Our SIPP guide to accessing your pension

options™

for your tomorrow

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 gives you more control of 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 SIPP, 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 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.

Pension wise
Your money. Your choice.

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

Money Helper

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www.moneyhelper.org.uk

As we can't give you advice, we would recommend that you contact a financial adviser, or Pension Wise to discuss your options further when you decide to access your pension benefits.

We have listed a number of risk factors at the back of this factsheet that you should consider with your financial adviser before making any decisions.

Your retirement options in the SIPP

You have a choice of accessing your pension through one of the options below, or a combination of them.

You will normally have to be aged 55 or over to be able to access your pension (or at least age 57 from 6th April 2028). You may be able to access your pension earlier if you are unable to work because of ill health or if you are seriously ill and have less than a year to live; if either apply to you then please do get in touch for more information.

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 access your pension benefits at a date that suits you.

Tax free cash and pension income

You can normally take a UK 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'**.

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 in the UK 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 direct from your SIPP (income drawdown)	Lump sums (UFPLS)	Tax free cash and an annuity
How it works	You take part of the funds you are starting to access as a UK tax- free lump sum (subject to limits). The remaining fund will be used to provide a regular income or/ and 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 in the UK. There are limits on how much can be drawn tax-free in the UK.	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 UK 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 UK tax-free and the remaining part of the lump sum will be subject to UK income tax.	The UK 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
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 our SIPP offer this?	Yes.	Yes	Yes - but you must choose and source an insurance company and the type of pension annuity you want us to buy for you. We are not an insurance company and cannot choose this for you.

A LITTLE MORE DETAIL…

Taking tax free cash and pension income

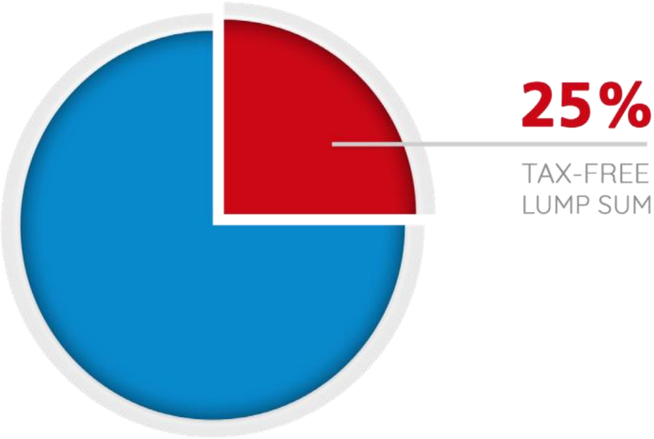
A key benefit of having a pension is it is a tax efficient way to save for your retirement. Another key benefit is that you can in most cases choose to take a tax-free lump sum, normally 25% of your pension fund being accessed for the first time (although there are limits - please see later pages).

If you do not live in the UK when you take your lump sum it is possible the payment will be taxed in the country that you reside in.

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 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.

If you withdraw too much income then 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.

Lifetime 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.

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 lumps sums (also known as 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 in the UK 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 contributions (unless you have previously triggered the money purchase annual allowance).

Limit on 25% tax-free lump sum

Whilst in most cases you can take 25% of the funds you start accessing as a UK tax-free lump sum there are:

- exceptions; and also
- 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)

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 you 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.

More information on these allowances is provided in our **SIPP member fact sheet - Lump sum allowances (an overview)**, available on request or in the Documents and resources section of our website.

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 by completing and signing the cancellation form we send to you. We must receive this within 30 days.

At the time of print there is material uncertainty over whether the lump sum element of your benefits is part of those cancellation rights.

HMRC has recently announced that the lump sum cannot be returned under the tax rules (meaning that tax will become due unless an alternative pension is chosen by you within a set time limit). We will update our documentation when the position is settled upon. But as things currently stand, please be aware that there is uncertainty over whether your right to cancel is effectively enforceable (unless you delay drawing the lump sum part of your benefits until that cancellation period has run out).

You must also return any income 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 0330 124 1505 or email us on enquiries@optionspensions.com.

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 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 Pensions Wise Money Helper website for free 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 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 you originally invested.

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

You are recommended to review your investment pathway choice regularly in case your retirement goals change

For clients that are approaching their retirement date, the four options that will be available to choose from are:

Investment pathways 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

Investment pathways option 2 – I plan to use my money to set up a guaranteed income (annuity) within the next 5 years.
This is designed to maintain annuity buying power for customers looking to buy in the short term.

Investment pathways option 3 – I plan to start taking my money as 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.

Investment pathways option 4 – I plan to take out all my money in the next 5 years.
This aims to preserve the value of your capital.

Shopping around

It is important to shop around and consider all the retirement options as other providers may offer products more appropriate for you and your circumstances. It's your retirement and your choice. Please seek guidance and advice for the best options for you.

If you would like to speak to a financial adviser and you don't have one you can find one at www.unbiased.co.uk

We strongly recommend that you obtain regular advice from a regulated financial adviser or guidance from Pension Wise to determine whether your pension provision is on track to provide for you, financially, in retirement.

Risks

If you are considering taking income drawdown or lump sums from your SIPP then this means that your remaining fund can remain invested; 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.

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 www.optionspensions.com or contact us on 0330 124 1505 or email us on enquiries@optionpensions.com and we will send you a copy.

Further Information

We have produced a number of further factsheets to help you further. These include:

- **SIPP member fact sheet - Taking benefits**
- **SIPP member fact sheet - Lump sum allowances (an overview)**
- **SIPP member fact sheet - Lump sum allowances**

These and other fact sheets are available on our website (in the Documents and Resources section) or on request.

Retirement risk warnings when planning your retirement

Below are some of the main risks you should consider with your financial adviser when planning your retirement and considering the options open to you.

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.

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 under-estimate 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. Currently, funds remaining in your SIPP on your death will not in most cases form part of your estate for UK inheritance tax purposes - but the government has recently announced that this will change from 6th April 2027.

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 dependants 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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