

## **Preview the drawdown review**

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### **15 years of Income Drawdown**

Income Drawdown has been around for 15 years and in that time we have seen some significant changes to the rules in that time. With the recent Treasury consultation document it is likely we will see some further changes as follows

- Extension of the USP rules past 75, effectively ending ASP
- Potential restriction of GAD limits for older lives
- Introduction of flexible drawdown – giving the ability to go outside of the normal withdrawal limits subject to a ‘minimum income’ already being in place
- Increase in the death benefit tax charge to 55%

### **Mixed experiences**

But has drawdown worked as a concept to deliver retirement income?

There have been mixed experiences with income drawdown arrangements, with some people making good investment choices, and using the income flexibility. However it is also fair to say poor investment choice and/or timing of withdrawals potentially combined with a high level of withdrawal has seen some strategies fail.

### **Income Drawdown reviews**

When the unsecured pension rules were introduced in 2006, the requirement to review the income limits was increased from three years to five. The way the transitional rules were structured means that the first review dates will start to happen in earnest from April next year. Given the numerous factors which will impact on the review, it is worth advisers starting to get to grips with these now.

### **Review considerations**

This is not an exhaustive list, but the following should certainly be considered,

- Is the income currently being drawn able to be maintained when the official review of GAD limits is made? The poor investment climate combined with a potential reduction in the GAD rate will mean a reduction will be enforced for many.
- Has the client’s attitude to risk changed, and if so what is an appropriate investment strategy going forward?
- A type B critical yield should be recalculated to determine the growth rate required within the plan to maintain the level of income being drawn, and this then should be compared to the client’s current attitude to risk
- Is there an appropriate amount held in liquid assets (typically cash) to pay income for the short term if that is the agreed strategy

- Are there any illiquid assets in the arrangement which may need to consider being sold to meet future income requirements? Property held in a SIPP could be an example
- Is it appropriate to start to consider the purchase of some type of annuity? Though we now know this is unlikely to be enforced at 75 going forward it will still make sense for many to annuitise at some point
- Are income withdrawal timings appropriate?
- Has there been any change to the client's personal circumstances?

### **Potential options at review**

There are numerous strategies an adviser can use, some of which are as follows

1. Continue with current strategy
2. Reduce income
3. Change investment strategy
4. Changing the solution altogether for example buying out to an annuity which could be a conventional or investment linked. This could either be in part or for all of the fund.

### **Communication the key**

Given the difficult investment climate there will be several issues which the adviser and their client will need to discuss. Communication on a regular basis and flagging up potential problems at an early stage at least helps all parties understand and consider what the likely options might be.