

# Alternatively Secured Pension (ASP)

## Clarification of how death benefits will be taxed from Mark Rendall - Joint Managing Director

For some people – like the Plymouth Brethren – buying an annuity is against their religion. A number of other investors coming up to retirement also object to being forced to buy an annuity when they want to draw benefits from their pension. They don't like the inflexibility, the apparently low returns from annuities or the position when they die.

Of course, annuities do have their advantages. They can provide a really secure income and they are normally guaranteed to last as long as you live. In fact they can be regarded as a type of insurance against living too long.

### Options at age 75

The pension simplification regime introduced on 6 April 2006 abolished the requirement to buy an annuity by age 75. Unless you have already bought a lifetime annuity or something similar called 'a scheme pension', on attaining age 75 you can now:

- **Either** buy an annuity or a scheme pension
- **Or** switch to an Alternatively Secured Pension (ASP)

This Alternatively Secured Pension is a restrictive form of pension fund withdrawals.

- The maximum you can withdraw is 90% of a single life, level, monthly in advance, no guarantee annuity

assuming age 75. The minimum income that has to be drawn is 55% of an annuity based on a 75 year old.

- These maximum withdrawal rates are reviewed every year (although they are always based on an annuity for someone aged 75), so your income could fluctuate, particularly if your income withdrawals have been relatively high.

The lower level of withdrawal and frequent reviews are designed to prevent rapid erosion of your pension fund, although this cannot be guaranteed. ASP is not for you if you are unprepared to accept investment risk and/or would be heavily reliant upon the ASP income. However, the flexibility of income withdrawals via ASP is overshadowed by the penal tax regime, confirmed in the 2007 budget, which can lead to an overall tax charge upon death of 82%.

### What happens on death?

What you are allowed to do depends crucially on whether you have any dependants alive at the date of your death. Dependant in this case means spouse, civil partner or someone who is financially dependent on you.



- If you die leaving any dependants, then the remaining ASP fund must be used to provide an income for at least one of these dependants. The dependant could take his or her benefits by fund withdrawals, so that when the dependant dies, there could also be some funds available. If there are more dependants left, they can continue drawing benefits, otherwise the remaining funds are treated as below.
- If you die leaving no dependents whatsoever your residual fund could be transferred to other members of your pension scheme, for example your children or grandchildren, whom you can nominate. This transfer is known as a Transfer Lump Sum Death Benefit. The total tax levied on this transfer including IHT would be 82% assuming the aggregate estate, excluding the remaining ASP fund is more than £300,000.

The fund could alternatively be paid to any charity you nominate, free of inheritance tax and it would also escape the unauthorised member payment charge and the unauthorised scheme sanction charge.

Mark commented "the chancellors confirmation of the position upon death in ASP is particularly disappointing at 82% which seems to be at a totally unjustifiable level. It does nothing to help reduce the substantial 'savings gap' that is emerging for future pensioners who could potentially benefit from receiving the unused element of a parents pension fund to supplement their own future pension. It would seem more appropriate to tax the fund on death in ASP at 40% equivalent to the current rate of IHT".

### Possible solution

Mark suggested "one possible solution for those wishing to continue income fund withdrawal after 75 in ASP, might be to establish a guaranteed Whole of Life, life assurance, written in trust and therefore outside the estate for the benefit of the pensioners children/grandchildren to provide cover for an element or all of the fund and then leave the entire fund to a charity on death, which does not trigger a tax charge". This option assumes that the pensioner (and if married, their spouse) is insurable, as the life cover is subject to underwriting. It also assumes the pensioner in ASP would have sufficient surplus income or financial resource to cover the cost of the life assurance premiums. The alternative appears to be an annuity or an 82% donation to the government!!