



A flexible retirement  
income for whatever  
the future holds

# Introducing flexible retirement income

**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 income drawdown works
- ✓ Weigh up the advantages and drawbacks
- ✓ Compare drawdown with your other income options
- ✓ Receive the support you require – everything from information and guidance to full financial advice

### 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 government approved organisations, such as The Pensions Advisory Service and the Citizens Advice Bureau. You can find out more by going to [pensionwise.gov.uk](https://pensionwise.gov.uk) or by calling Pension Wise on 0800 138 3944.





## What is income drawdown and how does it work?

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

Up to a quarter (25%) of your pension pot 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 pot 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.

## Ways to invest and take an income

There are three ways you can take income through drawdown.

### 1. Natural income

You can take income from the dividends that are paid to the fund, instead of cashing in units or shares. There's more chance of your money lasting, but you won't know exactly how much you'll get from month to month.

### 2. Capital withdrawals only

You can put your money in investments that aim to deliver capital growth instead of income, and then withdraw money from the capital.

### 3. Capital withdrawals plus natural income

You can make withdrawals that include the natural income from your investments plus some of your pension pot to get the income you need.

## 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 pot 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 if you die before the age of 75 (as long as you don't exceed the lifetime allowance. Your adviser will be able to explain this to you).

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 pot 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.

# How does income drawdown compare?

**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 income or lump sums whenever you want.
- Your pension pot remains invested, which may give your pension pot 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 pot 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 quarter (25%) of it is tax free 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 pot remains invested, which may give your pension pot 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 pot as it is

- Reaching age 55 or the age you agreed with your pension provider to retire is not a deadline to take action.
- You can delay taking money from your pension pot to allow you to consider your options.
- Delaying taking your money may give your pension pot 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.

It really is worth remembering that you don't have to pick just one of these options for your retirement income. We believe most people will want to use a combination of them, which may even change over the years.

# How do you start income drawdown?

**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
- A wide range of funds from over 100 leading companies
- Additional investment options, such as 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.



It can be a lot easier to make plans for your pensions if the savings are all in one place. Your adviser can explain the advantages and help you bring everything together. They can also help make sure it is in your best interests to do this for each of the schemes you hold, which is particularly important if you have any 'final salary' pensions.



# 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. All tax rules may change and the value of tax savings depends on personal circumstances. You cannot withdraw money from your pension until you are 55.

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.