



Annuities

The rules for annuities (since April 2015)

Annuity income can go down as well as up, as long as this is specified at outset.

The guarantee period can be of any length (there is no maximum length).

Joint-life annuities can be paid to any nominated individual when the main annuitant dies (the individual does not need to be a dependant of the main annuitant).

Although these new rules were introduced with effect from April 2015, there have been very few, if any, annuity providers to offer the new-type 'flexible annuities'. It remains to be seen if these options will grow in popularity or not.

Contributions

Clients who are taking annuity income are still allowed to pay pension contributions up to the annual allowance. In other words the money purchase annual allowance (MPAA) is generally not triggered. However, contracts that allow a decrease in income – 'flexible annuity contracts' (see above) – may invoke the MPAA.

Death benefits

There is no maximum length for a guaranteed period, and instead annuity instalments can be paid out after the annuitant's death for any defined period. If the value of the remaining annuity instalments under the guarantee is £30,000 or less, then they may be commuted and paid as a lump sum instead.

For annuities set up on a joint life or guaranteed term basis, if the annuitant dies before age 75 the beneficiary will receive the annuity payments income tax free. But if the annuitant is over age 75 when they die, then the instalments will be subject to income tax at the beneficiary's marginal rate. Joint-life annuities can also be paid to any beneficiary the member chooses – it does not have to be a dependant.

Any value protection lump sum will also be income tax free if the annuitant dies before age 75, and subject to income tax at the beneficiary's marginal rate if the annuitant was over age 75 at the date of death. If the lump sum is paid to a trust there will be a 45% tax charge.

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