MES PENSIONS

Taking your Pension Benefits

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Introduction

Over recent years there have been changes to pension rules that have given you more options at retirement. With these changes to the rules, long gone are the days when you'd have no choice but to purchase an annuity. The introduction of pensions freedoms in 2015 gave you more control over when and how you access your pension. However, the greater options and flexibility at retirement brings potential risks that you should consider before making decisions about how you access your pension benefits. Although this guide is here to provide you with information on the options available to you within the SIPP, we are unable to provide you with advice.

Before deciding to access your pension benefits, you should take financial advice from a financial adviser regulated by the Financial Conduct Authority (FCA) or seek guidance from Pension Wise. Pension Wise is a free and impartial guidance service available to you once you are 50 or over. They can help you understand the different ways you can take your pension benefits. It's available online and they provide appointments over the phone or in person. You can call 0800 138 3944 (if you're outside the UK, call +44 20 3733 3495) or go to www.pensionwise.gov.uk to book your appointment or we can book the appointment on your behalf. Their guidance is impartial, and they won't recommend any products or companies or tell you how to invest your money. We would also suggest that you read the Money Helper guide: Your Pension: your choices which is available to download and view on their website. The Money Helper Service is an independent service, set up by the government to help people make the most of their money.

Tel: 0800 1383944
Tel: +44 203 733 3595 (if you are outside the UK)
www.Pensionwise.gov.uk

Tel: 0800 138 3944
Tel: +44 207 932 5780 (if outside of the UK)
www.moneyhelper.org.uk

As we are unable to give you advice, we would strongly recommend that you speak to a financial adviser or Pension Wise to discuss your options when you decide to access your benefits. We have listed a number of risk factors in this guide which you should consider before making retirement decisions.

Your retirement options

There are several ways in which you can access your pension benefits through one of the options below or a combination of them.

Take no action

You can leave your money where it is, and it will continue to benefit from tax-free growth until you decide to take your pension benefits at a date that suits you.

Tax -Free cash and pension income

You can normally take a tax-free lump sum of up to 25% of the funds you are choosing to access and leave the remaining fund within your SIPP to provide either a regular income or one-off income payments when you need it - this is referred to as 'Income drawdown'.

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Lump sums

You can normally take some or all of funds you are choosing to access as a lump sum (or a series of lump sums), where 25% is tax free and the rest subject to UK income tax - this is known as an 'Uncrystallised funds pension lump sum', or an UFPLS.

Tax-Free cash and an annuity

You can normally take a tax-free lump sum of up to 25% of the funds you are choosing to access and use the remaining pension to purchase an annuity from an insurance company that will give you an income for life - this is referred to as a 'Lifetime annuity'.

Mix your options

You don't have to choose one option - you can mix and use a combination of the options mentioned. You can also stagger the accessing of funds over time.

	Tax-free cash and pension income directly from your SIPP	**Lump sum (UFPLS)**	**Tax free cash and annuity**
How it works	You take part of the funds you are starting to access as a tax-free lump sum (subject to limits). The remaining funds will be used to provide a regular income or/ ad-hoc income when you need it.	You can normally take all of the funds you are accessing as a lump sum (or a series of lump sums). Most will be taxed. There are limits on how much can be drawn tax-free.	You take part of the funds you are starting to access as a tax-free lump sum (subject to limits). The remaining pension fund is paid to an insurance company, who will in return pay you an income for life.
What about tax?	The tax-free lump sum is normally up to 25% of your pension fund being accessed. When you take income from the remainder of the fund, the income will be subject to UK income tax.	The lump sum will be made up of two parts. 25% (or a quarter) will be tax-free and the remaining part of the lump sum will be subject to UK income tax.	The tax-free lump sum is normally up to 25% of your pension fund being accessed - this can be paid either by us or the insurance company. All annuity income payments paid will be subject to UK income tax.
Is my income secure?	No.	No.	Yes.

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What happens when I die?	The remaining fund within your SIPP is paid as a lump sum or (if permitted by the tax rules) income to your nominated beneficiaries. These may or may not be taxable.	The remaining fund within your SIPP is paid as a lump sum or (if permitted by the tax rules) income to your nominated beneficiaries. These may or may not be taxable.	This will depend on the type of annuity you decide to buy. The terms of the annuity contract will set out any payments that will be made after your death. This may or may not be taxable.
Does your SIPP offer this?	Yes.	Yes.	No – If you wish to purchase an annuity, we can transfer the funds to your chosen annuity provider on completion of our documentation.

Taking tax-free cash and pension income

A key benefit of having a pension is it is a tax efficient way to save for your retirement. Another key benefit is that you can in most cases choose to take a tax-free lump sum, normally 25% of your pension fund being accessed for the first time (although there are limits – please see later pages).

You can take your tax-free cash and leave the rest of the pension fund to provide an income now or later. You have two choices with the remaining funds. The remaining fund can stay invested within your SIPP and you can then draw income from those funds as and when you choose. This is called Income drawdown. Or you can use the funds to buy a guaranteed income stream for life from an insurance company. This is called a Lifetime annuity.

You may not want to take all your benefits at once. We will allow you to take some tax-free cash and make income withdrawals or buy an annuity at different times. This process is known as 'phased retirement'.

You can also decide at any point in the future once using income drawdown to sell the remaining investments and buy a lifetime annuity – and this is something you should continue to consider with your financial adviser.

Both types of income are taxable and subject to income tax (deducted at source through payroll).

Once a lifetime annuity is bought you cannot undo it (outside a 30-day cancellation period).

If you opt for the income drawdown approach, once you have taken any tax-free lump sum any income you take from the remaining fund being used for drawdown will be taxed as income. The amount of income tax you'll pay will be calculated based on your drawdown income and any other sources of income you may receive in the tax year.

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If you withdraw too much income, you may find you may have to pay higher rates of income tax. When you receive your first drawdown income payment it's likely that the current emergency tax code will be used.

Income can be stopped and started at any time but you must make sure the cash is available in the SIPP bank account so we can pay income to you.

There are two types of income drawdown: Flexi-access drawdown and Capped drawdown.

Flexi access drawdown

This has been available since 6 April 2015. If you went into drawdown on or after this date (or converted a capped drawdown fund) then you'll be in flexi-access drawdown.

You can take as little or as much income as you want - there are no maximum limits, provided there is sufficient cash in your SIPP to make the payment.

Although it's your decision on the amounts you take from your fund, you should consider how long you wish your retirement income to last and make sure the amount of income you take now doesn't mean you may not have enough money in later years.

If the funds run out, then no more income will be paid.

Once you draw income through flexi-access drawdown, this will trigger what is called the 'money purchase annual allowance', which will have an impact on how much you can contribute going forward to your SIPP and similar types of pension schemes.

Capped drawdown

If you went into income drawdown on or before 5 April 2015 and you haven't decided to convert to flexi-access drawdown then you'll be in capped drawdown.

The maximum amount of income you can draw each year is subject to an annual limit. The maximum amount is set at 150% of a calculation made using tables provided by the Government Actuary's Department (GAD). These tables estimate the likely level of annual annuity income your funds would buy at the time of calculation. This limit is reviewed every three years up to age 75, then annually thereafter.

If you are in capped drawdown and have any pension funds that you have not allocated for tax free cash and income, then you can still allocate the fund to your capped drawdown fund.

If you stay within the capped drawdown income limits, further contributions you make aren't restricted as they are for flexi-access drawdown.

You can ask us to switch you to flexi-access drawdown at any time.

Annuity

Annuities are available from an insurance company and will pay a guaranteed income for life in exchange for the funds you have built up in your pension. You can opt to use all or part of your pension fund to purchase an annuity.

There are several options that you can add into your annuity, such as to include a dependent's income, usually your spouse, so income will continue to be paid to them if they outlive you. This income can be at the same level, or at a reduced level e.g. 50% of the income paid to you.

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You can also buy an annuity that starts higher but doesn't go up over time (a 'level' annuity) or one that is indexed up over time (say by inflation).

Annuities can also take into consideration your lifestyle and health when calculating income. You may choose to include a guarantee period which will continue to pay income if you die to your beneficiary until the end of the guarantee period.

There are some annuities that allow flexibility in income allowing you to increase or decrease income. If your annuity allows you to decrease income this may trigger the money purchase annual allowance and restrict future contributions if you are intending to contribute to a pension.

All annuity income is subject to income tax at your marginal tax rates each tax year.

You should take time and shop around. We don't offer this income option directly, and you should speak to your financial adviser or Pension Wise if you think you need a guaranteed income in your retirement.

Taking lump sums (UFPLS)

Here you leave your money in the SIPP and take lump sums when you need to, until your money runs out or you choose another option.

You may not be permitted to draw an UFPLS by the tax rules if you hold certain lifetime allowance protections.

Normally 25% of the amount paid will be tax-free in the UK (subject to limits - see below). The rest of the payment will be subject to UK income tax in the same way that income is. The amount of tax you'll pay will be calculated based on the value of the taxable part of the lump sum and any other sources of income you may receive. If you withdraw too much you could find that you may have to pay higher rates of income tax.

When you receive your first lump sum and we have not paid an income or lump sum before, it's likely that an emergency tax code will be used.

Drawing an UFPLS will trigger what is called the 'money purchase annual allowance'. This will have an impact on how much you can contribute going forward to your SIPP and similar types of pension schemes.

Small pots

Small lump sums can be taken from age 55 (or age 57 from 6th April 2028) where you have a small pension fund of £10,000 or less.

Your whole pension fund must be withdrawn - 25% of the fund will be tax free and the remainder will be taxed as income.

Up to three pension pots can be treated as small pots lumps sums in your lifetime.

The advantage of taking a small pot lump sum is that this withdrawal does not trigger the money purchase annual allowance. Therefore, you'll not be restricted to the lower annual limits if you wish to make future contribution (unless you have previously triggered the money purchase annual allowance).

Limit of 25% Tax free lump sum

Whilst in most cases you can always take 25% of the funds you start accessing as a tax-free lump sum there are exceptions and upper limits ('allowances') on the total amount that you can be paid as a tax-free lump sum in your lifetime (and potentially on your death).

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These allowances are called the 'lump sum allowance' and 'lump sum death benefit allowance' and are only likely to be an issue if you have significant levels of pension benefits. But we will need to ask questions to check you have enough available allowances before we make any lump sum payment.

These allowances will impact on your ability to take the 25% tax-free part of an UFPLS too.

Most people's 'lump sum allowance' is £268,275.

Your right to change your mind

When you first choose to enter drawdown, you'll have 30 days to change your mind.

If you do change your mind, you must notify us as soon as you can. We must receive your request to cancel within 30 days.

You must also return any payments you have received. We'll be happy to discuss this with you should you wish to exercise your right to cancel, please call us on +44 3303 202091 or email us at customersupport@mespensions.com.

What if I am ill and unable to work or seriously ill?

If you can't do your job due to physical or mental illness, you may be eligible to take ill health early retirement which means you can take a tax-free cash lump sum and income payments.

If your life expectancy is less than a year due to serious illness, you might be able to take your uncrystallised funds as a cash lump sum (known as a serious ill-health lump sum) if you have sufficient lump sum and death benefit allowance available.

Should you wish to discuss applying for an ill health or serious ill health early retirement, please call us on +44 3303 202091 or email us at info@mespensions.com.

What are these lump sum allowances?

From April 6th 2024, there is a new allowance limiting how much you can take from all pension schemes as tax-free cash or the tax-free part of an UFPLS. This is called a 'lump sum allowance'.

Most people's lump sum allowance will be £268,275 but a few people will have a higher or different amount due to protections given by HMRC under the rules in place before 6th April 2024.

The 'lump sum allowance' does not mean that you can have more than 25% of the funds you are accessing as a tax-free lump sum, but it will mean that if you use it all up, any lump sum paid after that point is reached will be taxed.

There is also another allowance called the 'lump sum and death benefit allowance' that limits the level of tax-free lump sums that can be paid in both your lifetime or upon death. If you have accessed pension benefits, then some or even all your allowance might have been used up.

In your lifetime, we must check that you have enough of both allowances remaining before paying out any tax-free cash sum or UFPLS. Once used up, any further tax-free cash sum is subject to tax.

If you have accessed or used up any of your allowances before the pension provider involved will provide you with statements showing how much of your lump sum allowances you have used up under their scheme to help you keep track (or, if relevant, your old lifetime allowance before 6th April 2024).

You also must have available 'lump sum and death benefit allowance' to cover any PCLS or tax-free part of any UFPLS. In your lifetime, this will only be an issue if you have been paid a tax-free serious ill-health lump sum (see earlier question).

More information is provided in our SIPP member fact sheet - Lump sum allowances, available on our website or on request.

Investment Pathways

The Financial Conduct Authority introduced the investment pathways initiative in February 2021 to guide non advised clients to make better informed decisions that align their retirement plans and objectives by using one of four ready tailored investment solutions. It applies to clients over the age of 55 (or age 57 from 6th April 2028) with defined contribution pensions who want to move all or part of their pension into income drawdown or want to transfer income drawdown funds into another drawdown arrangement.

All clients can choose to select:

- an investment pathway offered by another firm by way of pension transfer;
- investments without the use of investment pathways;
- to remain invested in their current investments.

We strongly recommend that you take regulated financial advice or access the Pension Wise Money Helper website for free and impartial guidance on making your income drawdown choices. The service is available to people over the age of 50 with a defined contribution personal pension plan and can assist with shopping around for the best choice for you, using tools such as the drawdown comparator.

The Pension Wise service can be accessed by visiting www.moneyhelper.org.uk.

For any of the investment pathway options, the value of the fund can go up as well as down and you may get less than the amount originally invested.

You should also consider the risks of having more than half your eligible income invested in cash or 'cash like' investments selected within the investment pathway. The value of your pot could be eroded by inflation over the long term.

It is recommended that you review your investment pathway choice regularly in case your retirement goals change. For clients approaching their retirement date, the four choices are:

Option 1 – I have no plans to touch my money in the next 5 years

This option is for clients not intending to take any funds in the next five years and typically tend to have investments in long-term balance risk-controlled growth in investments category.

Option 2 – I plan to use my income to set up a guaranteed annuity within the next 5 years

This is designed to maintain annuity buying power for customers looking to buy in the short term.

Option 3 – I plan to use my money to take a long-term income within the next 5 years

This aims for capital growth with a long-term income target. Taking too much too soon can result in not having enough funds for the future.

Option 4 – I plan to take all my money out within the next 5 years

This aims to preserve the value of your capital.

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It is important that you shop around and consider all the retirement choices available to you as other providers' products and services may be more suitable for your retirement needs.

Risks

If you are considering drawdown or lump sums from the SIPP, this means your remaining fund can remain invested and if your investments do not perform as expected, this will impact on how long your retirement income will last you.

You should also consider the risks of having more than half of your eligible income invested in 'cash-like' investments. The value of your pot could be eroded by inflation over the long term.

You are recommended to review your investment options and investment pathway choices regularly in case your retirement goals change, you can do this by using the Money Helper investment pathways comparison tool, available on https://www.moneyhelper.org.uk/pathways.

A list of the main risks you should consider with your financial adviser when planning your retirement and considering the options open to you are listed at the end of this document.

Pension scams

Please be careful if you are approached by email, phone, text or in person about withdrawing your pension. To find out more or to report a suspected scam go to www.fca.org.uk/scamsmart

The income you take may not be sustainable, particularly if your investment returns are low. The higher the level of income you take, the higher the chance in the future your fund will go down and if the SIPP runs out of funds you may have to rely on other sources of income for your retirement.

Further details are available in our retirement risk warnings factsheet which is available on our website, or you can call us on +44 3303 202091 or email us at customersupport@mespensions.com. And we will send you a copy.

The information in this document is based on our understanding of legislation and HMRC guidance at the time of print. It should not be relied on as a statement of law or for advice purposes. Whilst every effort has been made to ensure the information is accurate, we will not accept responsibility or liability for any inaccuracy or omission in this document.

Retirement risk warnings

Below are some of the main risks you should consider with your adviser before deciding on your retirement options.

Your pension savings

Have you saved enough?

If you do not save enough before retiring (or your investments do not perform as expected) then you may not have the standard of living you desire in retirement.

Your age.

Depending on how old you are when you start taking benefits you should think about how much to draw. Your income could run out or drop significantly if you take too much too soon.

Your health.

You should consider your health, as you may need your pension to support you for a number of years. If you are in ill health, then you may get an enhanced lifetime annuity income.

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Sustainability of income.
You should consider your investment objectives and what actions are needed to ensure that you have enough funds to meet your desired standard of living in retirement.

Is the level of income you are drawing sustainable given the level of funds you have available?
Most people underestimate their likely life expectancy. Selling investments. Consider if you are selling investments when prices are low. This would mean that you'll need to sell a larger proportion of your investments to fund any benefit payments.

Your options

Choosing not to buy an annuity
If you do not buy a lifetime annuity, then you lose out on the lifetime guarantee that such a product provides (based on pooled risk). Your other benefit options do not provide the same level of security.

Buying an annuity
If you buy a lifetime annuity, then after any 30-day cooling-off period you are tied into the product for life and your income will be set by the annuity rate at the time of purchase.

Inflation
You should consider the impact of inflation on the value of your pension funds and the erosion of the buying power of the income or annuity income it will provide now and in the future.

Shop around
Consider all your options, not just with us but with other schemes and products. If you are considering an annuity, you are likely to get a much better rate the more you shop around.

Your finances

Scams
Watch out for scams. There are many sophisticated scams and frauds around which seek to exploit our fears and concerns. These are often linked to supposedly high-return investment opportunities. If you take money out of your pension to make such an investment you may lose all your money. You are unlikely to be protected by the Financial Services Compensation Scheme.

Tax
Without proper planning taking significant payments could mean you push yourself into higher rate tax bands and pay an unnecessarily high amount of tax. Inheritance tax. Money taken from your pension will form part of your estate.

State benefits
Taking money from your pension or receiving income from an annuity can reduce any entitlement to means-tested state benefits (either now or in the future).

Debt
If you owe money to someone then be careful. They cannot force you to take benefits, but if you do then they can call on those funds.

Your beneficiaries
Consider how your pension can provide for any dependents you have after you die. The more you draw and spend the less that will be left for them. If you are buying a lifetime annuity, consider if you need a 'joint life' annuity.

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