



## NEW OPEN ANNUITY VS DRAWDOWN

### IFA USE ONLY

#### Fundamentals of the New Open Annuity

The New Open Annuity (NOA) is a 'self invested' annuity that allows the annuitant

- to choose the investments underlying the annuity; and
- to choose, within certain limits, the level of income that will be paid; and
- to vary either or both of the underlying investments and the level of income at any time.

Income limits depend on the fund value, the individual's age and on annuity rates at the time the limits are calculated. The maximum and minimum are based on the average of the best three annuity rates that we can obtain in the marketplace.

The minimum is 50% and the maximum is 120% of this average figure. The limits must be reviewed at least once every three years.

How is the Capped Drawdown income limit calculated?

The income limits for Capped Drawdown are calculated by reference to tables published by the Government Actuary's Department (GAD). The rates shown in these tables are used to calculate the annual amount of income that a Capped Drawdown fund could generate for the member at the point of calculation.

For Capped Drawdown the income limits are between 0-100% of the amount calculated from the GAD tables.

#### Examples

Maximum income levels for a fund value of £150,000 would be as follows:

Age	Capped Drawdown	NOA Good Health	NOA Smoker
55	£7,650	£10,044	£10,902
60	£8,400	£11,036	£12,122
65	£9,450	£12,387	£13,701
70	£10,800	£14,307	£15,947
75	£13,050	£17,234	£19,566
80	£16,650	£21,982	£23,872
85	£22,500	£29,786	£32,421

For Capped Drawdown a Male gilt yield of 3.5% has been used in the table above. Annuity rates used for calculating NOA income are those available as at 12 August 2011. Smoker rates assume annuitant smokes 20 cigarettes a day

Key difference between the limits for Capped Drawdown and those for NOA

The NOA income levels are determined by reference to annuity rates available in the marketplace whereas Capped Drawdown uses GAD rates.

The effect of this is that higher income is possible under NOA than under Capped Drawdown

Why should a client move from Capped Drawdown to NOA?

The income levels for NOA are higher than Capped Drawdown and so if a client is looking simply to maximise income then NOA may be the more suitable option.

Your client may have a shortened life expectancy and may therefore qualify for an enhanced/impaired life annuity. GAD rates do not discriminate on health grounds. See next section for further details.

It is also worth bearing in mind the Benefit Crystallisation Event (BCE) rules. For someone in Capped Drawdown, a further BCE occurs when the member reaches age 75. Any net growth (investment growth less payments of income made) is then tested against the member's lifetime allowance.

Therefore, for clients who are near to or have exceeded the lifetime allowance the net growth could exceed the member's remaining lifetime allowance (if any) and would be subject to a tax charge.

However, if instead of going into Capped Drawdown the client had purchased a NOA then no further BCEs take place and any future investment growth above the lifetime allowance will not have a tax charge applied to it at any time.

Please note that maximising income is not necessarily the only consideration for clients. For those people who wish to maximise the possible death benefits then Capped Drawdown would be more advantageous than NOA. For further details please contact us.

How can you pay 20% more income than impaired/enhanced annuity rates?

In determining the income levels for NOA we use an average of 3 open market rates. These could include impaired and/or enhanced rates. The client can then select between 50% and 120% of this level. This would allow your client to achieve an income under NOA of 120% of the averaged impaired/enhanced rates obtained.

Why would a client want to take high levels of income under NOA?

Rather than just selecting an amount of income that is sufficient to cover their income requirements, clients may want to take the maximum amount out of the fund so that any excess income can be passed on to family and relatives, either by gift or by putting it into trust rather than the remaining fund being taxed at 55% on death.

In addition, by drawing the maximum available income from NOA clients can reduce the need to take income from non pension assets and therefore on death these assets will still be available for inheritance purposes.

Who should buy a NOA?

NOA is most likely to be attractive for people who have pension funds in excess of £100,000 and/or have other sources of either income or capital.

It will not be suitable for those with smaller funds and whose only income in retirement will be generated from their pension fund.

This is because, although there is an option to reapply the fund at any time to a guaranteed annuity with another insurer, the NOA itself does not guarantee any particular level of income.

The income actually payable will depend on the success of the individual's investment strategy as reflected in the fund value as well as on annuity rates current when the income limits are calculated.

It is also likely that the fund value will reduce over time – possibly resulting in reducing income – unless investment performance is sufficient to sustain the income withdrawals and/or increasing annuity rates do not compensate.

However, if the objective is to extract as much benefit from the accumulated fund as possible and to invest or apply the income received for longer term purposes rather than just meeting current expenditure then the New Open Annuity could well be the best option.

For more information about London & Colonial please contact our Administration Office:

London & Colonial  
38-42 Perrymount Road  
Haywards Heath  
West Sussex  
RH16 3DN

Tel: 0870 7566696  
Fax: 0870 7566697

Email: [SalesSupport@londoncolonial.com](mailto:SalesSupport@londoncolonial.com)  
Web: [www.londoncolonial.com](http://www.londoncolonial.com)

