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INNOVATION IN PENSIONS

Press Release

‘Unlocking The Drawdown Trapdoor’ – London & Colonial’s Adam Wrench highlights the opportunities that the recently announced proposed increase in GAD rate will bring for the transfer market, and speculates as to how soon we may see these higher rates made available.

“Following the recent Autumn budget, the announcement that maximum GAD rates will once again be restored to 120% will give new hope to those clients currently trapped in poor value drawdown contracts.

Currently the ability to switch drawdown providers has not been a realistic option for many, as any decision to change provider would enforce a compulsory GAD review. For those clients still on the pre April 2011 GAD limit of 120%, any switch of provider would result in a premature reduction in their income to the current GAD limit of 100%. This reduction, when combined with the post April 2011 GAD tables, could translate into a 50% drop in income.

So the Chancellor’s recent announcement that the maximum income available under ‘capped drawdown’ will soon revert back to the pre-April 2011 level of 120% is certainly welcome; especially as many investors have long had to suffer low standards of customer service, while watching their funds being eaten away by high charges and feeling powerless to move.

Many IFAs have long expressed concerns at not being able to move their clients without incurring a financial loss and, even though they are unhappy with the decline in some providers service levels which they perceive as being a direct result of cut-backs and the reshaping of the providers’ businesses, feel somewhat “stuck between a rock and a hard place”.

Our recently introduced Multi Platform Drawdown contract is one such solution that has been launched in partnership with a panel of carefully selected Platform providers that combines low cost charges with a high value service proposition. Therefore once implemented, the Chancellor’s newly announced increase to the GAD rate will help ease the current barriers to switching providers, and will unlock the trapdoor for those investors who are unhappy with their current provider.

Therefore the big question is when will the higher 120% GAD limit be re-instated? Your guess is as good as ours but what we do know is that it is likely a change of legislation is required. It is anticipated that a first draft of the new legislation will be issued tomorrow, followed by an industry consultation period before any amendments are set before parliament for approval. It is also likely that the amended legislation, together with the other proposed changes to the annual and lifetime allowance, will form part of the Finance Act 2013. After it passes through the House it will need to receive Royal Assent before becoming law, which could be as late as August 2013 but no-one knows for sure.

Like everything, the devil will be in the detail of the draft legislation when it finally becomes available – but it will be interesting to see just how far the draft legislation will actually mirror that of the previous pre April 2011 limits. The

previous 120% maximum GAD limits were available up to the age of 75 only, with over 75s restricted to a maximum GAD rate of 90%. There was also a minimum limit of 55% for over 75s. We are also assuming that we won't be seeing a return to 5 year reviews and a potential death tax of up to 82%? These may be some of the points that HMRC are intending to cover during the consultation period".

Adam Wrench is Head of Product and Business Development at London & Colonial.

For more information about London & Colonial's Multi-Platform SIPP, or any of their other products, please visit their website at www.londoncolonial.com or alternatively call our IFA Support Team on 0203 640 6840.

Notes to Editors:

About London & Colonial

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