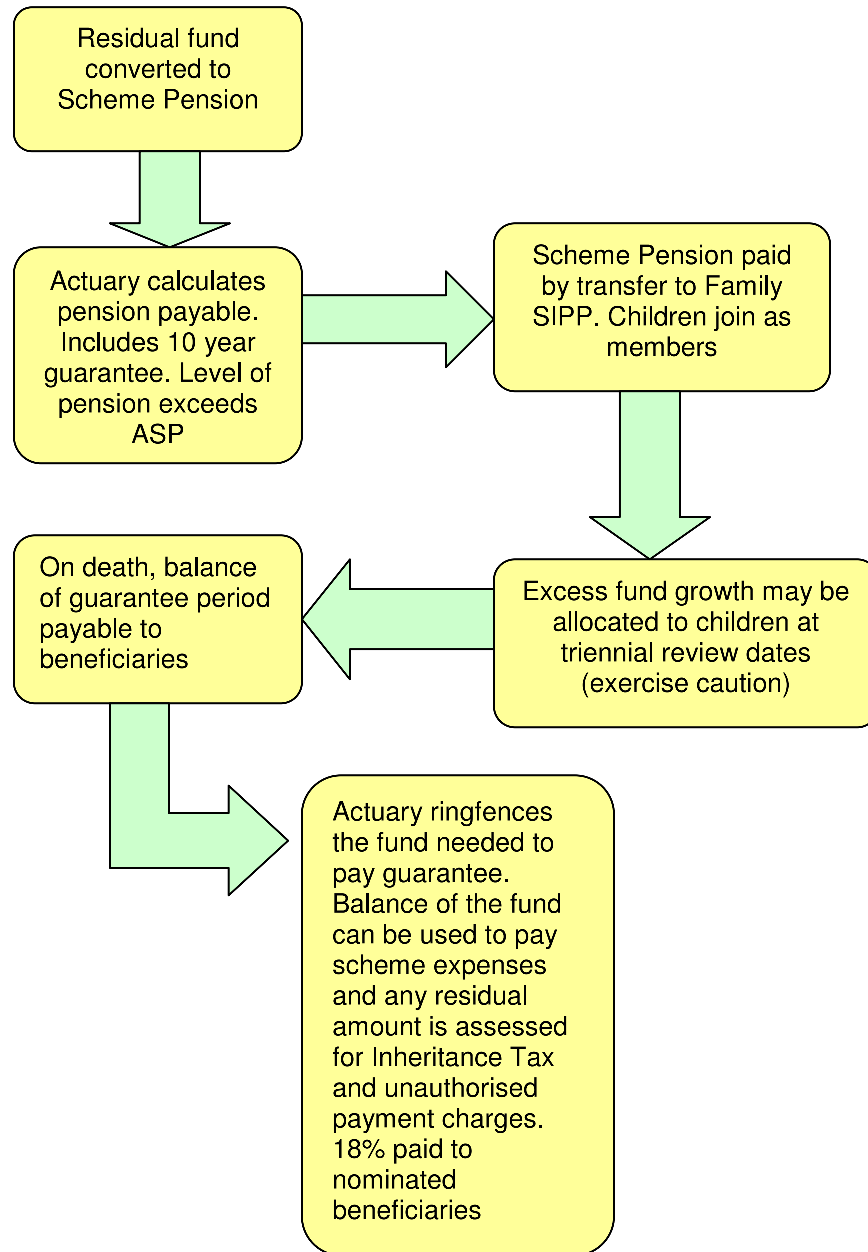
Matthew dies unexpectedly at age 79. Fiona, who is now 77, has enough wealth elsewhere to live comfortably and would like to pass as much of the pension fund as possible to her daughters. She is aware that if she dies while receiving ASP, the total potential tax charge on the pension fund will be 82%.

She therefore decides to draw Scheme Pension as it has been calculated by the Actuary that the level of pension payable is greater than ASP.

She transfers the fund to a Family SIPP and her daughters join as members.

Fiona's Scheme Pension is partly used to fund third party pension contributions to the Family SIPP for her daughters and at the triennial review dates, the fund performance, under the watchful eye of her Financial Adviser, has produced excess funds which are also reallocated to them. When deciding to reallocate these funds it was carefully established that a sufficient amount was kept within the Scheme Pension fund to support the Scheme Pension payments at their existing level.

Fiona opts for a ten year guarantee to her Scheme Pension so should she die within that time, as much pension as possible is paid from the fund before the balance is assessed for tax.



FEES

Our fees for calculating and paying retirement benefits are as follows:

Retirement calculations (including pension reviews)	£100 plus VAT each
Payment of pension via our pension Payroll service	£150 p.a. per person plus VAT
Scheme Pension calculation (including three yearly reviews)	£400 plus VAT

Please note that our payroll service is invoiced once a year when your P60 tax year summary is issued.

Death Benefits	Time Cost at £150 per hour plus VAT

The level of fee payable in the event of death varies depending on the complexity of the situation. For example, a simple conversion to a spouse's pension may include no additional fee, whereas assessment of the fund for tax in the event of a Special Lump Sum Death Benefit can be very complex and the total fee may be several thousand pounds.

The information in this guideline is based on our understanding of current tax legislation and HM Revenue & Customs (HMRC) practice. Tax and pension regulations are subject to change, and these guidelines cannot be guaranteed to remain accurate.

July 2010