

Annuities

Further pensions freedom plans extended to secondary market

The Chancellor confirmed his plan to extend pensions freedom to about 5 million people who have already bought an annuity. A consultation published on the day of the Budget on how a secondary annuities market could work suggests mirroring the £30,000 mandatory advice threshold for defined benefit pension transfers.

If you already have an annuity – an insurance product which gives a guaranteed annual income until death – you could be allowed to trade it in for a lump sum without a tax penalty from April 2016.

Those who do sell will potentially receive a lump sum, or may put the money into an income drawdown product – which allows them to withdraw amounts as they need them – so they can access the funds more gradually.

Currently, those who want to sell their annuity to a willing buyer have to pay tax of at least 55% of the value of the annuity – and in some cases, the amount is up to 70%. This charge will be removed, so those who sell are taxed only at their 'marginal' (normal) income tax rate.

Under the proposals, individuals would be required to obtain a minimum number of quotes before transacting, and the proposal is not to 'unwind' existing contractual agreements with annuity providers, but for the annuity holder to sell on the product to a third party – probably an institutional investor (companies investing for the future) – for an agreed lump sum.

The annuity provider would then continue to pay the annuity payments to the third-party investor for the lifetime of the original purchaser.

ARE YOUR FINANCIAL PLANS STILL ON TRACK AFTER BUDGET 2015?

There may have been a number of key announcements in Budget 2015 that will impact on your financial plans. If you would like to review your current situation to ensure that your plans are still on track, please contact us.

The value of pensions and the income they produce can fall as well as rise. You may get back less than you invested.

Tax treatment varies according to individual circumstances and is subject to change.

Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from, taxation are subject to change. Although endeavours have been made to provide accurate and timely information, we cannot guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough review of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions.