SIPP

HERITAGE PENSIONS

# INCOME DRAWDOWN KEY FEATURES

**Heritage Pensions Limited**
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keyfacts®

The Financial Conduct Authority is the independent financial services regulator. It requires us, Heritage Pensions, to give you this important document to help you decide whether income drawdown under the Heritage SIPP is right for you. You should read this Key Features document carefully to ensure you understand what you are buying and then keep it safe for future reference.

Heritage Pensions does not give financial advice. If you are unsure about the suitability of income drawdown you must speak with a financial adviser.

# Its Aims

***The Heritage SIPP is designed to:***

- Support you financially in retirement in a tax-efficient way.
- Provide you with regular and flexible taxable income from your pension fund.
- Provide you with up to 25% of your pension fund as a tax-free cash lump sum.
- Provide benefits on your death to your nominated beneficiaries.
- Allow you to continue investing your pension fund.
- Provide you with the choice to buy a pension i.e. an annuity.

***An annuity provides an income for life, the amount of which depends on circumstances when bought. These include:***

- Interest rates.
- Your age.
- Life expectancy.

# Your Commitment

- You will be required to take your tax-free lump sum at the same time you designate your fund for income drawdown.
- You will be required to tell us each year how much you wish to withdraw from your SIPP.
- You, your investment manager or financial adviser will be responsible for ensuring that the assets held within your SIPP are suitable to meet your needs and objectives in retirement.
- To pay the Heritage SIPP charges as set out in the latest fee schedule.

# Risk Factors

- The control and flexibility give income drawdown its appeal but it does make it more complicated and a higher risk option than an annuity.
- The benefits available from your SIPP are not guaranteed. They depend on how the investments in your pension fund perform, charges and interest rates when you take benefits.
- An unauthorised payment or investment made by your SIPP may result in a substantial tax charge.
- If you take income drawdown your pension fund will remain invested. Its value is not guaranteed and can go down as well as up.
- High levels of income may not be sustainable if investment returns are low during the withdrawal period. This could reduce the amount of income that you can take in the future and the income from an annuity bought later.
- The income from your pension and any annuity bought later may be less than you could have received if you had bought an annuity at the start.
- If you buy an annuity, the amount of income that you get will depend on the size of your pension fund and the annuity rates available at the time. annuity rates can change and go up and down. If annuity rates worsen in the future this could result in your pension fund providing you with a lower level of income than you expected.
- Under income drawdown you will not receive the benefit of cross-subsidy from the funds of annuitants who have died as you would under an annuity.

# Taxation Risks

- Tax legislation, our understanding of it and tax rates may change to create additional tax liabilities on you personally and your pension fund.

## Investment Risks

- If you take income drawdown your pension fund will remain invested. You will need to continuously check your investments are performing the way you want. A poor investment choice and excessive income withdrawals can quickly reduce the value of your pension fund and the income available.
- The investment performance of the underlying assets may be worse than assumed in the illustrations received. The value of investments can go down as well as up and are not guaranteed. Past performance is not a guide to future returns.
- Some investments are higher risk than others and you should therefore understand the risk profile of the underlying investments.
- If you invest in property, the value of the property is determined by an independent valuer and is a matter of opinion rather than of fact. This type of investment may take longer to sell than other forms of investment.
- The bank which holds your SIPP cash deposits may fail. You have protection under the Financial Services Compensation Scheme (FSCS) but this has limits.

## Access to Funds

- Having started income drawdown, you will only be able to transfer the entirety of your pension fund to another plan offering drawdown, or to buy an annuity.
- There may be a delay in receiving benefits if some of your investments can't be sold quickly e.g. there could be a delay in selling a property.

## Risks of Buying an Annuity

- Whist taking income drawdown market conditions and pension rates may change. The impact could reduce the value of your fund and/or the annuity you can buy.
- You should only use income drawdown if you are prepared to risk that your annuity could be lower in the future.
- There is no guarantee to the benefits payable. They depend on investments performance and interest rates when you take benefits. Your annuity may be lower if the rates used to convert to pension decrease.

## About the Heritage SIPP

- When you start taking income drawdown we don't set up a new plan. Your SIPP continues under its existing Terms & Conditions.
- A Key Features document and a Terms & Conditions document was sent to you when you first set up your SIPP. If you require further copies please call our office.
- A technical guide to income drawdown is available on request. This provides information about the rules to include the death benefits payable if you die whilst taking income drawdown.

# Frequently Asked Questions

## What is income drawdown?

- Income drawdown is an alternative to buying an annuity or taking an uncrystallised funds pension lump sum (UFPLS). It allows you to take up to 25% of your pension fund as a tax-free cash lump sum upfront and draw a variable taxable income from the rest of your pension fund.
- The Heritage SIPP allows you the freedom to drawdown as much as you like when you want.
- Generally speaking income drawdown is not suitable for small funds.

## What is the difference between capped and flexi-access drawdown?

There are two types of income drawdown: Flexi-Access Drawdown and Capped Income Drawdown

### Flexi-Access Drawdown

- If you are using your pension fund for income drawdown for the first time, this will be the only option available.
- The amount of income you can take is not restricted but all withdrawals are subject to UK income tax at your highest marginal rate.
- You can stop or start and alter the income you take as you go along. This flexibility is useful particularly if you want to stay within certain tax allowances in a given tax year or you have a particular expense to cover.
- The income you take will be added to any other income you receive in that tax year. You should be aware of this because if you are planning to take a large withdrawal it could push you into a higher tax bracket as a result.
- Once you have taken flexi-access drawdown it will limit the amount of future pension contributions that you can make or can be made on your behalf to £4,000 gross p.a.

### Capped Income Drawdown

- Since 6 April 2015 this option is no longer available. But if you used all of your pension fund for Capped Income Drawdown before this date, you can continue.
- The amount of income you can take must be within limits set by HM Revenue & Customs (HMRC) and all withdrawals are subject to income tax.
- You can stop or start and alter the income you take as you go along within these limits.
- These limits are calculated every three years or every year after age 75 with reference to tables published by the Government's Actuary's Department (GAD). The GAD limit is intended to be roughly equivalent to 150% of the annual income an investor could receive from a basic annuity using the same value of pension.
- It is necessary to obtain a full written valuation of all the SIPP assets each time a review is required.
- Provided you remain within the GAD limits there is no reduction to the future pension contribution limits.
- You can change your existing Capped Income Drawdown into Flexi-Access Drawdown at any time but once you have done this you can't go back.

You can use the whole of your pension fund, **full income drawdown**, or a portion of it, partial **income drawdown**, to take your benefits.

### Full income drawdown

- This is where you use all of your pension fund to provide:
  - a tax free cash lump sum and/or
  - a regular income and/or
  - ad hoc income payments.

### Partial income drawdown

- If you don't want to use all of your pension fund for income drawdown you can choose to use only part of it to provide:
  - a tax free cash lump sum and/or
  - a regular income and/or
  - ad hoc income payments.
- The remaining pension fund will remain invested in accordance with your instructions and can be used in whole or in part to provide further tax-free cash lump sums and/or income at a later date. These amounts will be dependent on future investment performance.

## Is income drawdown taxed?

- The income you take from your pension will be taxed under the Pay As You Earn (PAYE) system.
- Any lump sums paid within the 25% tax free cash limit are not subject to tax.

## When can I start income drawdown?

- The vast majority of people can start income drawdown from age 55.
- Any benefits taken before then will be treated as an unauthorised payment unless the member is in ill health or has a protected pension age.
- You can take income drawdown on a one-off basis or regularly e.g. monthly, quarterly, annually etc.

## What are the alternatives to income drawdown?

- You can buy a secured pension (annuity) from an insurance company. This can be payable for life or a fixed term.
- You can take an Uncrystallised Pension Funds Lump Sum (UFPLS). This is a payment from your fund of which up to 25% is tax free and the remainder is taxed at your normal rate of income tax.

## Can I cancel income drawdown?

- When you start income drawdown we will send you a cancellation notice which gives you 30 days in which to change your mind. If you change your mind you should return the cancellation notice.
- If you have received any payments you will have to pay them back.
- Once the 30 days have elapsed you will not be able to cancel.

## Do I have to buy an annuity?

- No

## Can I transfer out?

- Yes, but you must transfer all your pension fund to another plan offering drawdown or to buy an annuity.

## Does the Lifetime Allowance still apply?

- The Lifetime Allowance was introduced on 6 April 2006 and represents the limit of the total combined value you can save across all your pension savings without incurring a tax charge.
- The Lifetime Allowance is £1,073,100 for the 2020/21 tax year.
- Your pension fund is tested against the Lifetime Allowance when you take benefits (e.g. via an annuity or drawdown) and/or when you reach age 75. The rules require a check to be made to ensure the Lifetime Allowance is not being breached. Anything over this limit will be subject to a tax charge up to 55% unless you have previously completed an HMRC election form that provides for a higher protected Lifetime Allowance.
- If you have registered for pension protection against the Lifetime Allowance tax charge, you may lose this protection if you make any further pension contributions.

## Can I still pay contributions?

- You can continue to make pension contributions once income drawdown has commenced.
- If you are under age 75 you will be entitled to tax relief on personal contributions subject to your lifetime allowance and annual contribution allowances.
- Pension contributions are normally subject to a £40,000 annual allowance. This applies to any benefits you are building up in a defined benefit or money purchase pensions. Refer to our pension contribution guide for further information.
- Within the standard annual allowance there is a Money Purchase Annual Allowance (MPAA). It replaces the annual allowance reducing the level of contributions that can be paid with the benefit of tax relief.
- The MPAA is £4,000 for the 2020/21 tax year.
- The MPAA is triggered at the point you have taken flexi-access drawdown. But if you take tax-free cash only it will not trigger the MPAA.
- Those in capped drawdown who remain within their GAD limits will not be subject to the MPAA unless they flexibly access other pension benefits.
- HMRC introduced the ‘recycling rule’ to prevent the systematic exploitation of the tax rules to generate artificially high amount of tax relief. Recycling involves using the tax-free cash lump sum as the means to increase pension contributions significantly to gain more tax relief. If you have taken a tax-free cash lump sum and thinking about making a pension contribution, beforehand, please refer to your financial adviser and or request a copy of our technical guide. Anyone who falls foul of the ‘recycling rule’ could incur an unauthorised payment tax charge.

## What investment choices are available for income drawdown?

- Whilst funds remain undrawn your pension will remain invested in accordance with your instructions.
- The same investment choices are available for your SIPP fund pre/post income drawdown.
- The investment strategy adopted should ensure there are liquid funds available at the time you want to make a withdrawal. If the fund is illiquid you will not be able to take an income.
- Income drawdown allows you to keep your options open and increase your income through investment growth. The opposite can of course occur and the value of your investments go down reducing the income available.

## What are the charges for income drawdown?

- Refer to your SIPP fee schedule for the fees applicable to income drawdown
- A fee schedule was sent out when your SIPP was set up. Further fee schedules are sent on the annual anniversary date along with your SIPP renewal.

## What are the payments on death?

- Any funds left when you die can be taken by your beneficiaries as a one-off lump sum or in stages as income.
- If income is chosen; the actual payments can be deferred for a later date.
- We will pay any death benefits at our discretion whilst considering any nominations made by you.
- The beneficiaries will have the following options:
    - to take the pension fund as a lump sum;
    - to continue to take income drawdown;
    - to buy an annuity.
- If you die age 75 or over any lump sum or income drawdown payment to a beneficiary will be taxed as earned income.
- If you die before age 75 all payments made to a beneficiary will be tax free provided the arrangements are made within two years of our being notified of your death. For income drawdown this will be the date flexi-access drawdown is set up even if no income is taken at that time. If the payment is made or income drawdown set up after two years, payments will be taxed as earned income.
- Any part of your pension fund that was not used for income drawdown will be tested against your lifetime allowance with any excess subject to a 55% tax charge before a payment is made.

## What if I am living overseas?

- Many countries have a double taxation agreement with HMRC. Details are available on their website. These agreements can sometimes allow us to pay your pension without deduction of income tax.
- You will need to apply to HMRC for an NT tax code by completing a “Double Taxation Treaty Relief form”. We can provide you with a copy of this form on request.
- NT Tax codes can take a little while to come through and typically rely on a pension income being paid first. We can usually arrange to pay you up to the personal allowance for the tax year without deduction of income tax and send details of the payment to HMRC to help speed up the release of the NT tax code.

## Advice

- What you do with your pension is an important decision. If you take income drawdown your pension fund will remain invested. Its value is not guaranteed and can go down as well as up.
- You will need to continuously check your investments are performing the way you want. A poor investment choice and excessive income withdrawals can quickly reduce the value of your pension fund and the income available.
- If you take a pension payment under flexi-access rules it will reduce the level of future pension contributions allowable and tax relief available.
- If you buy an annuity, the amount of income that you get will depend on the size of your pension fund and the annuity rates available at the time. Annuity rates can change and go up and down. If annuity rates worsen in the future this could result in your pension fund providing you with a lower level of income than you expected.
- Pension Wise, the Government’s pension guidance service provides a free impartial service to help you understand your options at retirement. It can be contacted at www.pensionwise.gov.uk or by calling 0800 138 3944.

# Further Information

- This Key Features document provides information about income drawdown. It is not personal advice.
- You must also read your SIPP Terms & Conditions.
- The Heritage SIPP is subject to the law of England and Wales and this law will apply to any disputes. The law and tax rates may change in the future.
- Heritage Pensions is not authorised to provide you with advice. If you are unsure about the suitability of income drawdown you must speak with a financial adviser.

### Financial Services Compensation Scheme

This is a scheme established by the UK government to provide compensation to customers if an FCA regulated financial services company is declared in default, and is unable to meet its financial obligations.

As a member of the Heritage SIPP you may be able to claim compensation if the provider of one of your investments held in the plan is declared in default, or if we are declared in default and unable to meet our financial obligations. The limit is currently £50,000.

You may also be able to claim compensation if the provider of a bank is declared in default. The limit is currently £85,000.

Further information about the eligibility conditions and compensation limits apply to the FSCS can be found at www.fscs.org.uk.

### Law

All correspondence will be and have been made in English including this document.

This contract is governed by the laws of England and Wales and any disputes will be subject to the exclusive jurisdiction of the English Courts.

### Complaints

You can address any complaints about our services, in writing to:

**The Compliance Officer**
**Heritage Pensions Limited**
**6 Doolittle Mill, Froghall Road**
**Ampthill, Bedfordshire MK45 2ND**

Should you be dissatisfied with our response to your complaint you may have the right to refer it to the Financial Ombudsman Service:

**The Financial Ombudsman Service**
**Exchange Tower, London, E14 9SR**
Telephone **0800 0234 567**

Alternatively you may have the right to refer your complaint to the Pensions Ombudsman depending upon the nature of your complaint:

**The Pensions Ombudsman**
**11 Belgrave Road, London SW1V 1RB**
Telephone **0300 123 1047**

A copy of our complaints procedure is available on request. Making a complaint will not affect your legal rights. Any complaint regarding advice given to you by your Financial Adviser should be referred to them.

### About Heritage Pensions Limited

Heritage Pensions is authorised and regulated by the Financial Conduct Authority (FCA). Our FCA register number is 475096. You can check this on the FCA's register by visiting www.fca.org.uk or by contacting the FCA on 0800 111 6768

***Heritage Pensions contact details are:***

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***Heritage Pensions does not provide financial advice or investment advice.***

**For more information please visit www.heritagepensions.co.uk or call 01525 408 120**

**IMPORTANT**

**This document is based on our current understanding of legislation and revenue practice which are liable to change.**