



What do you think you'll be doing in ten years' time? Or twenty? It's not an easy question to answer and that's why being able to withdraw income from your pensions in a flexible way – as and when you want – could be a good option for many moving into retirement.

The official name for flexible retirement income is income drawdown. This short guide answers some of the main questions about income drawdown – from what it is and how it works to its advantages and drawbacks. As there's a lot to take on board, your adviser will be able to help you with the things you need to think about.

This guide has everything you need to:

- Understand how pension drawdown works
- Weigh up the advantages and drawbacks
- Compare income options

Ready to discuss drawdown?

In the first instance, please speak to your adviser. In addition the government offers a free and impartial guidance service to help you understand your options at retirement. This is available via the web, telephone or face-to-face through the Pension Wise service which is now part of MoneyHelper; the easy way to get free help for all your pension and money choices.

You can find out more by going to **moneyhelper.org.uk/ pensionwise** or calling Pension Wise on **0800 011 3797**





Income drawdown allows you to leave your money in your pension savings and take income or lump sums from it as and when you want. Any money left in your pension savings remains invested, which may give your pension savings a chance to grow.

Up to a quarter (25%) of your pension savings can usually be taken tax free and any other withdrawals will be taxed as earnings whether you take them as income or as lump sums. This means that, for example, you could take a higher income when you first retire (and are likely to be more active). Equally you may only want to take a little bit of money early on, preferring to make use of other sources of income first.

It is likely that you will live 20 years or more in retirement and so you will need to decide how much to take at the start (and when to take it). It will be important for you to keep this under review as you get older to ensure your pension savings will last as long as you do. It's worth also keeping in mind that you do not have to take any income if you do not wish to.

Please remember the value of investments and the income from them can go down as well as up so you may get back less than you invested.

What are the advantages?

The main advantage of using drawdown for your retirement income is the flexibility and control it can provide. This allows you to choose how much you take and when you take it. If you receive income from other sources, it can help you manage your tax liability more effectively. As the money remains in your pension, you also keep the option of buying an annuity at a later date, though you need to remember that annuity rates could change during this time.

Keeping your pension savings invested also means there is a chance it may grow, though there is no guarantee.

There is also the option for you to leave something for your family (or to other beneficiaries or charities of your choice). This can be a very effective way of looking after your loved ones, as any money passed on through a pension is free of tax, up to the lump sum and death benefit allowance of $\mathfrak{L}1,073,100$, if you die before the age of 75.

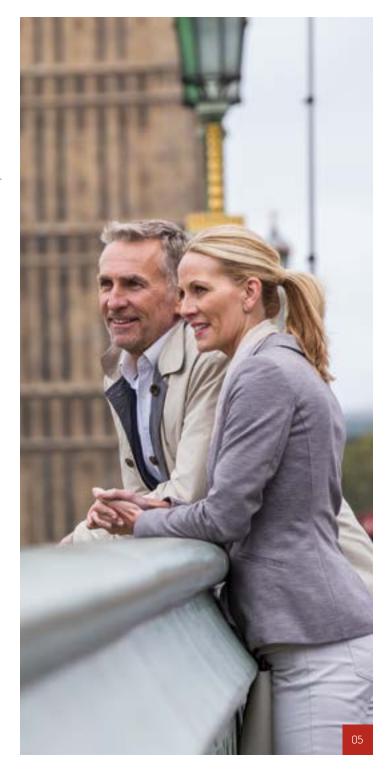
After age 75 anything left in your pension can normally be paid to your beneficiaries subject to tax based on the individual tax position of the person receiving the money.

What are the drawbacks?

The main drawback of using drawdown for your retirement income is that your money stays invested in the markets and you don't know what will happen in the future. If the markets struggle, you may have to reduce your income or your pension savings could run out.

It is also important to recognise that the funds you have been invested in while growing your pension may no longer be appropriate when you are looking to take money out. Money invested in cash may be less riskier but the returns are generally lower than if you were to invest in funds which hold a higher risk. As a result, choosing or staying in low-risk assets such as cash could increase your risk of running out of money in retirement, or having less money than you were expecting. You should therefore think very carefully about the funds you choose to invest in, taking into account your personal situation, your needs, goals and attitude to investment risk.

Drawdown gives you control over your money, but this also means there is more responsibility for you when monitoring and when managing your income. It is important to remember that money withdrawn from a pension is usually taxable and withdrawing large sums could therefore mean you move into a higher tax bracket. If your circumstances change or if at some point in the future you find it more challenging to manage your investments, you have the option to buy an annuity, which will provide you with a guaranteed lifelong income.





Here are the different options you have for your pension savings – each with their own strengths and weaknesses. The key point to remember is that you don't have to pick just one.

You can use as many or as few as you need, in whatever combination is right for you – and, in some cases, you'll be free to change your mind later as well. All options come with slightly different tax implications too, so it's important to understand how much tax you may have to pay before going ahead.

Income drawdown

- You can take up to 25% of your pension as a tax-free lump sum straight away, if you want.
- The rest of your money stays invested and you take a regular income or lump sums whenever you want.
- Your pension savings remain invested, which may give it a chance to grow.
- If you take too much, or your investments underperform, you may run out of money.
- You can leave any funds you don't withdraw to your family, other beneficiaries or charities of your choice.

One or a number of lump sums (UFPLS)

- You can leave your money in your pension and take lump sums from it as and when you need, until your money runs out or you choose another option.
- You can decide when and how much to take out
- Each time you take a lump sum, normally a guarter (25%) of it is tax free up to the standard lump sum allowance of £268,275 and the rest will be taxed as earnings, so if you take a large sum you could move up a tax band.
- Any money left in your pension savings remain invested, which may give your pension savings a chance to grow, but please note that it could go down in value too.
- If you take too much, or your investments underperform you may run out of money.
- You can leave any money you don't withdraw to your family, other beneficiaries or charities of your choice.

Guaranteed income for life (annuity)

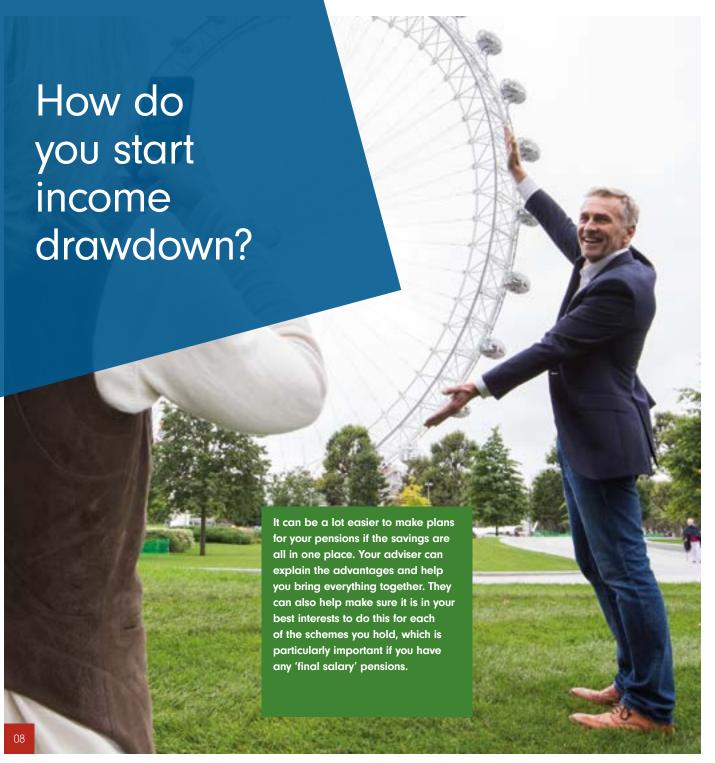
- You can take up to 25% as a tax-free lump sum straight away, if you want.
- You then give your money to an insurance company and they pay you an agreed income (usually for life).
- There are lots of features you can include such as annual increases to the income and a pension for a spouse or dependant. If you have any health problems you might be able to get a higher income, (this is known as an 'enhanced annuity').
- As the income you receive from an annuity is partly linked to interest rates, the income the insurance company offers to pay you may be lower than you expect, especially if interest rates are low.
- You may be able to pass something on if you select the right options.
- Once you buy an annuity, you can't usually change your mind.

Leave your pension savings as they are

- Reaching the minimum pension age or the age you agreed with your pension provider to retire is not a deadline to take action. You cannot normally access your pension until age 55 (57 from 2028).
- You can delay taking money from your pension savings to allow you to consider your options.
- Delaying taking your money may give your pension savings a chance to grow, but please note that it could go down in value too.
- You can leave any money in your pension to your family, other beneficiaries or charities of your choice.

the years.





The specific way you take drawdown will depend on your pension provider, but if you and your adviser choose to do it through us, we will use our Pension as your account.

This low-cost pension has a number of valuable benefits:

- The full range of retirement income options (it may be hard to believe, but not every company offers them)
- No set-up fees, annual fees or annual drawdown fees
- No one-off withdrawal fees
- No drawdown restrictions at 75 (you can leave your money invested for as long as you want)
- No fees for moving other pensions to us
- The freedom to use full or partial drawdown
- Over 7,000 investment options, including company shares, investment trusts and exchange-traded funds (stamp duty and dealing fees apply)

All you pay is our Service Fee of 0.25% a year and an annual Investor Fee of £45*, as well as any ongoing charges for your chosen investment options.

^{*} The Investor Fee is only payable if this is not being paid on another sole account.

Ready to discuss income drawdown?

Have a chat with your adviser today.

Important information

Please remember that the value of investments and the income from them can go down as well as up, so you may get back less than you invest. Whether you are eligible to invest in a pension depends on your personal circumstances. Tax treatment depends on individual circumstances and all tax rules may change in the future. You cannot normally access your pension until you reach age 55 (57 from 2028).

This information is not a personal recommendation for any particular product, service or course of action. Pension and retirement planning can be complex. If you are unsure about your options please speak to your adviser.

