

Family Pensions?

Comparing the pension situation in 1990 with today is a little like comparing Stevenson's Rocket to the Japanese bullet train. (Guess who recently went to the York Railway Museum)

Back in the 80's and 90's we had no choice, you could take some of your pension fund as a lump sum and had to buy an annuity (an income for life) with the rest. That income ceased when you died or, if you opted for a joint life income, when the spouse died and that was it. The insurance company kept any money left over as profit.

The main attractions back then were that the income was guaranteed to be paid for life, no matter how long you live, and you could get 10% or more income from your "pot". Provided one of you lived for at least ten years, you were well into profit.

Today you can still have the same option but the income will be considerably less, around 4 to 5%, because interest rates are lower and we are living longer; which means you have to live around 20 years before you get to a profit situation.

It is no wonder then that annuities are not in vogue at the moment and drawing whatever amount you want from your pension "pot" when you want it is proving very popular.

Two drawbacks are that your pension "pot" must be invested and reviewed regularly which costs money and if your pension investments fall in value you must be able to reduce or stop your withdrawals or your fund would soon be gone and you would have no income.

A great attraction of pension freedoms however is the ability to pass your pension fund down the generations. Your fund on your demise can pass to your spouse and on their demise to your children and on their demise to your grandchildren and so on.

There may be some income tax to pay when they draw on the fund but no Inheritance Tax, which makes this freedom so valuable.

It makes perfect sense to me that one's lifetime savings, rather than be lost to an insurance company or the Inland Revenue on your death, can be passed down the family, for them to build on and enjoy rather than start a pension fund from scratch every generation.

Living off a pension pot requires expertise if you are to draw an income from it and also build up the fund for your family. See your IFA for all the help you need, but do it now! Not all pensions allow "freedoms" so your plans may need bringing up to date and possibly invested differently as the money could be invested for a very long time.