Annuity Equivalent

One option at retirement for Retirement Trust Scheme (“RTS”) members is to take the Annuity Equivalent (“AE”) option. This will provide an income payable for the rest of the member’s life, or after their death that of their spouse, whichever is the latter.

When can the AE option be taken?
RTS members who have attained the necessary qualifying age (as defined under Article 131CA of Income Tax Jersey Law 1961) can start to receive income from their plan. This is currently when the member reaches the age of 50, but the law stipulates that they must take the option at age 75 at the latest.

How is the AE calculated?
The trustees are obliged to follow a set calculation to determine the maximum amount of income that can be paid from the member’s pension fund. The steps are as follows:-
1. Ascertain the age of the member (or spouse) at the end of the most recent month.
2. Obtain the gross redemption yield on UK Gilts (15 year) from the FTSE UK Gilts Indices for the last working day of the most recent calendar month.
3. Round the yield down to the nearest 0.25% (e.g.; 6.34% is rounded down to 6.25%).
4. Refer to the respective GAD rates (different for male and female) from the HMRC website.
5. Ascertain the value of the member’s fund.
6. Determine the maximum amount of withdrawal per £1,000 of pension fund from the GAD rate table for male/female. This calculation factors their age and the Gilt yield and is referred to as the Annuity Equivalent Factor (“AEF”).
7. Calculate the maximum permissible amount of AE payment by the pension fund value/1000 multiplied by the AEF obtained in step 6.
8. Forward calculation to Jersey Income Tax Office for approval prior to payments being made.

Note: The member is not obliged to take the maximum permissible from the above calculation. They can opt to receive reduced payment. For annuitants aged 75 years and above however the minimum level of AE that they can elect to receive is 55%.

What are GAD rates?
These are life expectancy tables produced by the UK Government Actuary’s Department.

How often is the AE re-calculated?
To ensure the AE rate remains appropriate throughout the annuitant’s life, the AE must be recalculated no later than 3 years after the previous calculation has been approved. Once the annuitant is over 75 this must be calculated on a yearly basis. The recalculation is done 3 years after the last approval, e.g., if approval is obtained on 1st March 2014 then the AE must be recalculated by 1st March 2017. It is not left until the end of the calendar year.

How often can payments be made?
Payments made from the fund can be monthly, quarterly, half yearly or yearly. The amount disclosed on the individuals tax return is the amount received in the tax year, not the amount approved.

Are the payments taxed?
The annuity equivalent payments the member receives will be taxed as earned income and the trustees will be responsible for notifying the Comptroller of Income Tax of any such payments.

What happens upon death of the annuitant post commencement of benefits?
The secondary beneficiary (spouse) will have the following options:
1. Allow the pension funds to continue in accordance with income tax law.
2. The spouse can take a lump sum representing the remaining pension fund, after deduction by the Trustees, of half the standard rate of tax (i.e., 10%).