A Guide to

Income Drawdown

Retaining investment choice and control over your retirement income

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Welcome to **'A Guide to Income Drawdown'.** Income Drawdown (or Unsecured Pension) is the name given to the facility that enables you to continue to keep your retirement savings invested and take an income each year rather than buying an annuity. You decide when to purchase your pension, enabling you to time this for when annuity rates are at their most favourable.

Income Drawdown enables you to retain investment choice and control. If investment growth is achieved on the residual funds, combined with rising annuity rates that increase with age, a higher pension may also be purchased than would otherwise have been secured from the outset.

When considering Income Drawdown, you should seek professional advice. This is a complex area of retirement planning and there is no income guarantee. Regular reviews are required and the process can be expensive and may not be cost-effective for smaller funds.

High income withdrawals combined with poor investment performance could also reduce the fund and income, or deplete it altogether.

Your questions answered

These are some of the most commonly asked questions we receive from clients.

Q: What is Income Drawdown?
A: Income Drawdown is an alternative to an annuity. It allows you to draw an income directly from your pension while the fund remains invested. One of the main features of Income Drawdown is that you keep control of your investments and choose the level of income you draw (within limits).

Q: What age must I be to consider Income Drawdown?
A: Income Drawdown allows an individual aged between 55 and 75 (with transitional rules in place from 22 April 2010 to 5 April 2011 increasing the age to 77) to defer the purchase of their pension from an insurance company. An income is drawn from the fund and the residual fund remains invested. The maximum income that may be drawn is 120 per cent of the pension that could have been purchased, calculated using Government Actuary rates. There is no minimum. Either an annuity or Alternatively Secured Pension (ASP) must be selected at age 75.

Q: In the event I die before the age of 75, what happens?
A: A surviving spouse or dependant currently has three options:

- receive some or the entire remaining fund as a lump sum subject to a 35 per cent tax charge
- continue with Income Drawdown if under age 75, or an ASP if over age 75
- use to fund the purchase of an annuity

Depending on the scheme rules/policy terms, a dependant's pension may be deferred until a later date.

Q: Can I continue to manage my own pension fund?
A: Yes, you can continue to manage and control your pension fund and make all the investment decisions. Providing the fund is not depleted by excessive income withdrawals or poor investment performance, it may also be possible to increase your income later in life.

Q: How much income can I take from an Income Drawdown arrangement?
A: The income that can be taken from an Income Drawdown arrangement can be varied each year between a minimum and a maximum. The minimum is £0 and the maximum is 120 per cent of a pension, calculated according to tables produced by the Government Actuaries Department (GAD).

These tables are based on the amount your fund would buy as an annuity based on your life only and with no allowance for any future increase. The maximum amount needs to be recalculated every five years. After each review you will be advised of the new annual GAD limit, which could be lower or higher than the limit from the previous five years.

The maximum income you can draw can be more than the income from a level, single life annuity bought using the same fund. The maximum is calculated at the start of your drawdown plan – the GAD tables use your age and 15-year gilt yields to calculate the income available from your fund. The income limits calculated at this point are fixed until the next review, although you should review 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. You always need to be aware of the risk that your income withdrawal can deplete your capital. This reduces the capacity for income in the future.

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Q: What happens if I add more money into my drawdown account?
A: A review will be triggered if you add more money into your drawdown account from your main pension fund or if you take money out to buy an annuity. Each year you may request that a review takes place on the plan anniversary. This will restart the five-year period. In some cases, funds may also have to be moved out as a result of a divorce court order and this will also trigger a review. You decide how much of your pension you want to move into your drawdown account.

Q: How much can I take as a tax-free lump sum?
A: You can normally take up to 25 per cent of this as a tax-free lump sum and draw a regular income from the rest. There is no minimum withdrawal amount, so you could choose zero income if you wish. Any income is subject to tax at source, on a Pay As You Earn (PAYE) basis. You decide where the remainder of the fund is invested and you should review and monitor the situation regularly.

Q: Can I use my income drawdown fund to buy a lifetime annuity?
A: Yes, you can use your income drawdown fund to purchase a lifetime annuity. If you want to continue drawing an income directly from the fund when you reach your 75th birthday, currently it can continue into an ASP, although income is restricted and death benefits are severely limited. The fund is automatically moved to an ASP if you have not set up an annuity by age 75 – however, the government plans to abolish ASPs from 5 April 2011.

Q: How could the new retirement rule changes affect me?
A: The government is currently consulting on changes to the rules on having to take a pension income by age 75. This may be important to you if you're coming up to age 75, or if you're deciding between an annuity or Income Drawdown. Under the proposals, there will no longer be a requirement to take pension benefits by a specific age. Tax-free cash will still normally only be available when the pension fund is made available to provide an income, either by entering Income Drawdown or by setting up an annuity. Pension benefits are likely to be tested against the Lifetime Allowance at age 75.

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