

Income Drawdown - Is It Right For Me?

"With an ageing population and the first of the 'baby boomer' generation hitting retirement, one thing is certain - over the next 15 to 20 years the retirement market is going to be a growth area. When you couple this growth with an increasing demand for flexibility and choice, it's safe to assume that the current retirement landscape is going to change. "

Annuities are historically a very popular option in retirement, with a great many looking for the security that they provide, but Income Drawdown is also worth considering.

Benefits

Income Drawdown, or unsecured pension, is a more flexible alternative to the traditional annuity route, offering greater choice and control for many people. Clients can put off buying an annuity and instead withdraw a regular income from the pension fund while the remainder of the fund stays invested. While the fund remains invested, the client can benefit from growth in the market and from your ongoing advice.

So when might it be suitable?

Those aged between 50 and 75 (55 and 75 from April 2010) can set up a Drawdown contract. It could be suitable if the Individual:

- Wants to vary their income over time to reflect changes in their circumstances.
- Wants their pension fund to continue to benefit from potential investment growth and are prepared to accept the risk that the value of the fund may fall.
- Has other sources of income.
- Wants to maximise the benefits their family receives on their death and also give them the maximum choice about how they receive these benefits.
- Wants to control the time at which they buy an annuity.

Income Drawdown can be a valuable retirement planning tool for the right person. Typically it suits those who are not adverse to investment risk, and who have larger pension funds. However, there are no guarantees that income will be greater than if the fund was used to purchase an annuity at retirement.

There is also no guarantee that the initial income level selected will be able to be maintained. The costs of income drawdown are normally higher than for an annuity and such arrangements suffer from 'mortality drag' - as they do not benefit from the cross subsidy that applies to an annuity purchase because some annuitants die relatively early.