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SIPP Retirement Options Fact Sheet

This fact sheet provides information about some of the options available to you on retirement. It highlights what you need to consider and lets you know where to get more information.

Pension wise

Pension Wise is a free impartial service introduced by the government to help consumers understand their options at retirement.

The Pension Wise service can be accessed online or by free appointment over the telephone or through a face-to-face meeting.

You can find out more about the Pension Wise service, browse the online guidance and book a free appointment by visiting pensionwise.gov.uk. Appointments can also be booked by phone on 0800 138 3944.

Please note that Wealthtime is not authorised to provide pensions guidance or advice.

We strongly recommend you seek guidance from Pension Wise or advice from a regulated financial adviser to understand your options at retirement before deciding what to do.

Your options

The following sections summarise the options available to you at retirement. You should also seek guidance from Pension Wise or advice from a regulated adviser.

1. Flexi-access drawdown

What is flexi-access drawdown?

From 6 April 2015 under flexi-access drawdown (FAD) you can decide to take up to the whole of your pension fund in cash should you wish to do so. This will be subject to tax at your highest marginal rate except for 25% of any new funds designated to drawdown from uncrystallised funds, which are normally tax free. Please see below for more details of the tax implications.

Please note that where you take flexi-access drawdown, whether on the whole or part of your fund, you will only be able to contribute to defined contribution pension schemes of up to £10,000 per annum in this and all future tax years.

From 6 April 2015 flexi-access drawdown replaces flexible drawdown if you are currently taking benefits under this type of drawdown.

What are the tax implications?

Apart from any tax free amounts allowed by the regulations applicable at the time of the payment, all pension payments are subject to tax deductions under PAYE.

Unless a current P45 is provided from your previous pension scheme before we make the first payment to you, we are required to deduct tax using the emergency tax code on either a week 1 or month 1 basis, until such time as HM Revenue & Customs (HMRC) issue a revised coding notice to Wealthtime.

Warning

Operating PAYE on pension payments using the emergency tax code can result in you paying significantly more or significantly less tax than would otherwise be the case. Depending on the frequency of the payments and/or the amounts to be taken, you may not be able to obtain a correction to any under or over payment until HMRC have reviewed your tax position at the end of the current tax year.

Please also note that if you decide to take all or a large part of your pension fund you may not have sufficient funds to last you for the whole of your retirement. Your level of pension income is not guaranteed as the fund remains invested in the market and any investment can fall in value. Please also bear in mind that any means-tested benefits may be affected when you receive any pension income.

It is for these reasons that Wealthtime expects all clients entering flexi-access drawdown to have taken professional advice on the likely implications before proceeding.

Please also note that you must inform all your other existing and future pension providers that you have entered flexi-access drawdown within 91 days of starting flexi-access drawdown or HMRC may impose severe penalties.

2. Capped drawdown

This is only available to you if you were already in capped drawdown before 6 April 2015. If you were in capped drawdown this may continue. You may designate further funds to a capped drawdown arrangement unless that arrangement was established as a capped drawdown transfer arrangement.

The calculation is determined by the government actuary's department and we will inform you each pension year what your maximum permitted level of income is.

You may continue to receive a tax free lump sum of 25% of any new funds designated to capped drawdown from 6 April 2015.

If you draw out more than this maximum your capped drawdown fund automatically becomes a flexi-access drawdown fund and from that time you are able to withdraw as much of your fund as you wish as explained under the flexi-access drawdown section of this fact sheet.

For as long as you continue in capped drawdown from 6 April 2015 you may continue to contribute to your pension funds up to your normal annual allowance (which is £60,000 per annum in the current tax year).

As with flexi-access drawdown all capped drawdown benefit payments have tax deducted under PAYE. Please also bear in mind that any means-tested benefits may be affected when you receive any pension income.

3. Uncrystalised Funds Pension Lump Sum (UFPLS)

What is an UFPLS?
UFPLS were introduced by the government in April 2015 as part of the pension freedoms changes. They were introduced to provide an alternative to the income drawdown products traditionally offered by pension providers to clients looking to access their pension savings. An UFPLS is a lump sum payment taken from the part of your pension fund that has not yet been used to provide a drawdown pension (refer to sections 1 & 2 above). Not all pension providers support UFPLS payments.

How can I take an UFPLS?
Wealthtime do not offer UFPLS however you are free to transfer your pension funds to a different pension provider so we have given a brief overview of this retirement option below.

To be eligible for an UFPLS payment:

- You must have sufficient non-drawdown pension funds to cover the full lump sum payment.
- You must have reached the minimum retirement age (currently 55) or earlier if you hold a protected pension age.
- You must not have Primary and/or Enhanced Protection with a protected lump sum of more than £375,000.
- The funds paying the UFPLS must not be from a 'disqualifying pension credit' (obtained through divorce proceedings).

In addition, you must have sufficient Lifetime Allowance (the limit on tax privileged pension savings imposed by the government) remaining to receive an UFPLS:

- For individuals under the age of 75 you must have enough standard lifetime allowance available to cover the full amount of the UFPLS payment.
- For individuals over the age of 75 you must have some standard lifetime allowance remaining at the time the UFPLS is paid.

Note that the above lifetime allowance checks are always tested against the 'standard' lifetime allowance so if you have obtained any enhancement factors (for periods of overseas residence, overseas pension scheme transfers etc) these are ignored when determining whether you are eligible to receive an UFPLS.

What are the tax implications?
If you are eligible to receive an UFPLS then part of the payment will be paid tax free and the remainder will be subject to an income tax deduction under PAYE. The amount of each element depends on your circumstances when the lump sum is paid:

- If you are under 75 then the tax free element will be 25% of the UFPLS being taken and the remaining 75% of the UFPLS will be taxable under PAYE.
- If you are over 75 and the amount of UFPLS is less than your remaining standard lifetime allowance then 25% of the UFPLS will be tax free and the remaining 75% will be taxable under PAYE.
- If you are over 75 and the amount of UFPLS is more than your remaining standard lifetime allowance then the tax free element is 25% of your remaining standard lifetime allowance and the remainder of the UFPLS is taxable under PAYE

Note that the first UFPLS payment(s) made to you by a pension provider will usually result in the taxable element of the UFPLS being paid under the emergency tax code. Please refer to the 'warning' under the flexi-access drawdown section for more information on how this could affect you.

Is there anything else I should consider?
Any funds remaining in your pension fund after the UFPLS payment will remain invested in line with your chosen investment strategy. You should therefore regularly review your investments to ensure they remain consistent with your retirement aims and needs.

If you decide to take all or part of your pension fund as a UFPLS you may find that you do not have enough pension savings to last you for the whole of your retirement. You should also bear in mind that any means-tested benefits may be affected by receiving an UFPLS.

Please note that where you take UFPLS, whether on all or part of your pension fund, you will only be able to contribute up to £10,000 per annum to defined contribution pension schemes in that tax year, and all future tax years.

4. Purchase an annuity through exercising an open market option

What is an Open Market Option (OMO)?

An 'Open Market Option' is the term used to describe the choice you have to buy an annuity from an insurance company that is not your current pension provider.

This option allows you to shop around to see whether another insurance company can provide you with a better annuity rate, and therefore, a higher retirement income, than is available from your current pension provider. This is important, as an annuity is a product that once bought cannot normally be changed.

The Open Market Option is available to all SIPP Clients, although it is not a requirement to purchase an annuity under it.

When can I buy an annuity or take income?

You can buy an annuity, or take income, from your own pension provider, where they offer annuities, or by using the Open Market Option, at any time from age 55. There is no upper age limit for purchasing an annuity.

You are entitled to use all or part of your fund to buy an annuity, allowing you to phase in your retirement.

The older you are, the more annuity you can buy for your money. However, annuity purchase rates can change all the time, up and down, and if you leave it until the last moment, you will have to buy at whatever annuity rates are available at that time, good or bad. Please note that any delay in making a decision may affect the annuity rate you are offered.

What options do I have when I decide to buy an annuity?

There are a wide range of different annuity options available and the choices you make and the type of annuity you select will affect the amount of income you receive.

As you will not normally be able to change the type of annuity you buy, you will not only need to look at your circumstances at the time you choose to buy an annuity, but think about what income you or your financial dependants may need in the future and whether your pension is your main source of income.

- Level annuity – with income remaining level year after year.
- Escalating annuity – with income rising each year, either at a fixed rate or in line with inflation.
- Joint Annuity if you have a partner – with income paid for your lifetime and to a partner if they survive after your death.
- Guaranteed Annuity – guaranteed for a specific number of years, so that if you die before the guaranteed period is up, your partner or estate will continue to receive the income.
- Investment Linked Annuity – offers the chance to have a higher income than a level or escalating annuity, but linking to the value of the annuity investments so income could go down as well as up.

There are a number of other decisions you must make regarding your annuity and you should consider these carefully at the time of purchase.

There are also other types of annuity that may be available to you depending on your lifestyle or state of health, for example, an enhanced annuity or an impaired life annuity.

How is an annuity worked out?

There are a number of factors that will affect the income you get from an annuity, for example:

- The value of your pension fund(s).
- The amount of pension commencement lump sum you choose to take.
- The annuity rate offered by the insurance company – this rate can vary between different companies.
- The type of annuity you choose to buy, for example single or joint, level or increasing income payments.
- Your age and health.

Should I shop around for an annuity?

Yes. As Wealthtime is not an annuity provider, should you wish to purchase an annuity, you will need to shop around for an annuity. Different insurance companies offer different annuity rates and different types of annuity products and you should shop around to get the best deal, and consequently a higher rate of pension income.

How do I shop around for the best deal?

Wealthtime can give you an estimate of the value of your SIPP, which can be used to purchase an annuity using the Open Market Option. You will then be able to ask insurance companies to provide you with a quote for the type of annuity you have chosen. Most quotes will be fixed for a number of days, normally up to 28 days.

You will need to speak to a financial adviser to find out which type of annuity suits your needs and the finance pages of newspapers and financial pages on the internet will also give you more details.

Do I have to pay tax on the income from an annuity?

Yes, the income you receive will be taxed under PAYE.