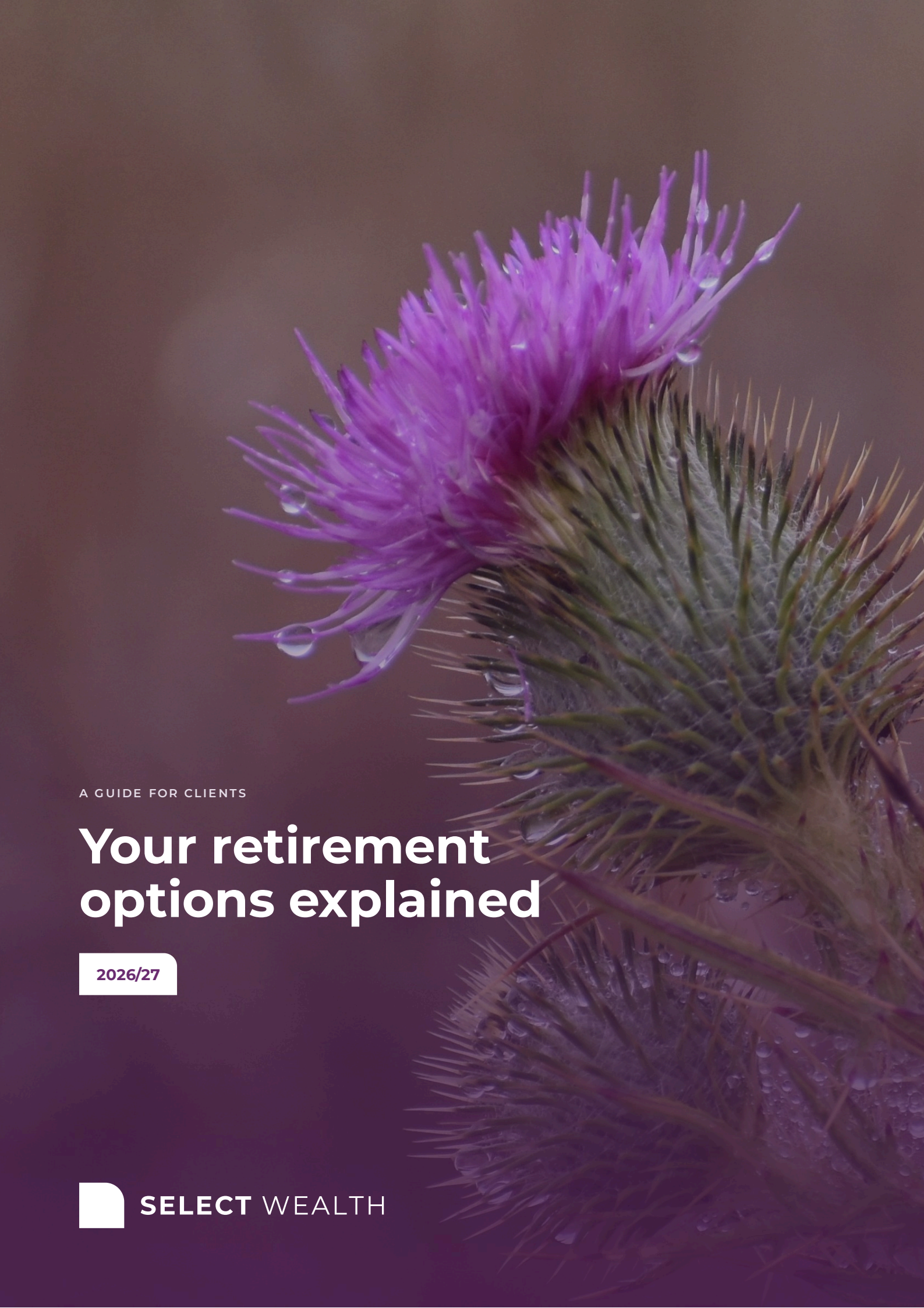




A GUIDE FOR CLIENTS

Your retirement options explained

2026/27



SELECT WEALTH

Contents

This guide explains the main ways you can take benefits from your pension, the tax rules that apply and the points to weigh up with your adviser.

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Using this guide

Each option is set out in the same way: an overview, how tax-free cash and income work, what happens on death, the advantages and disadvantages, and who the option is most likely to suit. The right choice depends on your personal circumstances, so please talk it through with your adviser before making any decisions.

Quick guide

The main ways to take your pension benefits, side by side.

	Lifetime annuity	Hybrid/fixed term annuities	Flexi-access drawdown	UFPLS	Scheme pension
WHAT IT IS	Regular and secure income for life	Regular and secure income for a fixed term or flexible. Potential for guaranteed maturity value	Tax free cash lump sum paid at outset and residual fund (subject to income tax) can be accessed immediately.	A lump sum is paid up to the full value of the plan. No regular income.	Regular and secure income for life
TAX-FREE CASH	Tax free cash provided at outset and fund used to purchase an annuity paid for life.	Tax free cash provided at outset and fund used to purchase an annuity for a fixed term from 1yr.	Immediate access to the entire fund to provide income with no limits. 25% Tax Free Cash the rest subject to income tax.	Immediate access to as much of the fund as required. Of the amount paid out, 25% is paid free of tax with the rest subject to income tax.	Tax free cash paid at outset and fund used to provide income for life.
INCOME	Your annuity income is paid at least annually and can increase, decrease or remain level in payment.	Your annuity income is paid at least annually and remains level in payment.	You can choose the income you want, and when you want it.	Can be paid monthly. You can choose when and how much of a lump sum you require.	Your scheme pension is paid at least annually and can increase or remain level in payment.
OPTIONS AND DEATH BENEFITS	Additional options can be selected at outset such as annual increases, spouse's benefits or guarantees which reduce your own income.	Additional options can be selected at outset such as, spouse's benefits or guarantees which reduce income.	On death, if there is any fund remaining then it is available to pay benefits to your beneficiaries via a lump sum or placed into a beneficiary's pension.	As long as some funds are left uncrystallised and if investments do well you may benefit from higher future lump sum payments.	Additional options may be offered at outset such as annual increases, spouse's benefits or guarantees which reduce your own income.
POINTS TO NOTE	Once you have bought your annuity, you usually cannot change your mind or change benefits. On death there may also be the option of a capital payment less tax.	FAD rules apply including in death. You can defer income, you can remain in and move back to FAD. On Maturity you can review options	Policyholder must advise all other 'active' pension plan providers that they have flexibly accessed their benefits within 91 days, or face possible HMRC fines.	Policyholder must advise all other 'active' pension plan providers that they have flexibly accessed their benefits within 91 days, or face possible HMRC fines.	Pension income paid directly by scheme. Once in payment you cannot change your mind or change the benefits.

01

Lifetime annuity

A guaranteed income for the rest of your life, bought with your pension fund.

Overview

An annuity is simply a series of payments made at selected intervals in return for a pension fund. The level of payment is dependent upon age, annuity rate, size of fund and options selected. Annuity rates tend to mirror interest rates since they are related to the returns earned from government bonds. There are many different types of Annuities and these are covered later on in this section.

Tax Free Cash

Most types of pension plan have the option of taking a tax-free cash lump sum before exchanging the residual fund for a series of payments. Once an annuity has been purchased there is no further entitlement to tax-free cash, therefore the decision of whether to access the cash or not needs to be made at outset.

Income

Annuity payments are taxed at source under the PAYE system. Provided a P45 is presented the annuity will be paid net of your marginal rate of tax and there will be no further tax liability. Payments can be made monthly, quarterly, half yearly or yearly and can be in advance or arrears. Payments can remain level, can decrease or can increase e.g. at a set rate or in line with an index such as the Retail Prices Index.

Death benefits

The option of what type of death benefits to include must be made at outset. The options available are as follows:-

- A spouse's or dependents pension up to 100% of the pension you had received
- A lump sum
- A guaranteed pension income payable to any beneficiary if death occurs within a set period from the start of the annuity(chosen at outset)

Protecting your annuity

There are ways of protecting your annuity if you're worried about what will happen to it if you die soon after you retire.

Commonly known as Value Protection, this option can be included to ensure that on death, the original fund value, less the gross income payments already made, can be paid out. On death before age 75, this will be tax free. On death after age 75, this is taxed at the beneficiaries' marginal rate of income tax.

Guarantee periods allow you to opt for your annuity to pay out for a specific number of years even if you die within this time. On your death the income may continue to be paid for the rest of the guarantee period. You should not look at a guarantee as an alternative to a joint-life annuity, because any income will stop at the end of the guarantee period, not when your spouse or partner dies.

You should note that where the value of the annuity on death is below £30,000 it may be possible for the remaining guaranteed payments to be paid as a lump sum.

ADVANTAGES

- ✓ You will receive a guaranteed income for life, and you can elect for your spouse/beneficiaries to receive a guaranteed income or a lump sum less tax upon your death.
- ✓ Tax-free cash is available at outset.
- ✓ There are no additional charges applied to the contract once in force. All charges are taken at outset and are reflected in the annuity rate offered.
- ✓ The contract is simple to understand, there is no need to review the contract and there is minimal paperwork needed to start the payment of benefits.

DISADVANTAGES

- There is no opportunity of participating in future investment returns.
- The various options in relation to death benefits and increasing / decreasing income levels etc must be selected at outset and will result in a lower initial pension payment. These selected benefits cannot be altered in the future.

SUITABILITY

Lifetime annuities are most likely to suit individuals who want an absolute guarantee on their pension payments and/or for their spouse/partner. They therefore suit individuals with low attitudes to risk and a requirement for security. They also suit individuals who have relatively small pension funds and who will be heavily reliant on their pension income.

02

Enhanced life annuities

Higher annuity rates if your health or lifestyle may shorten your life expectancy.

Overview

Individuals in poor health (or those with a known medical condition e.g. diabetes) may apply for higher annuity rates due to their shorter life expectancy – this is often subject to a medical examination. Some individuals may be offered enhanced rates due to their lifestyle or physical condition, i.e. smokers or clinically obese.

In all other respects, these annuities are the same as a Lifetime Annuity.

SUITABILITY

These annuities are most likely to suit individuals who want an absolute guarantee on their pension payments, and who are eligible for the higher rates available to them.

They therefore suit individuals with low attitudes to risk and security, although they may also be suitable for individuals with a high attitude to risk but are in ill health, or meet other eligibility criteria.

03

Scheme pension

An income paid directly by your pension scheme, usually a defined benefit scheme.

Overview

This will be the only option – without transferring – for members of their employer's Defined Benefit (also known as Final Salary) Pension Scheme. Whilst uncommon it may be possible for other types of pension arrangement to offer this option. These pensions are paid either directly from the original pension scheme or on its behalf by an insurance company.

Payment of scheme pensions from Defined Benefit schemes are guaranteed for life.

Tax Free Cash

The scheme pension would allow the option of taking a tax-free cash lump sum at outset. Once income has started, there is no further entitlement to tax-free cash and moving out of the plan cannot be undertaken.

Income

Pension payments are taxed as earned income under the PAYE system as described under 'Lifetime Annuity'.

Death benefits

The death benefits are typically a spouse's or dependant's pension payable for life at a set percentage of the original scheme member's pension e.g. 50% or 66%. There is also usually an option for the full level of pension to continue to be paid if death occurs within a specified 'guaranteed period' e.g. on death within the first 5 years commonly.

ADVANTAGES

- ✓ You will receive an income for life and you can elect for your spouse/partner to receive an income (subject to income tax) upon your death.
- ✓ Money purchase plan scheme pensions are regularly reviewed therefore income could be altered according to changes in health / fund performance.
- ✓ Tax-free cash is available at outset.
- ✓ The contract is simple to understand and there is minimal paperwork needed to start the payment of benefits.

DISADVANTAGES

- For money purchase schemes, the benefits paid on death could be reduced if investment performance has been poor.
- Any options (if offered by the scheme) to provide benefits on death must be selected at outset and will result in a lower initial pension payment. These selected benefits cannot usually be altered in the future.

SUITABILITY

Final Salary scheme pensions are likely to suit individuals who want a guarantee on their pension payments. They therefore suit individuals with low attitudes to risk and a requirement for security. Money purchase scheme pensions can vary and are likely to suit someone who is prepared to accept these income fluctuations. This would therefore suit individuals who have a balanced attitude to risk.

04

Fixed term and hybrid annuities

A guaranteed income for a set period, with options at the end of the term.

Overview

A fixed term annuity is a retirement product that pays a guaranteed income for a set period of time. If you're looking for a guaranteed income but don't want to make a lifelong commitment with your pension savings, then a fixed term annuity could be for you.

It's a fixed term plan, which means that you can set it up to run for a while then stop. This can be anything from 1 to 25 years. While it's running it will make guaranteed regular payments to you, and you can choose to receive a lump sum at the end of the period. Alternatively, you can decide not to take an income and just receive the lump sum at the end.

Hybrid Fixed Term Solutions – Blended

A Client may like to receive a guaranteed income, and yet retain the option to forgo, or reinvest, part of this should circumstances change. In this situation, part annuity, part drawdown combined together is an option. This provides some flexibility to alter the overall income, once any required baseline guaranteed element has been met.

This combined approach is the best of both worlds. You will be able to enjoy the Flexi-access Drawdown facility with the added security of a guaranteed income for life, and can be done in two distinct ways.

Blended Solution

A combination of separate retirement solutions, facilitated through a number of individual product wrappers. This might be where a provider has two existing products that allow Flexible Access (FAD) and an annuity, and bringing them together under one named proposition, or where the adviser separately identifies the best traditional or fixed term annuity rate and best drawdown product, and utilises both to plan for the client's retirement. The adviser would then monitor both elements on an on-going basis.

Unused income/annuity payments can be rolled up in the Drawdown element or retained within the annuity if not needed for the future, subject to recycling limits / rules and payment of any additional tax due. However, this approach provides the adviser and client with the advantage of complete choice over the selection of the different elements of the 'package'.

Hybrid Solution

This differs from a blended solution in that the income producing assets are held within a single, trustee-held investment within a single product wrapper. Income is accumulated within a pension cash account, with the option for it to be retained in cash, reinvested, or paid out to the client's bank account through Flexible Access (FAD).

This allows for control over the timing of regular and one-off payments as well as providing additional tax benefits over a blended solution due to being able to retain or reinvest excess cash within the tax wrapper before it is distributed, so it not being subject to additional taxation. Another potential benefit is while funds remain within the wrapper they will be treated as Flexible Access (FAD) funds for the purposes of 'death benefits'.

Both options offer the benefits of

- **A Guaranteed element/annuity** – providing a secure income for a fixed term. Can also provide a guaranteed maturity value. These fall under FAD rules for death benefits.
- **Flexible investment options** – providing access to a range of carefully selected funds giving your clients the opportunity for investment growth and a flexible income.

Tax Free Cash

Tax free cash can be withdrawn at outset then the residual fund is exchanged for a series of payments. Once an annuity has been purchased there is no further entitlement to tax-free cash.

Income

Annuity payments are taxed as income at the marginal rate.

Death Benefits

The option of what type of death benefits to include must be made at outset. The options available are the same as under the Lifetime Annuity.

ADVANTAGES

- ✓ You will receive an income for a fixed term or you can elect to have this remain within the Fixed Term annuity plan or within the product's cash account.
- ✓ Tax-free cash is available at outset.
- ✓ Charges are taken at outset and are reflected in the annuity rate offered.
- ✓ The contract is relatively simple to understand and there is minimal paperwork needed to start the payment of benefits.
- ✓ The annuity falls under Flexible Access (FAD) rules.
- ✓ There may be a guaranteed future value.

DISADVANTAGES

- The selected income level is guaranteed for a specified time.
- The various options in relation to death benefits etc must be selected at outset and will result in a lower initial pension payment. These selected benefits cannot be altered in the future.

SUITABILITY

Fixed term/Hybrid annuities are most likely to suit individuals who want some guarantee on their pension payments but also want the potential to benefit from some form of Flexibility during retirement and post death.

They therefore suit individuals where they have a shortfall in essential income for a fixed period whilst they wait on state pension or for a spouse to retire, are unsure of what income might be required longer term, or with low to medium attitudes to risk and security.

05

Drawdown pension

Keep your pension invested and take income as and when you need it.

Flexi Access Drawdown (FAD) – After you have taken your entitlement to the tax free lump sum at outset (usually 25% of the policy value), you can choose to take as much or as little of the remaining pot as you wish and it will be added to any other income you have in that tax year to determine the income tax rate that will apply.

Please note that if you draw any income from this plan, your future money purchase pension contributions will be limited to a £10,000 maximum Annual Allowance.

If taking an income stream from a Flexi Access Drawdown plan, the policyholder must alert all scheme administrators (of active plans) that they have flexibly accessed benefits within a 91-day reporting window. Failure to do so will lead to HMRC fines. This responsibility lies with the policyholder.

Tax Free Cash

Most types of pension plan have the option of taking a tax-free cash lump sum before exchanging the residual fund for a series of payments. Ordinarily up to 25% of the fund – subject to a lifetime cap of £268,275 – may be taken as tax-free cash, however if the pension funds are or were part of an Occupational Pension Scheme or the individual had applied for transitional protection, then the available tax free cash may be greater. Tax Free Cash must be taken at outset and once drawn; there will be no further entitlement.

Income

A pension income does not have to be taken from Flexi Access Drawdown but if this is required, income is taxed as earned income under the PAYE system.

Flexi-Access Drawdown is a flexible way to take income while keeping your pension invested. While they do not guarantee income on their own, you may choose to add certainty later by using some of your pension savings to buy a guaranteed income, such as an annuity.

Death benefits

On death pre 75 the funds remaining in the plan will be paid out free of income tax where they are paid to the beneficiary/ies as income. Lump sums may also be free of income tax as long as they are within the deceased individuals' remaining Lump Sum & Death Benefit Allowance.

Those aged 75 and over who haven't yet started their pension or are taking a drawdown pension will be able to pass on their remaining benefits to any beneficiary who will then be able to take it as a beneficiary's drawdown pension or beneficiary's annuity or as a lump sum taxed at their marginal rate of income tax.

ADVANTAGES

- ✓ You are able to take all of your tax-free cash lump sum entitlement at outset.
- ✓ You do not receive a set income but are able to vary it to suit your personal circumstances, to supplement other sources of income or you have the option of taking it all at outset.
- ✓ You are able to mitigate your liability to personal income tax in certain years.
- ✓ You have the potential to benefit from good investment performance in a tax-efficient environment and to exercise control over your own investment portfolio.
- ✓ There are flexible death benefits.
- ✓ Purchasing an annuity at a later date could enable higher rates to be achieved, through being older in age, or potentially through eligibility for enhanced annuities.

DISADVANTAGES

- You may run out of money and have no pension left.
- Benefits are means tested by the DWP.
- High income withdrawals may not be sustainable during the deferral period before a fixed income begins (e.g. state pension or an annuity).
- Taking large withdrawals may erode the capital value of the fund, especially if investment returns are poor and a high level of income is being taken. This could result in a lower income when the annuity is eventually purchased and could also affect the long-term financial security of your spouse/partner.
- The investment returns may be less than those shown in the illustrations.
- Annuity rates may be at a worse level when annuity purchase takes place. Although annuity rates generally increase with age, they have fallen dramatically during the past 15 years albeit with a marked increase more recently. This downward trend may continue.
- A careful investment portfolio needs to be constructed which will involve some investment risk. This means the fund value could fall which could affect your future income levels.
- Withdrawing too much income in early years may have an adverse effect on preserving your pension purchasing power or preserving the capital value of your fund.
- Increased flexibility brings increased costs and the need to review arrangements on an on-going basis.
- There is no guarantee that your future income will be as high as that offered by an annuity purchased today.
- You may feel the prospect of the future higher income does not compensate for the known income available from an annuity now and for the rest of your life.
- The charges are explicit whereas under an annuity they are inherent in the annuity rate offered.

Inheritance Tax Issues

See section 8 titled 'PENSION FUNDS AND INHERITANCE TAX' on page 20.

SUITABILITY

Flexi-access Drawdown (including combination plans) would be generally suited to a client that is willing and able to take on risk, and who is capable of fully understanding the risks involved.

The contract can be used as a useful tax planning tool and a means of accessing pension fund tax free cash without having to take the full taxable income.

Taxation post 2015

The method for claiming the tax back will depend on your circumstances – for instance, on what other income you have in that tax year and whether you have emptied your pension fund.

06

Uncrystallised funds pension lump sum (UFPLS) and phased retirement

Take lump sums from your pension, each part tax-free and part taxable.

Overview

Under this option you can withdraw as little or as much as you wish from your pension plan and 25% of the lump sum being paid will be free of income tax with the remainder being subject to your marginal rate of income tax.

If you use this option, any future money purchase pension contributions will automatically be limited to £10,000 the Money Purchase Annual Allowance. You will also not be able to undertake any future carry forward payments into money purchase pension schemes.

If taking an income stream by using either of the above plans the policyholder must alert all scheme administrators (of active plans) that they have flexibly accessed benefits within a 91 day reporting window. Failure to do so will lead to HMRC fines. This responsibility lies with the policyholder.

Tax Free Cash

Most types of pension plan have the option of taking a tax-free cash lump sum before exchanging the residual fund for a series of payments. Ordinarily up to 25% of the fund – subject to a lifetime cap of £268,275 – may be taken as tax-free cash, however if the pension funds are or were part of an Occupational Pension Scheme or the individual had applied for transitional protection, then the available tax-free cash may be greater than 25%. You should note that these higher entitlements cannot be paid if you use the UFPLS option as only 25% of the payment will be paid tax free.

Income

With this option, a lump sum is paid rather than a regular income with 75% of the lump sum paid being subject to income tax under the PAYE system.

It should be noted that with the UFPLS option, income tax may be under an emergency coding initially. This may mean that you will need to liaise with your local Income Tax office to correct the level of tax paid (if necessary).

Death benefits

On death pre 75 any funds remaining in the plan will usually be paid out free of income tax, usually as a lump sum although some pension plans may offer income options for beneficiaries on death. If a lump sum is paid and this is more than the deceased individual's remaining Lump Sum & Death Benefit Allowance then the excess will be subject to income tax.

For those aged 75 and over, any remaining funds can be paid out as a lump sum, beneficiary annuity or by a beneficiary's income option. This will be taxed at the beneficiary's marginal income tax rate.

ADVANTAGES

- ✓ You are able to take as much or as little of your existing pension plan as necessary.
- ✓ You are able to mitigate your liability to personal income tax in certain years.
- ✓ It offers one of the most straightforward and simple options for pension payments at retirement.

DISADVANTAGES

- You may run out of money and have no pension left.
- Benefits are means tested by the DWP.
- Any funds remaining in the plan are subject to investment risk. This means the fund value could fall, which could affect your future income levels.
- You may feel that the flexibility of having payments made in the form of a lump sum as and when required does not compensate for the known income available from an annuity now and for the rest of your life.

SUITABILITY

The UFPLS option would be suited to an investor who already has enough income from other sources to rely on in retirement. Alternatively, it may be appropriate for an investor who only has a very small amount of money in a pension plan and the alternative retirement income options would prove to be uneconomical.

07

Taking benefits

The allowances that limit how much tax-free cash you can take.

From 6 April 2024, the lifetime allowance was fully removed and the legislation rewritten. This doesn't mean there are no limits on the amount of pension savings people can take without a tax charge – the lifetime allowance has been replaced by new allowances.

£268,275

Lump sum allowance (LSA)

£1,073,100

Lump sum and death benefit allowance (LSDBA)

£1,073,100

Overseas transfer allowance

The lump sum allowance and the lump sum and death benefit allowance both limit the amount of tax-free benefits that can be paid. A check is made against these allowances when benefits are paid.

- These allowances may be higher if you have lifetime allowance protection.
- These allowances are reduced if benefits have been taken before 6 April 2024.

Please note

- Unit prices can fall as well as rise.
- Past performance is not necessarily a guide to future performance and may not necessarily be repeated.
- This guidance is based on present legislation, which may be subject to change.

08

Pension funds and inheritance tax

How pensions are treated on death, and the changes coming in April 2027.

Currently, pension funds are generally exempt from IHT. When you die, your remaining pension fund is passed on, either continuing as a beneficiary annuity, beneficiary drawdown or as a cash lump sum, to your nominated beneficiaries, but at the discretion of the trustees of the pension scheme, so is not automatically included in your estate for IHT purposes.

Having an up-to-date nomination/expression of wishes form is important, so that your wishes are taken into account by the scheme trustees.

Changes from 6 April 2027

Effective 6 April 2027, the treatment of pension funds on death will change significantly for IHT purposes. These changes may have material implications for your estate planning and drawdown strategy.

The main updates include:

- Unused pension funds and some lump sum death benefits will be included in the deceased scheme member's estate for their IHT assessment, where previously they were often excluded.
- Executors/personal representatives will be jointly liable with beneficiaries for reporting and paying any IHT due on unused pension funds and death benefits. Pension scheme administrators will have new duties to support executors/personal representatives in paying IHT.
- This change will only apply to deaths occurring on or after 6 April 2027.

Defined contribution pensions (also known as money purchase schemes) are the primary target of the reform. Defined benefit schemes (also known as final salary schemes) are largely unaffected.

It is important to consider which elements of your pension and associated benefits may be included in your estate for your IHT assessment.

What's not in your estate for IHT purposes

Certain pension related benefits will remain exempt from IHT, including:

- Pension benefits passed to a surviving spouse or civil partner under the spousal exemption
- Dependants' scheme pensions from a defined benefit scheme
- Joint life annuities
- Charity lump sum death benefits; and
- Death in service benefits whether they are paid via a discretionary or non-discretionary trust

However, the value of your pension fund can still affect your inheritance tax liability on death, as it may be considered when assessing tapering of the residence nil rate band entitlement.

What's in your estate for IHT purposes

Unused pension funds remaining at the time of death will be included within the estate for IHT purposes, particularly where they are paid as lump sums to non-exempt beneficiaries or into trusts.

Similarly, lump sum death benefits that are not directed to a surviving spouse/civil partner or a registered charity will also be subject to IHT.

In addition, beneficiary drawdown pensions — where a beneficiary continues to receive capital or income from the deceased's pension pot — will also fall within scope for IHT.

Where your pension assets are deemed to be included in your estate for IHT, this will reduce the available thresholds before any IHT is applied at the prevailing rate. As a result, these assets can contribute to increasing IHT liability.

Potential double taxation post age 75

If you die after age 75, your pension death benefits will be subject to:

- IHT, and
- Income Tax payable by beneficiaries when they withdraw the funds, at their marginal rate of Income Tax.

As a result, the combined impact of IHT and Income Tax can lead to a significant overall tax liability, the extent of which will depend on the beneficiary's individual tax position.

This dual layer of taxation can result in a significant tax burden, particularly if the available IHT allowances are already reduced by other assets. The overall impact will depend on your estate value and the individual tax positions of your nominated beneficiaries.

Pension transfers and death within two years (ill health)

You need to be aware that where an individual transfers funds from one registered pension scheme to another and dies within two years of the transfer then their executors need to report this on the IHT409 form needed to get probate. HMRC will then investigate and if they consider that the individual knew they had a short life expectancy, they may decide that the amount transferred is assessable to IHT.

DB to DC – Where there is an intention to give benefits which didn't exist before, such as a defined benefit (DB) to defined contribution (DC) transfer, it may be subject to IHT.

DC to DC – A discretionary Money Purchase/Defined Contribution (DC) plan switch or transfer may be completed to another discretionary DC arrangement, without the application of IHT, if it is for “genuine commercial reasons” and it is not intended to confer any gratuitous benefit on any person i.e. to increase an individual's benefits.

09

Appendix

Further technical information on less common options and rules.

Triviality – Overview

From April 2015, the triviality and small pots rules were made available from age 55 (as opposed to age 60 as it was historically). The age will rise to 57 on 6 April 2028, unless individuals have transitional protection.

There are various different types of trivial payments that can be made by a pension scheme but here are the 3 most common ones:

General triviality – available for DB scheme (final salary scheme) only and can allow a lump sum to be paid from the DB scheme as long as all pension schemes that you have (not just the DB scheme benefits) are valued at less than £30,000.

Small pots – where a personal pension arrangement is valued at less than £10,000 then a small pot triviality payment can be made. Up to 3 of these payments can be made in total. You only need to look at the value of that arrangement, so it doesn't matter about the value of other pension plans.

Stranded pots – where an occupational pension scheme is valued at less than £10,000 then a stranded pot payment can be made. These payments can be made as many times as you like. We only need to look at the value of the benefits in that scheme, so it doesn't matter about the value of other pension plans.

There are different rules which apply to each of the above options, but your adviser can help explain which are the relevant ones for your own circumstances.

Tax Free Cash

Tax Free Cash can still be drawn and this will be a maximum of 25% of the fund value. If the pension funds are or were part of an Occupational Pension Scheme or the individual had applied for transitional protection, then the available Tax Free Cash may be greater than 25%. You should note that these higher entitlements **cannot usually be paid** if you use these triviality options as only 25% of the payment can be paid tax free.

Taxation

From the amount of money paid, 75% will be subject to income tax.

Not all historical pension options in the UK remain available today due to changes in legislation, policy reforms, and evolving retirement planning practices. As a result, certain schemes or features that were once offered may no longer be accessible to new members or may have been phased out entirely.

To provide a complete overview and maintain historical context, these discontinued options have been included in the appendix rather than the main options booklet which details currently available options only.

Capped Drawdown – Overview

An annual income can be taken from the invested pension fund, if required. This income may vary between limits, set at outset by the Government Actuary's Department (GAD). The maximum limit is reviewed every 3 years up until age 75 and then annually thereafter. The figure is derived from tables published by GAD and is based on your fund

size, age and the current gilt yield. This maximum current limit is broadly equal to 150% of a single life annuity that you could have purchased at that point. There is no minimum limit.

For individuals who took out these plans prior to April 2015, they will continue to run as they are, providing income is kept below the 150% of GAD rate. Where this is the case the £60,000 annual allowance (2025/2026) for new money purchase pension contributions will remain. For high earners (income in excess of £200,000 p.a.) or for those who have already flexibly accessed other pension plans, the annual allowance may be lower.

However, if more income than the 150% limit is taken, the plan automatically 'tips into' Flexi-access Drawdown and will trigger the money purchase annual allowance. Once triggered, any future money purchase pension contributions will automatically be limited to £10,000. You will also not be able to undertake any future carry forward payments into money purchase pension schemes.

The policyholder can also request for the plan to be converted into a Flexi Access Drawdown if they wish.

Critical Yield – existing Capped Drawdown only – where provided

Critical yields are illustrated by product providers using a common prescribed basis. There are two types (A and B).

Type A – the growth rate needed on the "drawdown" investment sufficient to provide and maintain an income equal to that obtainable under an equivalent immediate annuity.

Type B – the growth rates necessary to provide and maintain the actual level of income chosen.

SUITABILITY

Capped Drawdown would be generally suited to a client that is willing and able to take on risk, who is capable of fully understanding the risks involved.

The contract can be used as a useful tax planning tool and a means of accessing pension fund tax free cash without having to take the full taxable income.

Tax codes for pensions – From April 2025

Helping customers get on the right pension pay faster.

From April 2025 HMRC are improving how tax code information is used for those people who are new to receiving a private pension, so they pay the right amount of tax from the outset. HMRC will automatically update the tax code for customers who are on a temporary tax code and would benefit from being on a cumulative code — this means they'll avoid an overpayment or underpayment at the end of the year. There is no need to contact HMRC and once a tax code has been changed HMRC will inform customers by letter or digitally if they've signed up for paperless in the HMRC app or online.

Those intending to make a series of withdrawals at irregular times across the tax year should talk to their pension provider. Having applied the temporary rate of tax to the first payment, in some cases the provider might be able to report a zero payment for the months where no withdrawal is made, and work with HMRC to tax subsequent withdrawals and correct the person's tax position.

Use of the HMRC forms to reclaim overpaid tax will therefore become less common in the future but in the meantime the link below can be used to check which form you need to complete (if any)

[Check how to claim a tax refund – GOV.UK](#)

Means Testing – DWP

There are rules that came into effect 6 April 2015 around how pension benefits will be treated in the calculation of an individual's entitlement to the following income-related benefits:

- Employment and Support Allowance (income-related)
- Housing Benefit
- Income Support
- Jobseeker's Allowance (income-based)
- Pension Credit
- Universal Credit

These rules apply once an individual reaches the qualifying age for Pension Credit, which is the State Pension Age for women and the equivalent female State Pension Age for men based on date of birth.

For individuals living on their own, the means-testing is done solely on the individual. For couples (whether or not they are married or in a civil partnership) the means-testing is undertaken on the couple, and either party's pension funds could impact on the other party's means-tested benefits. In both cases, wherever we use the term 'claimant' we mean the individual, or the individual and their partner as appropriate.

Whilst we set out the new rules below, it is worth mentioning that these are less stringent than the rules that applied prior to 6 April 2015. Under those rules, for many means-tested benefits, the notional income rules applied from age 55 for personal pension plans and the scheme's Normal Pension Age (NPA) in respect of occupational pension schemes.

The Rules

The DWP states that in all cases, it is the responsibility of each individual claimant to inform the DWP and, where appropriate the Local Authority, if they or their partner, withdraw any benefits from a money purchase pension scheme.

Already the DWP are provided with details by HMRC of bank interest received by individuals so that they can cross check this information with claimants. One would assume that in due course they will look to obtain similar data relating to pension schemes. It should of course not be forgotten that the DWP run the existing Pension Tracing Agency.

1. Claimants Where They Have Not Attained the Qualifying Age for Pension Credit.

Where a claimant below the qualifying age for Pension Credit does not access any benefits from a money purchase (or any pension for that matter) pension scheme then the existence of an uncrystallised pension will not impact on the eligibility for any means-tested benefits.

However, as soon as benefits are crystallised, the claimant must inform the DWP and where appropriate the Local Authority.

The benefits crystallised will be treated as either income or capital, depending on, for example, how regularly withdrawals are made.

2. Claimants Who Have Attained the Qualifying Age for Pension Credit.

Claimants who have attained the qualifying age for Pension Credit are expected to use their pensions to help support themselves. Where benefits are taken in a form other than an annuity after reaching the qualifying age for Pension Credit, an amount of income taken into account when calculating any means-tested benefits is the greater of the 'notional' income or the actual income withdrawn.

'Notional' income is an amount equivalent to the income the claimant is expected to have received if an annuity had been secured.

Deprivation Rule

If a claimant spends, transfers or gifts away any money withdrawn from a pension the DWP will consider whether the claimant has deliberately deprived themselves of that money in order to secure (or increase) a benefit entitlement.

If the DWP decide that the claimant has deliberately deprived themselves, they will be treated as still having that money and it will be taken into account as income or capital when calculating benefit entitlement.

Important information

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HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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