**Report to the Trustees**

**of**

**John Dingle Project Planning Ltd Retirement Benefits Scheme**

**Introduction**

**HMRC Rules on flexible drawdown**

**Death Benefits under current arrangement**

**Death benefits under proposed defined benefit arrangement**

The purpose of this report is to consider the actuarial cost of pension drawdown as a defined benefit and as a defined contribution arrangement. We have also considered the associated taxation of pension drawdown for John Dingle. Our report also considers the current rules regarding taxation of death benefits pre and post drawdown.

It would be helpful if we explain the different types of pension plan that apply here. We should add that we have not considered SIPPS as the tax and regulatory structure of these arrangements under master trusts do not give the same flexibility as occupational pension schemes.

Occupational pension schemes can be divided into:

1. Defined benefit arrangement (DBA), which is a pension scheme where the trustees guarantee to provide a given amount of pension in retirement.
2. Defined contribution arrangement (DCA), which is a pension scheme where the trustees do not guarantee pension income, but pay out benefits purely by reference to the available funds in the pension fund from time to time. The John Dingle Project Planning Ltd Retirement Benefits Scheme is a DCA.

Presently, the fund is un-allocated, which means that the trustees have complete discretion on how funds are apportioned to any beneficiary of the pension plan.

The pension fund operates as a discretionary trust, giving the trustees absolute flexibility in how pension assets are paid and allocated.

There are HMRC rules that apply in how those benefits are apportioned and also the way the benefits from the plan are paid out. This in turn carries with it a taxation liability, the amount of which will be determined by reference to how the pension was arranged on retirement.

**Pension Options**

**Pensions can be paid from a scheme in one or a combination of the following ways, the most tax efficient are as follows:**

**Drawdown –**

With **drawdown pension** you can choose how much pension you want to be paid each year. You can change the amount you receive and a pension scheme does not have to pay pension in the form of a drawdown pension. You can have your drawdown pension paid

* directly from the scheme,
* from an **insurance company** using a **short-term annuity**, or
* as a mix of payments direct from your scheme and from a short-term annuity.

Income withdrawal comes in two forms - **capped drawdown** and **flexible drawdown**. So in practical terms drawdown pension can be paid one or more of three ways

* capped drawdown
* flexible drawdown, or
* through a short-term annuity.

You start a drawdown pension by ‘designating’ part or all of your pension funds to provide you with a pension. The funds that you have put aside (designated) to provide a drawdown pension will form your ‘drawdown pension fund’. Your drawdown pension will be paid from your drawdown pension fund.

With capped drawdown there is a limit on the amount of pension you can take from your scheme each year. This limit is regularly reviewed; based on a pension fund for John of a fund of £1,038,428 and after taking a lump sum of £259,607, the pension income payable would be £44,860 p.a. from the scheme.

With flexible drawdown there is no limit on the amount of drawdown pension you can take each year. You can take as much or as little as you like. There is also no need for your pension fund to be reviewed to work out your maximum possible pension. However you must receive a secure pension of £20,000 p.a. to **qualify** for flexible drawdown.

**Qualifying Conditions**

* You must have pensions in payment from other sources of at least £20,000. (called the minimum income requirement) payable in the tax year in which you make your flexible drawdown declaration. In other words, it is the amount of pension received that counts not the annual rate of your pension, so you must actually be due to receive at least £20,000 pension income in the declaration year.
* That income can also include the following:
* State pensions
* Lifetime annuity or dependant’s
* lifetime annuity

Defined Benefit Arrangement

A **scheme pension** paid direct from the scheme or through the purchase of a **lifetime annuity** is collectively referred to in this Manual as a **secured pension**. This is because both these forms of pension must have some form of guarantee that they will be paid for the life of the member.

Each of the two forms of secured pension are bound by a different (albeit similar) set of rules. Secured pensions are dealt with from [RPSM09101000](http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM09101000.htm) onwards.

A **scheme pension** may be guaranteed for a term certain of no more than ten years. So if the member dies before that term has ended the scheme pension will continue to be paid until the end of the guarantee period, but to another person. These guarantee payments cannot be commuted and paid as a lump sum (although see last paragraph below in relation to a scheme pension in payment before 6 April 2006).