

TAKING BENEFITS – INCOME DRAWDOWN



From age 55, there are a number of options available to you in accessing your pension funds. How you decide to take your pension will have implications on how long your pension will last and how much tax you will pay. One of the most popular options is Income Drawdown.

Since 6th April 2015 investors have had to take income as Flexi-Access Drawdown (FAD). For clients who were already in capped drawdown before 6th April 2015, capped drawdown remains available or can be converted to Flexi-Access Drawdown at any time if you wish to do so. For anyone taking out a new pension now however, the option will be Flexi-Access Drawdown when they come to access their pension fund.

How does it work?

In Flexi-Access Drawdown, you can take up to 25% tax-free with the remaining 75% retained within the pension to allow you to start withdrawing an income which you can do at regular intervals or as and when you need it. The amount designated for income can remain invested within the tax-efficient pension until you draw on it. There is no limit on how much income you can take out of your pension or when you can take it, but you are responsible for ensuring you have enough funds to provide you with an income for your remaining lifetime.

Key points for consideration

- You may live longer than you think so need to plan any income withdrawals carefully.
- The fund can remain invested and benefit from the preferential tax status of a pension.
- Your investments could continue to go up, but might not perform as you expect.
- Your income is not secure and is influenced by the performance of your investments.
- Income from your pension is taxed the same as employment income.
- You can take varying amounts of income at regular or irregular intervals.
- What you do with your money once outside the pension can have tax implications.
- Death benefits tax-free before age 75, taxed at the beneficiaries marginal rate after age 75.

What happens when I die?

The remaining value of the pension at death can be passed on to your nominated beneficiaries.

Anything else I need to be aware of?

Once you enter Flexi-Access Drawdown, you become subject to the Money Purchase Annual Allowance (MPAA). This restricts the maximum you can contribute and receive tax relief up to £10,000 per tax year. This is important if you are still working and planning to contribute.