

# The Benefits

## Capped Drawdown Pension

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 capped drawdown pension, it should be noted that the option to opt for flexi-access drawdown or to purchase an annuity is available at any time.

### FEATURES

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## Capped Drawdown Pension

### When can capped drawdown pension be taken?

Capped drawdown is only available for those individuals who took capped drawdown prior to 6 April 2015. It was normally only able to be taken from age 55, however, there were exceptions where benefits could have been 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 could 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 could not carry on their normal occupation, or an occupation of a similar nature. This is a matter of fact, and medical evidence was required.

James Hay Partnership still offers capped drawdown pension and where the member meets the relevant criteria this can continue.

If an individual is in capped drawdown with James Hay Partnership and they have other SIPP rights with us, or with another provider that they subsequently transfer to us, and where they have not taken benefits, they will be able to continue in capped drawdown when they take their additional benefits. Also, if they are in capped drawdown with another provider and transfer to James Hay Partnership, then as long as they are not in flexi-access drawdown with us they can continue in capped drawdown. The option to stop taking a drawdown pension and purchase an annuity is always available.

### Can a lump sum be taken?

When a member designates further funds for drawdown pension under capped drawdown, 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.

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 flexi-access drawdown (please see our factsheet on flexi-access drawdown for more details). In order to convert from capped drawdown to flexi-access drawdown, the member can either take income that exceeds their maximum capped drawdown limit or notify us in writing that they wish to convert their drawdown fund.

### 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.

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 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.

## 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.

Where the member designates further funds to their capped drawdown, the maximum income is recalculated to reflect this additional amount, however, the original reference period is unaffected.

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.

## 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.

## Do you provide annual valuations?

Yes. On the anniversary of the first tranche crystallised we will provide a valuation of the member's whole plan. In addition, when a tranche gets to the end of its reference period, we will provide a valuation of that tranche on its own.

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