DEFINED CONTRIBUTION PENSION BENEFITS

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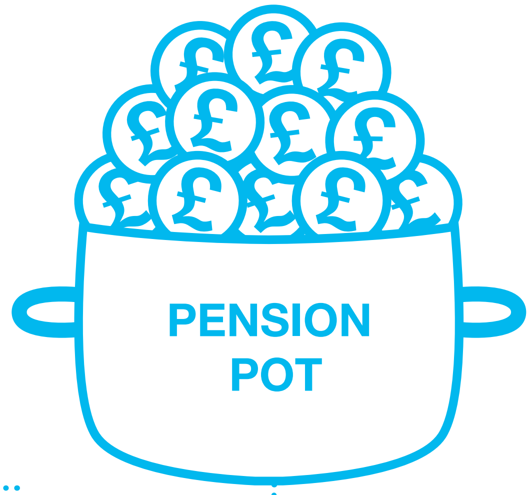
Changes to the Taxation of Pensions Act in 2014 brought about changes to the way in which pension benefits can be accessed from defined contribution (DC), also known as money purchase, pension schemes. These changes allowed individuals to take as much or as little as they like from their DC pension arrangements on reaching the minimum pension age, which is currently age 55 but in 2028 will increase to age 57 and thereafter be set at 10 years before the state pension age, or have met the ill health early retirement conditions or (for certain occupations) reached their earlier protected retirement age.

This infographic will provide an overview of each option for taking benefits from UK-registered DC pension schemes.



PENSION COMMENCEMENT LUMP SUM (PCLS)

The tax-free PCLS is still available from pension schemes upon reaching the minimum pension age and in most cases, is 25% of the pension fund, with the remaining 75% being taxable as pension income.

75%

25%

ANNUITY

An individual with a DC pension fund has the option of purchasing a lifetime annuity upon reaching the minimum pension age. A lifetime annuity is usually provided by an insurance company and in exchange for a lump sum from the pension fund, it provides a regular income for the life of the member (the annuitant). This income is subject to income tax via the pay as you earn (PAYE) system. In the event of the annuitant's death the annuity payments will continue only if survivor benefits or a guaranteed period were included at the date that the annuity was purchased. Payments may be made monthly or less frequently and they may be level or increase but again, these choices must be made at the outset.

UNCRYSTALLISED FUNDS PENSION LUMP SUM (UFPLS)

An UFPLS is one or more lump sums taken from an individual's uncrystallised pension fund; uncrystallised broadly meaning that no benefits have previously been taken.

Up to 25% of the payment is generally paid free of tax while the balance is taxed as income in the year in which it is taken.

FLEXI ACCESS DRAWDOWN (FAD)

FAD allows an individual to withdraw an amount which they choose from their DC pension funds whenever they wish if they have reached the minimum pension age. There are no restrictions on the amount of withdrawals that can be taken so, unlike previous versions of pension drawdown, there is no need for income withdrawal limits to be reviewed. Usually an individual will take their PCLS first, with the balance of the fund then being designated into FAD; any further withdrawals are then subject to income tax as pension income.

SMALL POT

Some individuals will accumulate a number of small individual pension schemes over their working life; those worth less than £10,000 each are known as small pots and may be taken as small pot pension lump sums. An individual may receive up to three small pot payments from non-occupational pension schemes, i.e. personal pensions, although there is no limit to the number of payments that can be taken by the same individual from occupational schemes as long as they are unconnected.

It is not possible to cover each topic in detail in this infographic, for further information please download our Guide to Pensions at - http://www.bloomsburywealth.co.uk/guide-to-pensions/

Or get in touch https://www.bloomsburywealth.co.uk/get-in-touch

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