A GUIDE TO

FLEXIBLE INCOME DRAWDOWN

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When it comes to turning your pension savings into income for your retirement, there are a number of things you should be prepared for. Depending on the choice you make, it could be a once-and-for-all decision, so you need to be sure it is the right one for you.

How long will your retirement last?
Your retirement may last longer than you would expect – so your savings may need to stretch further than you think.

The traditional view of retirement as the final stage of your life is no longer the reality for most people. You may go through several stages as you get older: very active, less active but healthy, less healthy but self-sufficient and perhaps finally needing care.

Ideally, your income should be flexible enough to meet your needs throughout your retirement.

Inflation

Imagine if you had spent 20 years of your working life without a pay rise – that is what retirement could be like on a fixed income. Think back to what you were paid 20 years ago – could you live on that today?

Some items may experience much higher inflation – including things you might want more of during your retirement. We can explain the impact of inflation on your plans and steps you can take to help your income keep pace.

Tax

You can normally take up to 25 per cent of your pension fund as a tax-free cash sum and may be able to take more if you have protected tax-free cash. Remember that you would need to take this tax-free cash option at the time you first decide to take income from the fund.

Your pension income will be taxed in the same way as earnings.

With flexible income drawdown, you may be able to arrange your income so as to avoid paying a higher rate of income tax.

Inheritance

Are you hoping to leave a capital sum to your heirs? If you convert all your pension saving into income using an annuity, it may die with you – even if you should die prematurely.

Much more flexibility

Improvements in health, coupled with changes to anti-age discrimination laws and pensions rules mean it is no longer necessary to retire to take benefits. Pensions options are now much more flexible. The plans you make today should have the scope to let you benefit from this greater freedom.

One option you may wish to discuss with us is flexible income drawdown, a type of income withdrawal where you can take pension income direct from your pension fund without having to purchase an annuity. Ordinarily, there are limits on the maximum income you can take under income withdrawal (known as 'capped drawdown').

Secured pension income

Provided you have a secured pension income of over £20,000 'Minimum Income Requirement' a year (which can include any State pension), you could be eligible to use flexible income drawdown in respect of your money purchase pension savings.

The eligibility rules for flexible income drawdown from pensions were untouched by Budget 2013, which is welcome news if this is something you are considering or would like to find out more about.

Under flexible income drawdown there is no limit on the amount of income you can take in any year. You can tailor your drawdown pension to suit your personal requirements, whether taking regular amounts at a set frequency or ad hoc income when required. There is even the option to draw the entire fund in one go. All income withdrawal payments are subject to income tax under PAYE at your appropriate marginal rate.

Tax-efficiency

Flexible income drawdown is tax-efficient, particularly where you wish to 'phase in' the use of your pension savings to provide that income. Any money left in drawdown on death is subject to a 55 per cent tax charge, whereas any untouched pension fund money (pre age 75) can pass on to your beneficiaries free of tax.

Once you go into flexible income drawdown you can no longer make tax-efficient pension contributions, so you should look to maximise all allowances, including carry forward, this tax year.

The information above is based on our understanding, as at May 2013, of the current taxation, legislation and HM Revenue & Customs (HMRC) practice, all of which are liable to change without notice. The impact of taxation (and any tax relief) depends on individual circumstances. Annuities and flexible income drawdown both offer valuable features; you may consider a combination of both to help meet your needs. Flexible income drawdown is a complex area. If you are at all uncertain about its suitability for your circumstances you should seek professional financial advice. Your income is not secure. Flexible income drawdown can only be taken once you have finished saving into pensions. You control and must review where your pension is invested, and how much income you draw. Poor investment performance and excessive income withdrawals can deplete the fund.

Flexible income drawdown is a complex area. If you are at all uncertain about its suitability for your circumstances we strongly suggest you seek professional financial advice. This is a high-risk option which is not suitable for everyone. If the market moves against you, capital and income will fall. High withdrawals will also deplete the fund, particularly leaving you short on income later in retirement.

No 'one-size-fits-all' approach

When it comes to turning your pension savings into an income for your retirement, you will be faced with a number of choices, so obtaining professional financial advice is essential. There is no 'one-size-fits-all' approach to retirement planning and your individual needs will depend on your own personal situation and priorities. To discuss or review your current requirements, please contact us – don't leave it to chance.

	Flexible income drawdown	Conventional annuity
Tax-free cash	**Yes** You can normally take up to 25% of your pension fund value as a tax-free cash sum.	**Yes** You can normally take up to 25% of your pension fund value as a tax-free cash sum.
Income tax – paid at source on your income	**Vary your income** You can vary the level of income you receive each year – giving the potential to avoid paying a higher rate of income tax.	**Can't vary your income** The income from an annuity is generally fixed from outset and potentially gives you less control over the rate of tax you pay.
Death and taxes	**Money to leave, tax to pay** When you die the remaining fund can be left to your family or dependants – the fund value is subject to a tax of 55%. It will not normally be subject to inheritance tax.	**Possibly nothing to leave or no tax to pay** When you and your spouse/partner (if joint life and they received an income after your death) die the income usually stops and no money passes to your estate. When you start an annuity you may have an option to guarantee some of the benefits for up to 10 years. Any outstanding guaranteed payments at your death would be included in your estate for inheritance tax.
Flexibility	**Yes** You can choose to take income from your fund if and when you need to, subject to a maximum limit. For example, you may wish to carry on working or reduce your working hours, so you may not need the full income amount in the early years. The limit is equivalent to the income you would get from a level single life annuity.	**No** Once you have agreed your annuity income basis it cannot be changed. You can select to have your income paid as: a level amount each year, increasing at a set amount or increasing in line with inflation.
Reviews	**Yes** The maximum income limit must be reviewed every three years. You should review your fund's performance more often to see how your fund is progressing and to find out how much it needs to grow by to keep paying the income you want.	**No** Once set there are no reviews.
Guarantees	**No** It is important to remember that the capital value of the flexible income drawdown fund and the income can go down as well as up during the time the fund is invested. This could mean that you have a smaller fund available to buy an annuity. If a high level of income is taken and investment performance is poor your fund may run out.	**Yes** A conventional annuity will provide you with a guaranteed income for life. Once set, the income from a conventional annuity will not change where a level option is selected.

At a time when people are being squeezed by the taxman, anything that helps save tax should be considered, and the potential to avoid the 55 per cent tax charge on part of those savings on death could result in significantly more of their estate being passed on to beneficiaries.

Contact us today.

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Goldmine Media, Basepoint Innovation Centre, 110 Butterfield, Great Marlings, Luton, Bedfordshire LU2 8DL
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