



The Benefits

Drawdown Pension (including Flexible Drawdown)

This factsheet is designed to give an overview of one of the ways of taking benefits from a SIPP or SSAS. Although this factsheet concentrates on drawdown pension, it should be noted that the option to purchase an annuity is available at any time.

FEATURES

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Drawdown Pension

When can drawdown pension be taken?

Drawdown pension can normally only be taken from the age of 55, however, there are exceptions where benefits can be taken earlier:

- a) Where the member has a specific occupation and was already a member of a pension scheme for that employment prior to 6 April 2006, they can commence benefits at an earlier age; often 35. In these circumstances, the retirement age is referred to as being 'protected'. This protection is scheme specific and may be lost if the member transfers to another scheme post 6 April 2006, unless they adhere to certain 'conditions'. Please refer to the Protected Retirement Age and Block Transfer factsheets for further information.
- b) Anyone permanently incapacitated, and who cannot carry on their normal occupation, or an occupation of a similar nature. This is a matter of fact, and medical evidence is required.

James Hay Partnership offers capped drawdown pension and where the member meets the relevant criteria, we also offer flexible drawdown pension.

The option to stop taking a drawdown pension and purchase an annuity is always available.

Can a lump sum be taken?

When a member commences drawdown pension, excluding members with transitional protection, normally up to 25% of the fund value, or 25% of the standard lifetime allowance (if lower) can be taken as a pension commencement lump sum.

Is there a limit on the income that can be taken?

Income limits must be set up to accommodate the payment of capped drawdown pension. The maximum annual income payable is 150% of the basis amount, as calculated using the Government Actuary's Department (GAD) tables. The minimum income is nil. For more information on the basis amount, please see the GAD calculations factsheet.

For a drawdown pension year that commenced prior to 27 March 2014, the maximum annual income may be 120% of the basis amount. In such a scenario, where the member is in receipt of only 120% of the basis amount, they may on the anniversary of the reference period following 26 March 2014 elect to increase this to 150% of the basis amount:

Where a member meets certain criteria, it is possible to draw income in excess of the maximum outlined above; indeed it is possible for a member to access the whole of their drawdown fund. This is known as flexible drawdown. In order to access flexible drawdown, the member must make a valid declaration that they meet the flexible drawdown conditions. These conditions are:

- a) The member at the time of the declaration has to be in receipt of relevant income and the level of income paid before the end of the tax year in which the declaration is made is at least £12,000. This minimum level of income is known as the minimum income requirement.
 - Relevant income includes lifetime annuities, and in certain circumstances scheme pensions, payable from a registered pension scheme. State pensions and certain payments from the Financial Assistance Scheme are also included.
- b) No contributions have been paid by the member, or on their behalf, to any money purchase registered pension scheme in the tax year in which the declaration is made.
- c) At the time of the declaration, the member is not an active member of a defined benefit registered pension scheme or cash balance registered pension scheme.

What are the mechanics for paying an income?

Any required capped drawdown income must be paid to the member in each successive 12 month period that commences from when benefits start. In the case of flexible drawdown there is no such requirement.

Within certain constraints, members can choose the frequency of when they receive their income, i.e. monthly, quarterly, half yearly or annually and either in advance or in arrears as appropriate.

At James Hay Partnership all the income, including flexible drawdown, is paid under the PAYE system. It is therefore important that the member provides their latest tax coding to ensure we can deduct the correct amount of tax. In the absence of such information, we will deduct what we believe to be the appropriate rate of tax. We then advise HMRC, and if necessary they will issue a revised tax coding.

We invite members to review their chosen income level within the calculated limits on an annual basis.

Provided the next income anniversary date does not coincide with the start of the next reference period an automatic review will be carried out when the member's capped drawdown fund is reduced because of a pension sharing order as a result of divorce, or an annuity is purchased with some of the capped drawdown fund. The new limit will apply from the next income anniversary, though the existing reference period would be unaltered.

* Having asked for the recalculation, the new limit will apply, even if the maximum income level has decreased.

When are the income limits reviewed?

On the date funds are first designated to provide drawdown pension and every three years thereafter, the maximum income must be reviewed to ensure the Capped Drawdown Fund can continue to provide the income for life. This three year period is referred to as the 'reference period'. The reference period in which the member attains age 75 will end on the anniversary of the reference period immediately following this, whereupon reviews will be carried out on an annual basis.

The member can ask for the income level to be recalculated* at the next anniversary of the reference period. If we agree, the maximum income will be recalculated and a new reference period will start from that anniversary date.

Do all the member's rights have to go into Capped Drawdown?

No. Partial income withdrawal is allowed.

If a member has a protected retirement age or scheme specific lump sum protection, these are lost if partial income withdrawal is taken. Please refer to the relevant factsheets for further details.

Why do you sometimes issue more than one annual valuation each year?

In these cases, members will have more than one tranche of income and as each is treated separately, the member has the opportunity to revise the level of income for each, within the current minimum and maximum each year.

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