For customers

Using flexi-access drawdown to take your pension benefits

In this guide, we cover some of the options available to you when you come to take benefits from your self-invested personal pension (SIPP) on Aegon Retirement Choices (ARC) or One Retirement using flexi-access drawdown.

Flexi-access drawdown lets you take income from your SIPP while the money in it is still invested. There are other ways you can take your benefits from your SIPP but in this guide we look at using flexi-access drawdown.

The minimum age to start taking benefits from your pension is normally 55 (increasing to age 57 on 6 April 2028).

AEGON

Tax on income and one-off payments from your pension

You can usually take a one-off lump sum of tax-free cash (normally up to 25% of the fund) with the remainder moving into flexi-access drawdown. However, there's a limit to the amount that can be taken tax-free. Tax-free lump sum payments are tested against two allowances – once either of the allowances is used up, all payments from your pension will be fully taxed as income. For more information on this please visit MoneyHelper

The income payments you take using flexi-access drawdown are treated like any other income you receive and will be subject to income tax. The amount of income you take in a tax year could take you into a higher rate tax bracket, so it's important to consider this when deciding how much and when to take an income. Tax information in this document is based on our understanding of current taxation law and HMRC practice, which may change, and will vary depending on your personal circumstances.

Taking an income from a flexi-access drawdown fund will trigger the money purchase annual allowance. This limits the amount you can pay into any defined contribution pension plans you have (such as a SIPP, a personal pension plan or workplace pension) without incurring an annual allowance tax charge. This limit is currently set at £10,000 each tax year.

Remember

The amount your SIPP is worth depends on how much money you and your employer (if applicable) have paid in, the effect of charges on your fund and the performance of your investments over time. It's important to remember that with flexi-access drawdown you remain invested. As such, the value of your SIPP can fall as well as rise and isn't guaranteed. You could get back less than you paid in.

It's important you fully understand your options on how to take your pension savings. Pension Wise is a government service from MoneyHelper that offers free, impartial pensions guidance about your pension options. If you're aged 50 or over, you can book an appointment to speak with someone at Pension Wise – appointments are free. They'll talk you through your options to help you make an informed choice when you access your pension. Alternatively you can seek financial advice from a financial adviser. You can find a financial adviser near you on the MoneyHelper website.

It's also important to shop around to make sure you get the right solution for your particular circumstances. You can do this yourself or with the help of a financial adviser. There are further details on the MoneyHelper website.

Your flexi-access drawdown options

Prior to taking any benefits your SIPP is uncrystallised. If you decide to use flexi-access drawdown, the amount you take is crystallised, and your SIPP could consist of one or both of the following depending on how much you decide to take.

Your uncrystallised fund	this is the part of your SIPP that you haven't taken benefits from.
Your crystallised flexi-access drawdown fund	this is the part of your SIPP which you've moved into flexi-access drawdown that's available for the payment of income.

If you want to take benefits from your SIPP on ARC and One Retirement and make use of flexi-access drawdown, there are several ways you can do this.

Crystallising all of your funds at the same time

One option is to crystallise all the funds held in your SIPP at the same time. You can usually take a one-off payment of tax-free cash (normally up to 25% of the fund). The balance remains invested and can be used to provide flexi-access drawdown income.

You don't have to take income from your flexi-access drawdown fund. If you do, you can take this as:

- Regular income
- Ad hoc income
- A combination of both.

- Any income you take from your flexi-access drawdown fund is taxed at your marginal rate of income tax (this is the rate of tax paid on the next pound of income).

Phased retirement

It could be you want to access your uncrystallised fund in stages, perhaps to help support a phased retirement reducing your hours or days of work.

- Each time you crystallise some of your funds, you'll normally be able to take up to 25% as tax-free cash.
- The remaining 75% is invested into flexi-access drawdown. You can take income from this if you want – but you don't have to.
- Any income you take from your flexi-access drawdown fund is taxed at your marginal rate of income tax (this is the rate of tax paid on the next pound of income).

However, if you just want a simple automated approach to provide you with benefits at a regular frequency, for example monthly, quarterly, half yearly or yearly – drip-feed drawdown could be the answer.

Drip-feed drawdown

As an extension of the phased retirement approach above, you could choose drip-feed drawdown.

This allows you to take benefits at a regular frequency. It's an automatic process and lets you take tax-free cash only or a combination of tax-free cash and income. Any income taken from your flexi-access drawdown fund will be subject to tax at your marginal rate of income tax.

When it comes to taking drip-feed drawdown there are three options available. We show how these may work in practice over the next few pages. The option best suited to you will depend on your circumstances, for example you may:

- Still be working and want to manage how much income tax you pay.
- Still be intending to contribute to your pension.
- Be likely to pay a lower rate of income tax in future than you do now.
- Be keen to use your tax-free personal allowance each year.

You should seek financial advice to find the right solution for your needs.

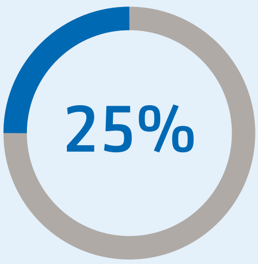
In these examples, we assume you're a basic rate taxpayer due to other income you have (and that in these scenarios your flexi-access drawdown income wouldn't push you into paying a higher rate of income tax), require an initial payment of around £3,000 and want to consider how much income tax (if any) you'll pay on the benefits under each option.

Remember, these examples are just for the purpose of showing some of the options available to you. A financial adviser can provide a more detailed illustration suited to your tax situation and requirements.

Option 1 – tax-free cash only

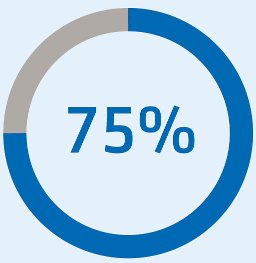
£12,000 crystallised

Money paid to you
£3,000



£3,000
25% tax-free cash.

Invested
£9,000
in drawdown



75% continues to be invested in flexi-access drawdown.

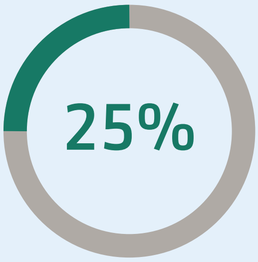
Tax paid
£0

No tax deducted while funds remain invested in flexi-access drawdown.

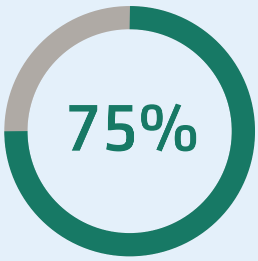
Option 2 – tax-free cash and taxable income

£3,530 crystallised

Money paid to you	**Tax paid**
£3,000.50	**£529.50**



£882.50
25% tax-free cash.



The remaining **£2,647.50** is invested in flexi-access drawdown and taken as income straight away.

After 20% income tax is deducted you receive **£2,118** as income.

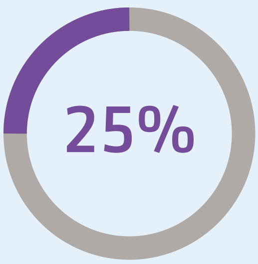
20% tax deducted from income.

If an emergency tax code has been applied then you may receive less than £2,118. You'll still be able to claim back the overpaid tax.

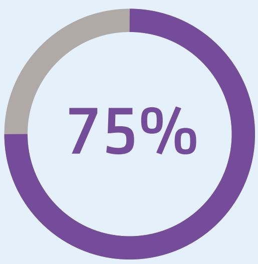
Option 3 – combination tax-free cash, taxable income and funds remaining in drawdown

£6,000 crystallised

Money paid to you	Invested	Tax paid
£3,000	**£2,625** in drawdown	**£375**



£1,500
25% tax-free cash.



The remaining **£4,500** is invested in flexi-access drawdown.

£1,875 is taken as income straight away.

After 20% income tax is deducted you receive **£1,500** as income and **£2,625** is left in flexi-access drawdown.

20% tax deducted from income.

General considerations with drip-feed drawdown

- Drip-feed drawdown isn't suitable for those who want to access their full tax-free cash in one go.
- Once your funds are fully crystallised, you won't be able to take any more tax-free cash. If you require income, you'll have to take it from the flexi-access drawdown fund.

Drawing down too much too soon

- The level of income isn't guaranteed. There's a real chance that you may need to reduce your drawdown income in the future, in particular if the performance of your investments is lower than expected, or you live to a greater age than originally anticipated when choosing your initial income level.
- Taking income will reduce the size of your pension fund and the investment growth may not be sufficient to maintain the level of income you wish to draw. If you withdraw money at a rate greater than the growth achieved by your investments, your remaining fund will reduce in value. The level of income you take will need to be reviewed if the fund becomes too small – this is more likely the higher the level of income you take.
- The income you receive may be lower than the amount you could receive from an annuity, depending on the performance of your investments.
- The rules governing how much income you can take directly from your pension fund may change. This could mean that the income you can take from the investment no longer meets your requirements.

Whatever option you choose it's important to conduct regular reviews to assess your ongoing retirement income needs and to monitor the effect the benefits you take have on your remaining SIPP fund.

To find out more about flexi-access drawdown, including drip-feed drawdown on Aegon Retirement Choices and One Retirement please speak to your adviser.

If your personal circumstances mean you need any additional support, or if you'd like a large print, Braille or audio CD version of this document, please call 03456 081 680 (call charges will vary) or visit – aegon.co.uk/support

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