

Helping your clients maximise their pension income



Depending on your client's circumstances, drip-feed drawdown can offer a flexible, tax-efficient way to take their pension income. In these case studies we highlight how drip-feed drawdown could potentially work for your clients who have retired or are nearing retirement.

This communication is for financial advisers only. It mustn't be distributed to, or relied on by, customers or any other persons.

These are fictional case studies. They don't represent real customers.

Why drip-feed drawdown?

If you have clients who don't want to take all of their tax-free cash in one go drip-feed drawdown could be the answer, as it lets your clients take their pension benefits as a regular income made up of either:

- tax-free cash, or
- tax-free cash and taxable income from drawdown.

Put simply, it's an automated, tax-efficient way for your clients to take their pension income.

The value of an investment and any income your client takes from it can fall as well as rise and isn't guaranteed. Your client could get back less than they invest.

Meet Gordon

Gordon is 63 – he recently retired and has a SIPP pension pot of £200,000 which he hasn't taken any income from yet.

- He needs a yearly income of £3,000 from the SIPP and would like to pay as little tax as possible on the income - he has other income coming in from pensions and investments he holds and doesn't want to become a higher-rate taxpayer.
- He doesn't have any lifetime allowance protections, and isn't likely to exceed the lifetime allowance charge.



Gordon's options

Gordon has a couple of options to consider, however his final decision is likely to depend on how he'd like to spread his tax-free cash and whether pension contributions are still being paid (as the level of any contributions being made could dictate if the money purchase annual allowance could be a factor when he decides how he should take his benefits).

Option 1

Gordon takes an income consisting only of tax-free cash

Gordon can crystallise £12,000 from his SIPP every year, giving him tax-free cash of £3,000. He can put the remaining £9,000 each year into flexi-access drawdown.

With this option Gordon benefits from £3,000 tax-free income for approximately 16 years - the exact number of years will depend on the performance of the fund. When the tax-free cash runs out he'll need to take income from his flexi-access drawdown fund which will be subject to tax at Gordon's highest marginal rate.

Option 2

Gordon takes an income consisting of tax-free cash and taxable income

Gordon's a basic-rate taxpayer, so to get a yearly income of at least £3,000 he needs to crystallise £3,530.

He can take 25% (£882.50) of this as tax-free cash and put 75% (£2,647.50) into flexi-access drawdown to withdraw as income immediately.

The £2,647.50 is taxed at his highest marginal rate of 20% giving a net amount of £2,118. This will give him a total yearly income of £3,000.50.

An alternative option

If Gordon decides he'd like a higher portion of the income tax free he could choose to take a higher amount and leave some crystallised in drawdown.

For example, he could crystallise £6,000. £1,500 is tax-free cash and he could put the remaining £4,500 straight into flexi-access drawdown.

Gordon could then take income of £1,875 from drawdown, taxed at 20% to give £1,500, to make the income up to £3,000. The remaining £2,625 can stay invested in the flexi-access drawdown plan.

Final decision

Gordon discusses the options over with his financial adviser to decide what option is best for his circumstances. Based on the fact they don't anticipate his tax situation changing and there won't be any more contributions paid into Gordon's pension, they opt for option 2 - an income made up of tax-free cash and taxable income. This will allow him to spread his tax-free cash better than option 1.



Meet Alison

Alison is 55 and has recently reduced her hours at work. She'd like some extra monthly income but doesn't want to pay any further tax if possible.

- She'd like an income of £1,000 per month.
- She has a pension fund of around £600,000 and her employer still pays into her pension.
- She has no lifetime allowance protection.
- She hasn't flexibly accessed any other pension benefits.



Alison's income option

Alison and her financial adviser decide the best option for her circumstances will be taking an income made up of entirely tax-free cash. Because she hasn't accessed her pension benefits the money purchase annual allowance won't apply, making this an even more tax-efficient option.

To take £1,000 monthly as tax-free cash, Alison needs to crystallise £4,000 each month. Each time this happens, £4,000 will be tested against her remaining lifetime allowance and she'll receive £1,000 as tax-free cash.

The remaining £3,000 will be put into flexi-access drawdown and remain invested. Alison won't pay a tax charge when she takes benefits in this way, assuming she has enough lifetime allowance left each time.

Alison can continue to take this monthly income for between 12 to 13 years - until her tax-free cash runs out. The exact amount of time will depend on the performance of her uncrystallised fund.

This information is based on our understanding of current taxation law and HMRC practice, which may change. The value of any tax relief will depend on individual circumstances.

To find out more about drip-feed drawdown on Aegon Retirement Choices and One Retirement please speak to your usual Aegon contact or get in touch with our Adviser Solutions team on [0345 610 0083](tel:03456100083) (choose option 1, then option 1 again. Call charges will vary)