wealthtime classic

SIPP Retirement Options Fact Sheet

This fact sheet provides information about some of the options available to you on retirement. It highlights what you need to consider and lets you know where to get more information.

Pension wise

Pension Wise is a free, impartial, guidance service introduced by the government to help consumers aged at least 50 to understand their retirement options.

Pension Wise's guidance can be accessed online, via a face-to-face appointment, or over the telephone.

You can find out more about the Pension Wise service, browse their online guidance and book a free appointment by visiting pensionwise.gov.uk. Appointments can also be booked by phone on 0800 138 3944.

Please note that we're is not authorised to provide pensions guidance or advice.

We strongly recommend you seek guidance from Pension Wise or advice from a regulated financial adviser to understand your options at retirement before deciding what to do.

Your options

The following sections summarise the options available to you at retirement. You should also seek guidance from Pension Wise or advice from a regulated adviser.

1. Flexi-access drawdown

What is flexi-access drawdown?

Once you have reached the prevailing normal minimum pension age (55 in 2024/25), you can crystallise some, or all, of your pension benefits at any time.

It is also possible to crystallise earlier than 55 if, unusually, you have a lower protected pension age (based on membership of certain approved pension schemes before 6 April 2006), or you retire on grounds of ill-health or serious ill-health.

Each time you crystallise any benefits, you would normally be able to take some of the crystallised amount (usually 25%) as a tax-free pension commencement lump sum. The remainder would continue to be invested in a flexi-access drawdown fund. You do not have to take any income from this fund.

If you take any income from your flexi-access drawdown fund:

- it would be subject to income tax at your marginal income tax rate(s);

- this would trigger the money purchase annual allowance (MPAA) in the tax year in which you take that income for the first time. (This means that, in addition to the annual allowance for that tax year, you would be unable to contribute more than the prevailing MPAA (in total) between all of your money purchase pension schemes in the remainder of that tax year or in any future tax year); and

- you must inform all of your existing (and future) pension providers that you have received flexi-access drawdown income within 91 days of receiving that income for the first time, or HMRC may impose severe tax penalties.

What are the tax implications?

Apart from any tax-free amounts allowed by the regulations applicable at the time of the payment, all pension payments are subject to tax deductions under the pay as you earn (PAYE) basis.

Following a drawdown pension transfer into your Wealthtime SIPP, if your previous pension scheme:

- sends us a current P45 for you before we make our first flexi-access drawdown income payment to you, we will deduct income tax using the tax code shown on the P45; or
- does not send us a current P45 before we make our first flexi-access drawdown income payment to you, we will deduct income tax using an emergency tax code on a 'Month 1' basis until such time as HM Revenue & Customs (HMRC) provides a revised tax code to us.

Warning

Operating PAYE on pension payments using the emergency tax code basis can result in you paying significantly more, or less, income tax than would otherwise be the case. Depending on the frequency of the payments and/or the amounts to be taken, you may not be able to obtain a correction to any under-payment or over-payment until after the end of the current tax year in which the flexi-access drawdown income commenced.

Alternatively, you may be able to make a stand-alone claim for any overpaid income tax directly to HMRC.

Please also note that if you decide to take all or a large part of your pension fund you may not have sufficient funds to last you for the whole of your retirement. Your level of pension income is not guaranteed, as the fund remains invested in the market and any investment can fall in value. Please also bear in mind that any means-tested benefits may be affected when you receive any pension income.

It is for these reasons that we expect all clients entering flexi-access drawdown to have taken professional advice on the likely implications before proceeding.

2. Capped drawdown

This option is only potentially available if you had a capped drawdown fund before 6 April 2015, regardless of whether you have chosen to take any capped drawdown income from it.

Subject to restrictions relating to certain capped drawdown transfers, and with the agreement of your existing capped drawdown pension provider, you can crystallise some, or all, of your remaining uncrystallised fund to take any available tax-free lump sum and/or to add more money into your capped drawdown fund.

This would trigger a re-calculation of your maximum gross capped drawdown income in any drawdown pension year, in line with a basis specified by the Government Actuary's Department (GAD). We would inform you of your new limit at that time and following any subsequent regular reviews required by the rules.

For as long as you retain your capped drawdown fund (and have not flexibly accessed any income in any other registered pension scheme), the annual allowance rules or tapered annual allowance rules would apply to your total pension input (from all sources across all of your registered pension schemes) in any tax year.

All capped drawdown income would be taxed under PAYE. Please also bear in mind that any means-tested benefits may be affected when you receive any capped drawdown income.

If you wish to receive more than your maximum gross capped drawdown income in any drawdown pension year, you can switch your capped drawdown fund into a flexi-access drawdown fund. If you do this, as explained under the Flexi-access drawdown section of this fact sheet:

- no drawdown pension income restrictions would apply;

- it would trigger the money purchase annual allowance; and

- you would have to inform all of your existing (and future) pension providers that you have received flexible income within 91 days of receiving that income for the first time.

It would not be possible to switch your flexi-access drawdown fund back into a capped drawdown fund.

3. Uncrystallised Funds Pension Lump Sum (UFPLS)

What is an UFPLS?
The option of an UFPLS was introduced from 6 April 2015 as part of the pension freedoms changes. It provides an alternative to drawdown products for clients who wish to flexibly access their pension benefits. An UFPLS is a lump sum payment taken from the uncrystallised part of your pension fund. Normally, 25% would be tax-free and the remainder would be taxable as described later in this fact sheet.

How can I take an UFPLS?
We do not offer an UFPLS option. However, you are free to transfer some, or all, of your uncrystallised pension fund into another pension scheme for that scheme to make an UFPLS payment to you. Therefore, we have provided a brief overview of this retirement option below.

To be eligible for an UFPLS payment:

- You must have sufficient uncrystallised money to provide the UFPLS payment.
- You must have reached the normal minimum pension age (55 in 2024/25), or any earlier protected pension age (if you were a member of certain approved pension schemes before 6 April 2006), or you are retiring on grounds of ill-health or serious ill-health.
- You cannot take an UFPLS if you had primary protection and/or enhanced protection for your pension rights and a protected lump sum entitlement of more than £375,000 at 5 April 2006.
- You cannot use a disqualifying pension credit (obtained following a pension sharing order) to pay an UFPLS.

In addition, from 6 April 2024, you must have sufficient remaining Lump Sum Allowance (LSA) and sufficient Lump Sum and Death Benefit Allowance (LSDBA) to receive an UFPLS.

What are the tax implications?
If you are eligible to receive an UFPLS, part of the payment will be paid tax-free and the remainder will be subject to an income tax deduction under PAYE. The amount of each element depends on your circumstances when the lump sum is paid:

- The tax-free element of a UFPLS will be 25% provided that UFPLS does not exceed your remaining LSA and your remaining LSDBA. The remaining 75% will be taxable under PAYE.
- If the amount of UFPLS is more than your remaining LSA or LSDBA, then the tax free element is 25% of your remaining LSA or LSDBA (whichever is lower) and the remainder of the UFPLS is taxable under PAYE.

Note that the first UFPLS payment(s) made to you by a pension provider will usually result in the taxable element of the UFPLS being paid under the emergency tax code. Please refer to the 'warning' under the flexi-access drawdown section for more information on how this could affect you.

Is there anything else I should consider?
Any funds remaining in your pension fund after the UFPLS payment will remain invested in line with your chosen investment strategy. You should therefore regularly review your investments to ensure they remain consistent with your retirement aims and needs.

If you decide to take all or part of your pension fund as a UFPLS, you may find that you do not have enough pension savings to last you for the whole of your retirement. You should also bear in mind that any means-tested benefits may be affected by receiving an UFPLS.

Please note that if you have not flexibly accessed any income previously, if you use some, or all, of your uncrystallised fund to receive an UFPLS:

- this would trigger the money purchase annual allowance; and

- you would have to inform all of your existing (and future) pension providers that you have received flexible income within 91 days of receiving that income.

4. Purchase an annuity

What is an annuity?
An annuity provides a guaranteed income during your lifetime. You can choose whether the income remains level or increases over time and whether payments should cease upon your death, or continue to be paid until the end of a fixed period following your death, or until the subsequent death of a named dependant or nominee.

What is an Open Market Option (OMO)?
An OMO allows you to use some, or all, of your crystallised and/or uncrystallised pension fund to buy an annuity with any insurance company operating in the United Kingdom.

This option allows you to shop around to find the insurance company that can provide you with the highest retirement income from your pension fund. This is important, as an annuity is a product that once bought cannot normally be changed.

The Open Market Option is available to all Wealthtime SIPP Clients, although it is not a requirement to purchase an annuity under it.

When can I buy an annuity?
You can buy an annuity from your own pension provider if they are an insurance company and they offer annuities. Otherwise, you can use the Open Market Option, at any time from the prevailing normal minimum pension age (55 in 2024/25), or earlier if you have a protected pension age, or if you are retiring on grounds of ill-health or serious ill-health. There is no upper age limit for purchasing an annuity.

If you use part of your fund, you can buy an annuity, or a succession of annuities, to phase your retirement.

The older you are, the more annuity you can buy for your money. However, annuity purchase rates can change all the time, up and down, and if you leave it until the last moment, you will have to buy at whatever annuity rates are available at that time, good or bad. Please note that any delay in making a decision may affect the annuity income you are offered.

What options do I have when I decide to buy an annuity?
There are a wide range of different annuity options available and the choices you make and the type of annuity you select will affect the amount of income you receive.

As you will not normally be able to change the type of annuity you buy, you will not only need to look at your circumstances at the time you choose to buy an annuity, but think about what income you or your financial dependants may need in the future and whether your annuity is your main source of income.

- **Level annuity** – with income remaining level year after year.
- **Escalating annuity** – with income rising each year, either at a fixed rate or in line with inflation.
- **Joint Annuity** - if you have a partner, other dependant or nominee – with income paid to you during your lifetime and then to the other person during their lifetime if they are still alive after your death.
- **Guaranteed Annuity** – guaranteed for a specific number of years, so that if you die before the end of the guaranteed period, the income will continue to be paid until the end of that period.
- **Investment-Linked Annuity** – offers the potential for a higher income than a level or escalating annuity, by linking the income to the value of the underlying annuity investments so income could go down as well as up.

There are a number of other decisions you must make regarding your annuity and you should consider these carefully at the time of purchase.

There are also other types of annuity that may be available to you depending on your lifestyle or state of health, for example, an enhanced annuity or an impaired life annuity.

How is an annuity worked out?
There are a number of factors that will affect the income you get from an annuity, for example:

- The value of your pension fund(s).
- The amount of pension commencement lump sum you choose to take.
- The annuity basis used by the insurance company
- The type of annuity you choose to buy, for example a single or joint life annuity, with level or increasing payments, with or without a guaranteed payment period.
- Your age, address and health.

Should I shop around for an annuity?
Yes. Wealthtime Classic is not an insurance company so it cannot offer an annuity. Therefore, if you wish to purchase an annuity, you will need to compare the different annuity bases and different types of annuity products offered by insurance companies to find the one that best suits your circumstances.

How do I shop around for the best deal?
Wealthtime Classic can give you an estimate of the value of your SIPP, which can be used to purchase an annuity using the Open Market Option. You will then be able to ask insurance companies to provide you with a quote for the type of annuity you have chosen. Most quotes will be fixed for a number of days, normally up to 28 days.

You will need to speak to a financial adviser to find out which type of annuity suits your needs and the finance pages of newspapers and financial pages on the internet will also give you more details.

Do I have to pay tax on the income from an annuity?
Yes, the income you receive will be taxed under PAYE.