1.14 Types of Retirement Option after 6 April 2011

1.14.6 Scheme pension

(i) payable at least annually

(ii) with a maximum guarantee period not exceeding 10 years

(Note) This means that on death in retirement the member's pension may continue to be paid for the balance of 10 years after retirement.

(iii) could not be reduced once in payment (unless a scheme-wide reduction occurred, or pen-sion was subject to a pension sharing order, or, if pension was suspended or reduced due to ill health, member regaining working health or when a bridging pension comes to an end)

(iv) could be temporarily increased as a 'bridging pension' *[see 10.3.8 (Note)]*

(v) could be 'capital protected' (value protected) *[see 20.10.12]*

(vi) could increase in payment each year (subject to Limited Price Indexation) *[see 24.3.9 (c)]*.

Defined Contribution schemes were not obligated to have to provide a scheme pension, i.e. annuity could be set up in the member's name with the insurer being chosen by the member.

1.14.7 Lifetime annuity

A lifetime annuity is purchased from an insurance company and it converts a pension fund into an income paid for the life of the annuitant.

(i) under a Defined Contribution scheme the member, or dependant, has a right to have an open market option opportunity, failing which the annuity may be chosen by the trustees or manager *[see 1.11.25]*

(ii) the maximum guarantee period could not be greater than 10 years

(iii) could include capital protection

(iv) could increase in payment each year (CPI or RPI or investment performance-related).

It could also offer an 'annuity protection lump sum death benefit'. This allows a taxable lump sum to be paid to the annuitant's estate. The amount payable is normally equal to the initial cost of the annuity (the purchase price) less any instalments already paid *[see 1.12.8 and 20.10.12]*.

(Note) *[See 20.10 for different types of annuity.]*

An annuity is 'a series of payments, which may be subject to increases, made at stated intervals until a particular event occurs. This event is commonly the end of a specified period or the death of the person receiving the annuity.' *Source: Pensions Terminology, Pensions Management Institute.*

It was a requirement that all members paying additional voluntary contributions (AVCs) have an open market option. *[See 20.10.3 (Note)]*.

1.14.8 Death benefits

For death benefits before and after retirement – *see 1.12*.

1.14.9 Removal of requirement to annuitise by age 75

Under the Finance Act 2011 *[see also 2.12]* the following provisions were introduced, effective 6 April 2011, ending the obligation on Defined Contribution members to purchase an annuity at age 75:

(i) easement to annuity purchase: individuals with Defined Contribution funds who have yet to draw benefits (and persons in income drawdown arrangements) are allowed to defer indefinitely their decision as to when to draw pension benefits. *[See also 1.12.8]*

(Note) Earlier, under the Finance Act 2004 [see 1.14.1], members who chose to draw their pension down were obliged to purchase an annuity by age 75 or enter into an arrangement, known as Alternatively Secured Pension (ASP) *[see 1.14.4 and 1.14.5]*. These restrictions ceased to apply, effective 6 April 2011, under the Finance Act 2011.

(ii) increased capped pension: the maximum income an individual may draw down is 100% of an equivalent annuity (for as long as the individual retains the funds to do so)

(Note) 'Equivalent annuity' is 'capped' by reference to single-life annuity rates set by the Government Actuary's Department. The maximum 'capped amount' that can be withdrawn must be determined at least every three years in the period before when the member reaches age 75, after which reviews must be carried out annually.