SIPP Member Fact Sheet – Taking Benefits

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When can I take my benefits?

You can currently access your pension at any time from your 55th birthday. You do not have to stop working to do so. From 6th April 2028 the age from which you can start accessing your pension is changing from age 55 to age 57.

It might be possible to access your SIPP before your 55th (or 57th) birthday if you are unable to work because of ill health. If you are seriously ill and your doctor says that it is likely that you have less than a year to live, then you may be able to take your whole SIPP as a lump sum. Please get in touch if you need more information.

You may also have transferred in monies from another pension scheme where you were entitled to start taking your benefits earlier than the above ages and the tax rules allow you to keep that right on transfer to us. If you have such a right, this might only apply to the funds you transferred.

What guidance is available to me?

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.

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

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.

How much will I get when I retire?

The final value of your SIPP will depend on a number of factors, including how much you have paid in and the performance of the investments over time after charges. The actual amount may differ from that estimated on any personal illustrations you have received.

What options are available to me when I access the SIPP?

You can normally take up to 25% of the value of the SIPP funds that you choose to start accessing for the first time (called 'uncrystallised funds') as a tax-free cash lump sum (called a 'pension commencement lump sum', or 'PCLS' for short). The rest of your pension fund will be used to provide you with an income.

There are two ways this income is provided – you can either:

- secure a regular income by buying a lifetime annuity from an insurance company; or
- leave the funds invested in your SIPP and draw an income direct from your SIPP through what is called income drawdown (normally 'flexi-access drawdown').

The choice is yours.

All income is subject to income tax at your marginal rates, which is deducted at source through payroll.

Alternatively, you can normally take all or part of your SIPP fund as a single or a series of one-off taxed lump sum cash payments (known as an 'uncrystallised funds pension lump sum'). 25% of this will be tax-free and the rest of the payment will be taxed as income.

A later question explains when a PCLS or UFPLS might not be permitted or restricted.

If you have transferred in funds from another pension scheme that were already supporting an income drawdown pension you can only have continuing income payments from those funds (although you can buy an annuity in the future from those funds at any time).

What is a 'lifetime annuity'?

An annuity is a retirement income product provided by an insurance company. Your pension funds are paid to the insurance company and in return they pay you a guaranteed income for the rest of your life (a 'lifetime annuity') or for a fixed term, depending on the type of annuity you purchase.

The amount of income received depends on the size of your pension fund, your age, the options chosen and the annuity rates available to you at the time of purchase. There may also be enhanced terms depending on your state of health.

There are different types of lifetime annuities and you can (and should) shop around and compare providers to get the best deal. You should seek financial advice before purchasing an annuity.

There is a useful comparison tool on different annuity products on the MoneyHelper website at www.moneyhelper.org.uk/en/pensions-and-retirement/taking-your-pension/compare-annuities.

You can opt to buy a lifetime annuity with the whole or only part of your fund.

What is 'flexi-access drawdown'?

Flexi-access drawdown is an alternative option to buying an annuity when you access your pension. It allows you to stay invested while you draw an income from funds allocated for this purpose in your SIPP. You can take income immediately or you can delay taking income until you need it. Income payments can vary and you can take one-off payments if you wish.

You must also have the cash in the SIPP to fund any income payment. This means that you may have to sell some or all of your investments to make cash available in time for your payment.

You can opt for either a full drawdown (where you use the entire SIPP) or just part of the SIPP for income drawdown (often called 'phased drawdown').

Unlike a liftetime annuity, there are no guarantees with income drawdown; if your funds run out all income will stop. Whilst usually less flexible, a lifetime annuity provides a guaranteed income for no matter how long you live.

You can buy a lifetime annuity at any time from your drawdown funds (and, with a financial adviser, this is something you should consider at regular intervals to see if the time is right to do so).

Is there a limit on what income I can draw through flexi-access drawdown?

Where you choose to access your income through flexi-access drawdown there is no limit to the amount of income you can take from your pension fund each year, other than the value of the pension fund used to provide the income drawdown. There must also be cash available in your flexi-access drawdown fund to make the payment.

Drawing income through flexi-access drawdown will (in most cases) trigger the 'money purchase annual allowance', which may have an impact on the level of future contributions you can make. Please see our **SIPP member fact sheet – contributions and tax relief** for more detail.

What is capped drawdown?

If you started taking income drawdown before 6th April 2015, either with us or in another scheme you subsequently transferred to us, it is possible that you are still using the old income drawdown rules (called 'capped drawdown'). This is only available if you entered into it before 6th April 2015.

Under capped drawdown the amount of income that you can take from your pension each year is capped by the tax rules. The maximum limit is reviewed at least every three years by us until you reach the age of 75, then it is reviewed yearly.

You can convert from capped drawdown to flexi-access drawdown at any time.

Drawing income through capped drawdown does not trigger the money purchase annual allowance and might be beneficial if you move abroad (and subsequently return to the UK).

What is an uncrystallised funds pension lump sum ('UFPLS')?

This is a form of one-off lump sum where 25% of it is paid tax free and the rest subject to income tax at your marginal tax rate (deducted by us through payroll). We may be required to deduct emergency tax on the payment, meaning you will have to reclaim tax back from HM Revenue & Customs ('HMRC'). You may not be eligible for an UFPLS, depending on your circumstances.

What is phased retirement?

You may not want to take all your pension benefits at once. We allow you to take some tax-free cash and make income withdrawals or buy an annuity at different times. You can use all or part of the fund to do this. This process is known as "phased retirement".

Is my income always taxed?

All pension income is normally subject to UK income tax. We will deduct tax before paying your pension and pay this to HMRC through payroll (as an employer would do with salary). If you buy an annuity, the insurer will do the same.

If you are drawing income from funds that were allocated to you as a beneficiary of a deceased member (either of our SIPP or another pension scheme where you have subsequently transferred to us) then the income you draw may not be taxed. It depends on the circumstances.

How much income tax will I pay on income or the taxed part of any UFPLS I draw?

The rate of tax we deduct on income or the taxed part of an UFPLS paid is determined by the tax code we are issued by HMRC. If we have to use an emergency tax code then we may deduct more tax than is due (meaning that you will need to make a reclaim from HMRC, where not drawing a regular income).

The amount of income tax due will depend on your other taxable income for the tax year and what tax rate bracket the payment falls within.

The more taxed income or UFPLS you draw, the more tax you will pay (unless still within your personal allowance for the tax year). Please consider your marginal tax rate bands for the tax year; particularly if you are already in (or will end up moving into) higher rate tax bands

Do I have to access the SIPP?

No. However, if you die after you reach the age of 75 and have not accessed the SIPP, there will be tax to pay on the money paid to your beneficiaries.

If I am seriously ill, can I take my fund as a lump sum?

If you are seriously ill and your doctor says that it is likely that you have less than a year to live then you may be able to take any funds in your SIPP that you have not yet started accessing yet ('uncrystallised funds') fully as a lump sum (called a 'serious ill-health lump sum').

If you are under age 75, this will normally be paid tax-free; but there potentially is an upper limit on the amount you can be paid tax-free set by the tax rules. Any tax-free entitlement is subject to what is called your available 'lump sum and death benefit allowance' (see later question).

Payment of a serious ill-health lump sum may impact on your future ability to take a PCLS an UFPLS from other pension rights, or if you die before age 75 limit the level of tax-free lump sums that can be paid on your death.

Can I change my mind?

You have the right to cancel the first time that you go into income drawdown or take an UFPLS. This right to cancel lasts 30 days. If you exercise your right to cancel you will need to return all payments made back to your SIPP. If you buy a lifetime annuity, the insurance company will give you a similar right to cancel.

Is there a limit to how much I can take when I retire?

No, but you are limited by how much is in your SIPP; once the money runs out there will be no more payments.

However, whilst you can normally take 25% of the funds you start accessing as a tax-free lump sum (PCLS or UFPLS) there are:

- exceptions; and also
- upper limits ('allowances') on the amount that you can be paid as a tax-free lump sum in your lifetime (and potentially on your death).

These allowances are only likely to be an issue if you have significant levels of pension benefits (see the next and later questions).

What are these lump sum allowances?

From 6th April 2024 there is a new allowance limiting how much you can draw in your lifetime from all pension schemes as tax-free PCLS or the tax-free part of an UFPLS.

This is called the '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 (and not paid tax-free).

Example:

You have all your 'lump sum allowance' of £268,275 available.

You are accessing £100,000 of your SIPP with us for the first time. The maximum PCLS is still in most cases £25,000.

If you drew the £25,000 PCLS you would use up £25,000 of both your allowances. You would have £243,275 'lump sum allowance' left (£268,275 minus £25,000).

There is also another (usually higher) allowance called the 'lump sum and death benefit allowance' that limits the level of tax-free lump sums that can be paid both in your lifetime or on your death (see later questions).

If you have accessed pension rights before (or used up any of your old lifetime allowance before 6th April 2024) then some (or even all) of your allowance might already be used up.

What are these lump sum allowances? (continued)

In your lifetime, we must check that you have enough of both allowances remaining before paying out any PCLS or UFPLS entitlement. Once used up, any further lump sum paid is subject to income 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 and worked examples on the two allowances (and how rights accessed before 6th April 2024 impact on your available allowances) is provided in our **SIPP member fact sheet – Lump sum allowances**, available on our website or on request.

Will I always get 25% of my funds as a tax-free lump sum?

Whilst usually, yes, not always.

If you have used up all of either of your two lump sum allowances then no more PCLS or UFPLS can be paid.

If you still want a lump sum, any paid beyond that point will be taxed at your marginal rate(s) of income tax through payroll (in the same way pension income is). As taxed, you can take more than the normal 25%, but there must be some funds allocated to provide a pension.

Other circumstances where your tax-free lump sum entitlement will be different include:

- if any of your funds were obtained through divorce from an ex-spouse then you may not be entitled to a 25% tax-free lump sum at all from those transferred funds;
- if you applied for any of the previous lifetime allowance protections your tax-free entitlement may be higher or different to the normal limit or upper cap, or you may not be permitted to take a UFPLS at all; and
- if you held rights under an occupational pension scheme before 6th April 2006 and on transfer to your SIPP you retained a protected lump sum entitlement.

If I am in income drawdown, what happens to any remaining funds when I die?

When you die, any funds remaining in your SIPP are available to be distributed to your beneficiaries. This can either:

- be paid as a lump sum; or
- (if an individual) they can in most cases instead choose to use the funds to provide a future pension income for them; this could be either through flexi-access drawdown (and leaving the funds in the SIPP) or by buying an annuity from an insurance company.

If they choose to leave the funds in a pension to provide a flexi-access drawdown pension, any funds left on their death will be available to provide benefits to their beneficiaries in the same way (although they may be taxed differently; it will depend on their age when they die).

We have full discretion on deciding how to distribute your pension fund after your death. However, when setting up your SIPP you will have told us your 'Expression of wishes', telling us who you would like to be a beneficiary on your death. We will take this into account when deciding on who your beneficiaries should be. This expression of wishes can be changed at any time; if you want to do this then please contact us and we will tell you what to do.

If I buy a lifetime annuity, will anything be paid on my death?

This will depend on the type of lifetime annuity you buy.

Certain annuities provide for certain benefits or payments on death:

- a 'joint-life' annuity provides an ongoing income to a nominated beneficiary on your death;
- a 'guaranteed' annuity guarantees to continue paying income for a set period if you die within that period (typically 5 or 10 years from purchase); or
- a 'value protected' annuity provides a lump sum on your death (that reduces the more you draw as income whilst alive).

Buying an annuity that provides a benefit on your death will lower the income you get yourself.

How are any benefits paid on my death taxed?

If you **die before the age of 75** then any payments made to your beneficiaries are normally paid free of tax in the UK.

In most cases we must distribute funds within two years of the point when we became aware of your death for the payment (or any ongoing income) to be UK tax-free.

Any lump sum paid on your death before age 75 is also subject to an upper cap called the 'lump sum death benefit allowance' (see the next question). If your allowance is used up then any lump sum paid beyond that point will be subject to income tax.

This allowance applies to all lump sums paid where you die under age 75, including from funds allocated to support on an ongoing drawdown pension (unlike with the rules before 6th April 2024). Because of this, any payment made from drawdown funds created before 6th April 2024 is not measured against this allowance.

The lump sum tax-free entitlement is more complicated if you hold enhanced protection.

The 'lump sum and death benefit allowance' only applies to lump sum death benefits (and not funds allocated to provide a future beneficiary drawdown pension or used to buy a beneficiary an annuity).

Where a beneficiary opts to either buy an annuity or leave funds in a pension to support future income drawdown payments any tax-free status applies to all future payments in their lifetime, no matter when drawn or what age they are.

Provided any person chosen as a beneficiary was nominated by you in your 'Expression of wishes' they will always have the option of taking a pension benefit rather than a lump sum. This would effectively be a way to avoid any tax consequences concerning the 'lump sum and death benefit allowance'. It is therefore important to regularly review (and keep updated) your 'Expression of wishes' form provided to us.

If you **die aged 75 or older** then any payments made to your beneficiaries (lump sum or future income) will be taxed in the UK at the recipient's marginal rates of income tax. If the beneficiary lives outside the UK the position may be different.

If a lump sum is paid to a trust (or other legal entities) a flat tax charge applies (currently 45%). Lump sums paid to a registered charity may be exempt from UK tax (depending on your circumstances).

What is my 'lump sum death benefit allowance'?

The 'lump sum and death benefit allowance' was introduced on 6th April 2024 and is a lifetime personal limit on the level of lump sums that can be paid tax-free in the UK from all pension schemes, **both** in your lifetime and on your death (before age 75).

For most people, their 'lump sum and death benefit allowance' will be £1,073,100.

There are no announced plans to index the £1,073,100 figure over time.

If you hold one of the forms of lifetime allowance protections in place before 6th April 2024 then your 'lump sum and death benefit allowance' will normally be indexed up (in a similar way to the 'lump sum allowance').

The rules are more complicated if you hold enhanced protection.

If your allowance is used up any lump sum paid on your death under age 75 that would normally be tax-free will instead be subject to income tax in the UK in the same way as detailed above where you die after reaching age 75.

If you accessed benefits before 6th April 2024 (or used up any of your lifetime allowance under the old rules in place before that date) then part of your 'lump sum and death benefit allowance' will also be deemed to have been used up (and possibly all of it).

It is the responsibility of the person dealing with your estate to check on your available 'lump sum and death benefit allowance' and report to HMRC where tax is due from the beneficiaries.

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 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.

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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