

Flexible drawdown

Fact Sheet | July 2011

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Taking advantage of what's possible with your client's SIPP.

As of April 2011, the requirement to secure an income at age 75 was abolished.

Capped drawdown was introduced to replace unsecured income, whereby there is a restriction relating to the GAD rate on how much income can be drawn down. Flexible drawdown was also introduced, and this grants investors the opportunity to withdraw as little or as much income from their pension pot as they wish without reference to GAD limits, provided they can meet certain conditions. It is even possible to withdraw the whole fund.

Why flexible drawdown?

Previously, pensions may not have been ideal for some investors. Pensions may have been seen as a restrictive method of saving, with limitations on how income can be withdrawn at retirement.

However, providing conditions are complied with, it is now possible for an investor to enter **flexible drawdown**.

At some point after retirement age, an investor may want to redecorate their house, or purchase a car, for example. They may have a secured pension of £20,000 a year; however this cannot be taken as a lump sum. And they may have already exhausted their pension commencement lump sum. If the investor is in drawdown, they may wish to withdraw a big chunk in order to make a significant purchase.

With flexible drawdown, this is possible.

Are there restrictions?

Flexible drawdown will typically only be available to those investors with larger pension pots.

To enable a client to enter flexible drawdown, a minimum pension income of £20,000 must be secured already (it must be received in the tax year the investor wishes to enter flexible drawdown), to prevent money running out later in retirement.

Secured income can come from a number of options; however investment income does not count.

Secured income which does count towards the Minimum Income Requirement (MIR) is:

- » Income from a lifetime annuity from a registered pension scheme
- » Income from a scheme pension from a registered

pension scheme, providing the arrangement has 20 or more members entitled to the scheme pension

- » Income from an overseas pension scheme which would fall within one of the above categories if the scheme were a registered pension scheme
- » Income from the State pension
- » Income from the Financial Assistance Scheme, which is payable until the member's death

What other conditions must be met?

As well as meeting the requirement of a secured pension income of £20,000, the following conditions also apply:

- » A valid declaration must be made to the provider that the flexible drawdown rules are met; and
- » no further contributions can be made.



It is also important to consider that it is not possible to take flexible drawdown from protected rights. Protected rights are due to be abolished from April 2012.

What about tax?

Flexible drawdown will be subject to income tax in the same way as other pension income and taxed through PAYE.

If a false or incorrect declaration is made, any income taken in excess of the normal capped drawdown rules will be treated as an unauthorised payment and will be potentially subject to a tax charge.

How does flexible drawdown work with a Suffolk Life SIPP?

Flexible drawdown is available as a feature across our entire pensions range, alongside capped drawdown.

To obtain an illustration for entering flexible drawdown, please visit www.suffolklife.co.uk/asillustrate.

Our forms required, including the flexible drawdown form, are available at www.suffolklife.co.uk/asliterature.

The flexible drawdown form needs to be filled out and sent to us (but again, it is important to remember this type of drawdown cannot be entered if the investor has made a contribution in that tax year). This form requires the investor to state the secured pension that makes up their MIR.

What are the costs?

Our costs to the investor entering flexible drawdown are as follows.

Designating flexible drawdown	£155 + VAT
Annual income charge (any year when income is paid)	£155 per annum + VAT
To completely deplete the fund and close the pension	£300 + VAT

Once in flexible drawdown there will no longer be a requirement to conduct triennial reviews nor monitor income limits.

Useful information

Please visit www.suffolklife.co.uk/asflexible.

Contact us

For more information about flexible drawdown, please email us at ifaenquiries@suffolklife.co.uk