

INCOME DRAWDOWN

How best to use your pension pot for the years ahead

As you approach retirement, you will have to decide how best to use your pension pot for the years ahead. One of the ways of doing this is by entering income drawdown. Unlike an annuity, with income drawdown, your money remains invested and you take a pension income directly from it. This is a flexible way to take your pension benefits, although it may not be suitable if you want the security of income that an annuity offers.

This option might suit you if you want to:

- Carry on paying into your pension – if you're under 75, you can still add to your pension pot and get tax relief
- Growth potential – as your pension pot stays invested in a tax-efficient environment, there is potential for future growth
- Flexible pension income – you can take payments to suit you if you have a pension pot that's large enough to sustain your withdrawals from it
- More control – you can buy an annuity at any time
- Flexible options on death – unlike some annuities, income drawdown can give flexible benefit options after your death

As with any investment, the value of your fund can go up or down and may be worth less than what was paid in.

CONVERTING YOUR PENSION

You can choose to convert your entire pension to income drawdown all at once, or you can convert smaller segments as and when you need them (this is known as 'partial drawdown').

You can usually take up to 25% of each amount you move into income drawdown as a tax-free lump sum, before leaving the remainder invested from which to draw a taxable income.

INVESTMENT DECISIONS

You continue to manage and control your pension pot and make all the investment decisions. Providing the pot is not depleted by excessive income withdrawals or poor investment performance, it may be possible to increase your income later in life.

HOWEVER, IF YOU GET IT WRONG, YOUR INCOME WILL BE REDUCED.

Income drawdown allows you to choose the income level you wish to withdraw from your pension ranging from no income at all up to a capped maximum income. You choose where your money is invested and should review and monitor the situation regularly. Anyone age 55 or above is eligible for income drawdown, but it is a high-risk option so is not suitable for everyone.

MAXIMUM INCOME

There is no minimum withdrawal amount for income drawdown, so you could choose to withdraw zero income if you wish. The maximum income you can draw is calculated with reference to the equivalent level single life annuity bought using the same fund.

With effect from 27 March 2014, limits increased. The limits are calculated at the start of your income drawdown plan using GAD (government actuary department) tables, which use your age and 15-year gilt yields to calculate the income available from your fund.



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MONITORING INCOME

The income limits calculated when you start income drawdown are fixed until the next review, although you should monitor any income you take more frequently.

As long as you stay within the maximum limit, you can control how much income you take and when you take it.

Any income is subject to tax at source on a PAYE (Pay As You Earn) basis. You decide where the remainder of the fund is invested, and you should review and monitor the situation regularly.

The value of the investments in your pension fund can go down as well as up. Early investment losses can be particularly difficult or even impossible to

recover. If your investments fall in value, you may need to reduce the amount of income you withdraw from your fund. If your investments fall in value, or fail to grow sufficiently, you may not be able to withdraw as much income in future.

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PROFESSIONAL FINANCIAL ADVICE YOU CAN TRUST

Income drawdown can also be helpful for tax planning. For instance, if you still work and your income fluctuates, you can vary your level of income from drawdown to smooth this out. In good years, you may be able to reduce or even cease drawing down an income, avoiding paying additional income tax. In addition, income drawdown also allows you to continue investing and seek growth. To investigate the opportunities available to you, please contact us.