JAMES HAY PARTNERSHIP

BENEFITS

Q What is meant by 'taking benefits'?

A This is when you take money out of your pension fund on reaching normal retirement age (usually age 55 and over).

Q What options are available to me?

A Benefits will usually be in the form of one or a series of lump sum payments known as an uncrystallised funds pension lump sum, flexi-access or capped drawdown, or by purchasing an annuity.

Q When should I start taking benefits by?

A There is no upper age limit by when you must start to take benefits. This is up to you, although we recommend that you seek financial advice.

Income drawdown

Q What is income drawdown?

A Income drawdown is where you keep part of your pension fund invested and withdraw sums to provide a taxable income. Normally, you can take a tax-free lump sum of 25% (known as a pension commencement lump sum) of the fund you wish to use (crystallise) and use the remainder to pay an income at monthly, quarterly, half-yearly or annual intervals.

Q What tax is applicable to income drawdown payments?

A Income drawdown payments are subject to income tax and paid through PAYE. The appropriate tax code is supplied by HM Revenue & Customs. Any queries regarding your tax code should be directed to your local tax office.

Flexi-access drawdown

Q What is flexi-access drawdown?

A Flexi-access drawdown allows you to take as much income from your pension pot as you wish. Under flexi-access drawdown you can typically take a pension commencement lump sum of 25% and use the remainder to take a taxable income.

Q Can I continue to contribute to my pension when in flexi-access drawdown?

A Yes, although taking an income through flexi-access drawdown will trigger the money purchase annual allowance (MPAA) rules. This is where those that have 'flexibly accessed' their pension are subject to restrictions on the amount of future contributions that can be made to a money purchase pension scheme, such as a Self-Invested Personal Pension (SIPP). The limit for those that have triggered the rules is £4,000 for the 2020/21 tax year with a personal tax charge applicable if this amount is exceeded.

If, however, you only elect to take a pension commencement lump sum and no income, you will not be subject to the money purchase annual allowance rules and so you can contribute up to the standard annual allowance (£40,000 in the 2020/21 tax year) before being subject to any personal tax charges on your contributions.

Q Do I need to take an income once I have taken the pension commencement lump sum?

A No. You choose when you wish the income element to start.

Q Do I need to crystallise all of my funds?

A No. You can phase drawdown by only crystallising some of your funds and leaving the remaining funds to be accessed at a later date.

Q What are the pros/cons?

A The main pro is the flexibility - you can draw as much or as little as you wish at intervals that suit you – monthly, quarterly, half-yearly or annually. The main disadvantage is that this may not provide you with a level of income that lasts throughout your retirement.

You will also need to plan carefully how much income to take as drawing down larger sums, when included with any other income, could mean that you incur higher tax liabilities.

Should you choose to take an income through drawdown you need to bear in mind the sustainability of your chosen income method. Changes in circumstances, taxation, the performance of your underlying investments and the length of time that you live in retirement will all have an effect on the income available from your pension.

Q Which forms do I need to request income drawdown?

A Should you wish to enter drawdown, please complete the relevant 'Benefit Payment Form', which is available on our **website**.

If you are already in drawdown and wish to amend your level of income, you can do so using **James Hay Online**. For IPS and Partnership SIPP products please complete the 'Revised SIPP Income Instruction Form'.

Capped drawdown

Q What is capped drawdown?

A Capped drawdown allows you to vary the amount of taxable income you withdraw each year, up to a maximum amount that is calculated by reference to tables compiled by the Government Actuary's Department and your age. The maximum you can withdraw under capped drawdown is 150% of this calculated figure.

Q Who is eligible for capped drawdown?

A Only those who were in capped drawdown prior to 6 April 2015 can remain as such.

Q Can I convert to flexi-access drawdown?

A Yes. If you wish to convert to flexi-access drawdown, you can do this via **James Hay Online**.

For IPS and Partnership SIPP products, please complete the 'Revised SIPP Income Instruction with Conversion to Flexi-access Drawdown Form' which is available on our **website**.

Q What are the pros/cons?

A As with flexi-access drawdown, the rest of your fund remains invested and the income you withdraw can be varied to suit your circumstances. The downside to capped drawdown is that unlike flexi-access drawdown, the amount that can be taken from your pension fund is subject to a maximum limit.

Also, should you choose to take an income through capped drawdown, you need to bear in mind the sustainability of your chosen income method. Changes in circumstances, taxation, the performance of your underlying investments and the length of time that you live in retirement will all have an effect on the level of income available from your pension.

Q Which forms do I need to take income from my capped drawdown pension?

A You can request income through capped drawdown by completing the relevant 'Benefit Payment Form'.

If you wish to amend your level of income you can do so using **James Hay Online**. For IPS and Partnership SIPP products you will need to complete the 'Revised SIPP Income Instruction Form'.

Alternatives to income drawdown

Uncrystallised funds pension lump sum (UFPLS)

Q What is a UFPLS?

A This is a lump sum payment of an amount of your choosing up to the value of your SIPP fund. It is taken from the part of your pension fund that you have not previously used for benefits (referred to as 'uncrystallised funds'). This differs from a pension commencement lump sum, as the remaining 75% of the lump sum is paid as taxable income at the same time.

Q What tax is applicable?

A 25% of the UFPLS payment will be tax-free. The remaining 75% will be subject to income tax. The appropriate tax code is provided to us by HM Revenue & Customs and any queries regarding your tax code should be directed to your local tax office.

Q How many UFPLS payments can I take from my pension?

A You can take as many payments as you wish but you will need to instruct us each time you wish to take one. Each payment of a UFPLS will be subject to a charge. For details, please refer to the relevant Charges Schedule in the literature section of our website.

Q Can I continue to contribute to my pension after taking a UFPLS?

A Yes, although taking a UFPLS will trigger the money purchase annual allowance (MPAA) rules. This is where those that have 'flexibly accessed' their pension are subject to restrictions on the amount of future contributions that can be made to a money purchase pension scheme, such as a SIPP. The limit for those that have triggered the rules is £4,000 for the 2020/21 tax year with a personal tax charge applicable if this amount is exceeded.

Q How is the payment made?

A A UFPLS is paid directly to your bank account in two stages, with the tax-free element paid first and then the taxable element paid a few days later.

Please note that for IPS and Partnership SIPP products, you will receive one payment which will be made up of the tax-free and taxable amounts.

Q How do I request a UFPLS payment?

A If you wish to take a UFPLS from your pension, please complete the relevant 'Benefit Payment Form for UFPLS' which is available on our website.

Annuities

Q What is an annuity?

A This is where you pass your pension pot to an insurance company which will then pay you a fixed annual income for life or for a specified period. **Please note that James Hay Partnership is not an annuity provider.**

Q Are there different types of annuity?

A There is a wide range of annuity options available from different insurance companies and the type of annuity you select will affect the amount of income you receive.

The main types of annuity options are:

- **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.
- **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 guarantee period is up, your partner or estate will continue to receive the income. The maximum guarantee period is 10 years.
- **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 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 impaired life annuity. Different insurance companies will also pay you income at different levels, so you should shop around before deciding which provider to go with.

Visit the Money Advice Service website at www.moneyadviceservice.org.uk for further impartial information.

Q Do I have to use all of my pension pot to purchase an annuity?

A No. You can use some or all of your pension fund to buy an annuity, keeping some funds invested until such a time that you wish to buy another annuity or take benefits through an uncrystallised funds pension lump sum or flexi-access drawdown.

Q What tax is applicable?

A Income from an annuity is subject to income tax and is paid through PAYE. The appropriate tax code is supplied by HM Revenue & Customs. Any queries regarding your tax code should be directed to your local tax office.

Q What are the pros/cons?

A Compared to taking income drawdown, the main advantage is that the income an annuity pays is normally guaranteed for life.

The older you are the more annuity you can buy for your money. However, annuity rates change so you should give consideration to when an annuity purchase may be right for you.

The main disadvantage compared to income drawdown is that once you have purchased the annuity, you cannot normally vary the income depending on changes in your circumstances.

Q How do I apply for an annuity?

A Once you have shopped around and decided on an annuity provider, you should complete an 'Annuity Open Market Option Request Form', which is availabe on our **website** and post it to us along with any paperwork the annuity provider requires.

Q How do I decide which benefit option is best for me?

A We strongly recommend that you seek advice from a regulated financial adviser before making any decisions about your pension.

If you are unsure about the options available to you, The Money and Pensions Service provides a free guide called 'Your pension:your choices' which is available on our **website**.

Pension Wise is a Government service that offers people approaching retirement free, impartial guidance about their choices. You can receive Pension Wise guidance online, over the phone or face to face. Please visit the Pension Wise website at **www.pensionwise.gov.uk** or call either 0800 280 8880 or 0300 330 1003 (from outside the UK +44 20 3733 3495) if you wish to use this service.

Whilst we recommend that you make use of the Pension Wise service, the guidance they provide does not replace financial advice given by regulated advisers.

The above information is based on our interpretation of current law and HM Revenue & Customs practice. Please remember that tax treatment depends on the individual circumstances of each client and current tax benefits may change in the future.

Contact us on: **03455 212 414** **www.jameshay.co.uk**

James Hay Partnership is not authorised to give financial advice. If you need financial advice, please speak to your financial adviser. If you would like to speak to a financial adviser but do not have one, please visit www.unbiased.co.uk or call them on 0800 023 6868 to obtain a list of financial advisers in your local area.

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