



LONDON &
COLONIAL
INNOVATION IN PENSIONS

Press Release

London & Colonial calls for greater client understanding of drawdown to prevent it becoming the next mis-selling scandal.

London & Colonial, one of the UK's leading onshore and offshore pension wrapper providers, is calling for a much deeper understanding of the income drawdown process for those entering retirement in order to prevent it from becoming the next financial mis-selling scandal.

The call comes as the new pension drawdown policy comes into effect (as of March 26th) in which the capped drawdown limit for pensioners of all ages moves from 100 per cent to 120 per cent of the value of an equivalent annuity.

Adam Wrench, Business and Product Development Manager at London and Colonial, said:

"Firstly, I should point out that London & Colonial offers both Drawdown and Annuity contracts and has no particular axe to grind either way. Secondly, I should also state that we fully support the increase in GAD rate to 120% for those clients that are obviously suitable for drawdown contracts. It is clear that drawdown contracts are suitable for (the minority of) clients that both possess a certain level of financial sophistication as well as having sufficient sources of income to fall back on should they need to.

However, we have been concerned to read reports of clients having to sell their homes after their pension income had dramatically reduced following a recent GAD review and how "changes in pension rules have caused widespread hardship". We question whether these clients should have been in drawdown contracts in the first place. Certainly increasing the income limit to 120% of GAD will help in the short term but this will mask the underlying reasons why their income has fallen and also potentially exacerbate the issues in the longer term, unless markets make a dramatic recovery in the next few years.

This is a gamble that only sophisticated investors should take with other sources of income to fall back on. It is generally clear that one of the major reasons why drawdown incomes have reduced over the last few years is due to poor investment returns. Therefore taking an income that is unsustainable will of course lead to an income reduction come the next review. If markets do not recover will there be calls to increase the GAD rates to 150% in 3 years time?

What is clear is that Drawdown was originally designed for flexibility rather than income security and is suitable for the minority of clients that:

- Have a pension pot of in excess of around £150,000/£200,000
- Possess a certain level of investor sophistication
- Have a capacity for loss, are not reliant solely on the drawdown income, and have other potential sources of income
- Understand that the taking of an unsustainable income will lead to a reduced income at their next and future reviews

Raising awareness and understanding by clients that are either already in or considering taking out drawdown should hopefully avoid the sorts of horror stories we have read over the recent months.

The banks are painfully aware of the current compensation bill resulting from PPI mis-selling when people weren't fully aware of what they were signing up to, so let's not see the drawdown process going down the same road."

For more information about London & Colonial's Multi-Platform SIPP, Drawdown or Annuity 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.

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Notes to Editors

About London & Colonial

London & Colonial specialises in self-invested products for both UK residents and persons resident overseas.

The London & Colonial Group includes

- (1) London & Colonial Holdings Limited – UK parent company
- (2) London & Colonial Services Limited which is regulated by the UK Financial Services Authority and operates SIPPs and SSASs
- (3) London & Colonial Assurance PLC which is regulated by the Gibraltar Financial Services Commission (matching UK standards) and which offers Open Annuities, QROP Annuities and Open Offshore Bonds
- (4) L&C (Administration Services 2) Limited and London & Colonial (Trustee Services) Limited which are both based in Gibraltar and offer the EU SIPP.

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