

PRESS ARTICLE

FLEXIBLE DRAWDOWN | NOVEMBER 2011

The Finance Act 2011 introduced further changes from 6 April 2011 to private pensions but the introduction of Flexible Drawdown will be welcomed by those who seek more flexibility when it comes to taking their pension benefits.

Under Flexible Drawdown there is no restriction on the amount of income you can take each year in fact you can take the whole of your pension fund out in one go. You can take up to 25% of your pension fund as a tax free lump sum subject to your pension fund not exceeding the lifetime allowance which is presently £1.8 million but this will reduce to £1.5 million from 6 April 2012. The withdrawals from the remaining pension fund will be taxed as income in the tax year they are paid.

To qualify for Flexible Drawdown an individual must be at least age 55 and meet a minimum income requirement, this is to ensure they won't fall back on to state benefits if they use up their entire pension fund under Flexible Drawdown. To meet the minimum income requirement an individual must be in receipt of an annual pension income of at least £20,000 in the tax year they opt for Flexible Drawdown. This pension income can be a combination of

- State Pensions
- Lifetime Annuities
- Pension from a Final salary Scheme

Income Drawdown pensions and some other pension income do not count towards the minimum income requirement. The Treasury will review the minimum income requirement every 5 years but an individual only needs to satisfy the requirements when they first opt for Flexible Drawdown.

At the present time Flexible Drawdown cannot be used with a Protected Rights fund, this is the fund that has been accumulated from national insurance contribution rebates as a result of contracting out of the state second pension scheme, formerly SERPS but this may change in April 2012 when changes to Protected Rights take place.

Example

Let's assume an individual has pension income of £30,000 that satisfies the minimum income requirements, they have no other income but have an additional private pension fund of £100,000. They can take a tax free cash lump sum of £25,000 and use Flexible Drawdown for the remaining £75,000.

They could take the whole £75,000 in one payment with part of it taxed at 20% and the rest at 40%. On the other hand they might decide to take income of say £12,000 in year one to keep them below the higher rate tax threshold and make subsequent withdrawals to ensure they maximise their income without paying higher rate tax.

Flexible Drawdown may be of interest to individuals who are seeking to maximise their income over a short period say until their state pension becomes payable.

Opting for Flexible Drawdown affects your ability to make further pension contributions. You cannot make pension contributions in the tax year of going into Flexible Drawdown and if you restart your contributions in the next or subsequent tax years then these will be subject to an annual allowance tax charge payable by the individual.

Using Flexible Drawdown usually requires the remaining fund to remain invested and this brings an individual's views on investment risk into consideration.

In the event of an individual's death whilst using Flexible Drawdown, the residual fund can be used to provide a dependants pension or the remaining fund can be paid out less a tax charge of 55%.

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