



Pension Harvesting.

Decumulation - or pension harvesting – is finally becoming a fashionable pensions topic.

Increasingly consumers and politicians are discussing why the current pension tax rules don't work as well as they could for those taking pension incomes. The Conservatives are now set to wade into this discussion, by tabling in the House of Lords an amendment to the Pensions Bill calling for the end of compulsory annuitisation (the means by which a pension is turned into an income).

There is no doubt that the current tax rules are in need of an overhaul, but it would be wrong to underestimate the role annuities play in retirement planning as longevity insurance.

They are, if often seems, the last guarantee in pensions. Regardless of how long the annuitant lives they will still receive their income. Such a guarantee shouldn't be underestimated in these times of unpredictable life expectancy. But annuities could be improved by being made more flexible. There are a number of ways of achieving this:

First, to allow annuity income to fall during periods when people are living quieter lives with less need for a disposable income. Currently annuity income can only stay level or increase by a set rate or by inflation. However, retirement can now last thirty years, and it difficult to predict income needs over such a long period.

Second, to allow people to withdraw larger funds from their annuity income in times of emergency. Often, people's biggest concern is becoming a burden on their family. Allowing this type of flexibility within the annuity rules makes sense by matching income solutions to income needs, but it may also prove to be a big motivator to encourage people - right across the social spectrum - to save.

And third, to raise the age at which people have to take some form of retirement income from 75 to 80. Over the last few years Government has changed the rules to reflect growing longevity through increasing the minimum pension benefit age to 55 and by raising the state pension age. It makes sense to extend this to the 'age 75 rule' as well.

These three legislative changes should open up the way for providers to redesign annuities so they can effectively deliver the retirement income solutions people both want and need. Perhaps the pensions minister, our very own James Parnell, will look at making these changes but I somehow doubt it.

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