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Refusing to budge

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My late mother was very fond of using sayings to express herself. If I am honest, whilst they all remain precious to me, not all of them made sense. "That guy has a head full of broken motor cars" was a particular favourite, used to describe men with an unstable state of mind! Every now and then she would come out with something a little more sensible. She would always encourage you to look to avoid a fight but if that was not possible she would say "Pick your battles carefully and make sure they are big enough to matter but small enough to win."

As I sat reflecting on our latest piece of lobbying activity these sayings struck a chord. We recently wrote to Mark Hoban, Financial Secretary to the Treasury, highlighting the combined impact of recent policy decisions surrounding the calculation of maximum drawdown pension.

I should point out that the sayings did not strike a chord because we view this as a fight or that there is an issue with anyone's state of mind! Over recent years, pre and post change of Government, we have written to the Conservative pension policy makers on a number of occasions. They have always had the good grace to respond quickly with a detailed explanation of the stance they were taking.

Going back to basics, drawdown was introduced to provide individuals with flexibility and we have annual income limits and regular income reviews to prevent inappropriate fund depletion. We have to ask the question whether recent changes to income limits have tipped the balance too far in favour of downside protection.

We all accept that downside protection is needed. However, will many investors accept the slightly perverse situation that the main reason for a drop in income is the Government's decision to change the rules to provide added protection? The fact that the policy decision changing this downside protection was announced as recently as 9 December 2010 doesn't help. The effect of this late policy decision was exacerbated by an even more recent announcement of new, lower, GAD tables.

The timing of these decisions has turned out to be poor as it has coincided with a number of other factors that will drive down maximum income levels and therefore the total amount being drawn from pension schemes. It is possibly useful to provide an example of the combined impact of all of these factors.

Male, age 65, entering drawdown on 1 October 2006 with a drawdown fund of £250,000

Their maximum annual unsecured pension for the period from 1 October 2006 to 30 September 2011 will have been **£21,000**.

Five years on the same individual will be 70 with a drawdown review on 1 October 2011 with a drawdown fund of £250,000

Their maximum annual drawdown pension for the period from 1 October 2011 to 30 September 2014 will be **£16,750**.

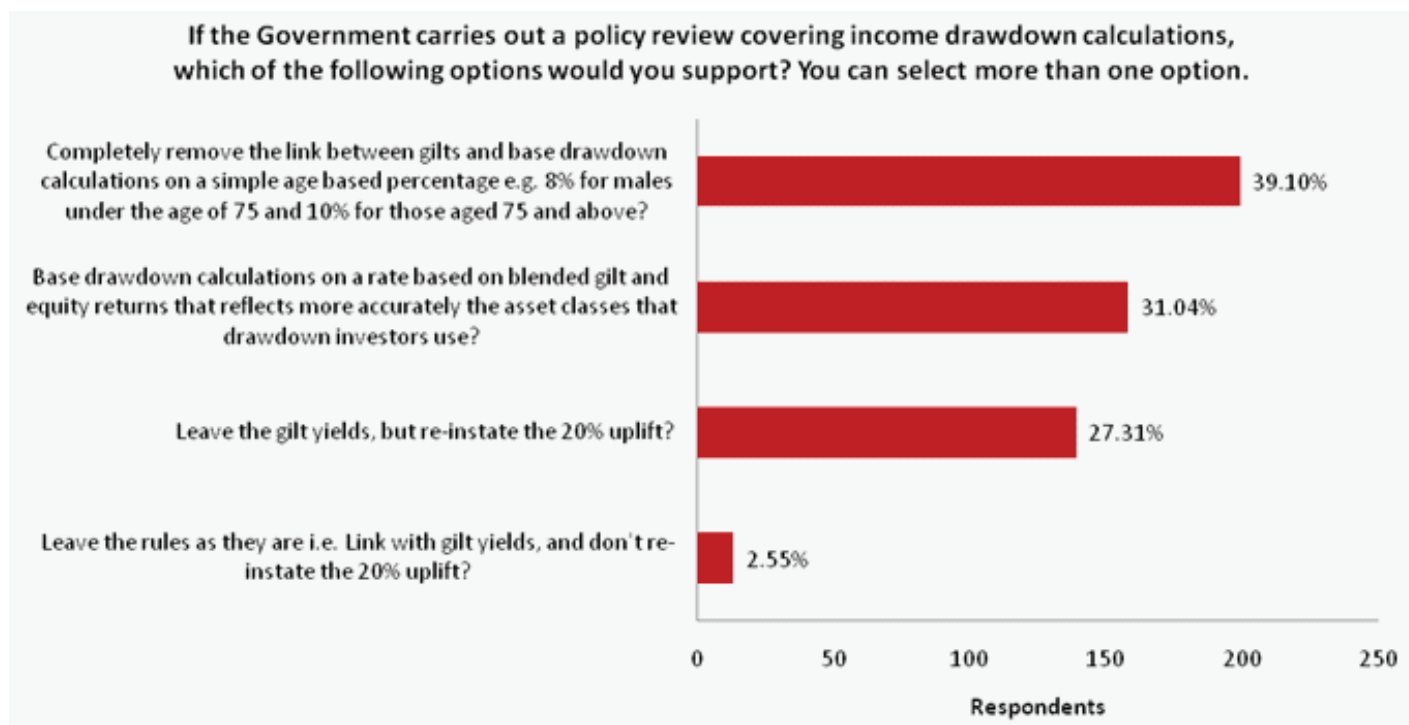
It is important to point out that it is assumed that this individual has maintained their fund value, and is five years older but still sees their maximum income drop by over **20%** (or £4,250).

If we allow for the potential impact of stock markets and consider pensions drawn against investment income we might assume that the individual has a current fund value of **£215,000**. In this situation their maximum annual income will fall to **£14,405**, a drop of **31.5%** in income from the previous year.

Taking all of this together we believe there is a case for change and our letter to the Government called for them to:

- Immediately re-instate the 20% uplift on drawdown calculations which was removed from 6 April 2011.
- Carry out a policy review as to whether slavishly following gilt yields and actuarial principles remains the most appropriate way to set drawdown limits.

The Government responded confirming that they had no plans to change the rules. Our next step was to carry out a piece of research with advisers and clients to see if they agreed with us. The research involved more than 500 responses and confirmed:



Note: Individuals completing the research could tick more than one answer.

The results of this research backed our view that the Government are failing to appreciate the strength and depth of feeling on this matter. So picking up on my point from earlier, this may not be a fight but this all shows that it is certainly big enough to matter to many pension investors and advisers.

Billy Mackay
Marketing Director
A J Bell

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Please note this document is intended for trade and national press individuals.

Notes for Editors

Pictures available by contacting claire.juckles@ajbell.co.uk.

Billy Mackay
Marketing Director
07525 236 580

Andy Bell
Chief Executive
07973 137 272

Gareth James
Technical Marketing Manager
0161 876 2819

Claire Juckles
Marketing Executive
0845 40 89 100

billy.mackay@ajbell.co.uk

andy.bell@ajbell.co.uk

gareth.james@ajbell.co.uk

claire.juckles@ajbell.co.uk

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