

**WEALTH OF
ADVICE**

INCOME DRAWDOWN

FLEXIBLE INCOME IN RETIREMENT

Income Drawdown is a flexible way for you to manage your pension, allowing you to generate the income required to meet your circumstances.



Wealth of Advice are authorised and regulated by the Financial Conduct Authority, reference number 563909. Past performance is no guide to future returns. Your investments can go down as well as up, so you may get back less than you originally invested. The content of this guide is for educational purposes only, and is not financial advice.

IMPORTANT INFORMATION.

We have written this guide to help you understand more about Income Drawdown and it is not personal advice.

Your retirement income will usually be generated from your pension which can be accessed from age 55 (rising to 57 from 2028).

We recommend you take care to understand the options available to you with your pension and check that your chosen option is the best fit for your circumstances.

The information in this guide is correct as of May 2025. UK tax rules can change at any time and its impact depends on your circumstances.

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Please Note:

This guide concerns Defined Contribution pension schemes. If you want to understand your Defined Benefit (Final Salary) options, please get in touch.

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WHAT IS INCOME DRAWDOWN?

Income Drawdown allows you to take money out of your pension plan in a way that is suited to your individual needs.

You can take as much or as little as you like, stopping and starting income as you see fit. Income Drawdown offers the flexibility to control your retirement income, with access to capital if it is needed and giving you the freedom to pass your remaining wealth down to your loved ones when you die.

THE TYPES OF INCOME DRAWDOWN

There are two main types of Income Drawdown, but for the purposes of this guide, we'll focus on Flexi-Access Drawdown. If you want to find out more about Capped Drawdown, please contact us.

Flexi-Access Drawdown

Introduced from April 2015, where there is no limit on how much income you can choose to take from your pension funds.

Capped Drawdown

Only available before the 6th April 2015 and has limits on the income you can take out. If you are already in Capped Drawdown there are new rules about tax relief on future pension savings if you exceed your income cap.

INCOME DRAWDOWN FEATURES

Flexibility In Retirement

Previously, annuities were the most commonly used method of receiving pension income used by retirees. Rather than the fixed income an annuity provides, Drawdown gives you the option to adapt your income to suit your circumstances.

Tax-Efficient Withdrawals

You can take up to 25% of your pension as tax-free cash, either as a lump sum, regular income, or a combination of both. This allows you to be tax efficient with your withdrawals and can provide additional flexibility.

Your Pension Stays Invested

The funds not withdrawn from your pension remain invested, meaning your pension still has the capacity to grow over time. Your investments can fall as well as rise however, so it's important to regularly review your pension to make sure it is appropriate for your retirement needs and attitude to risk.

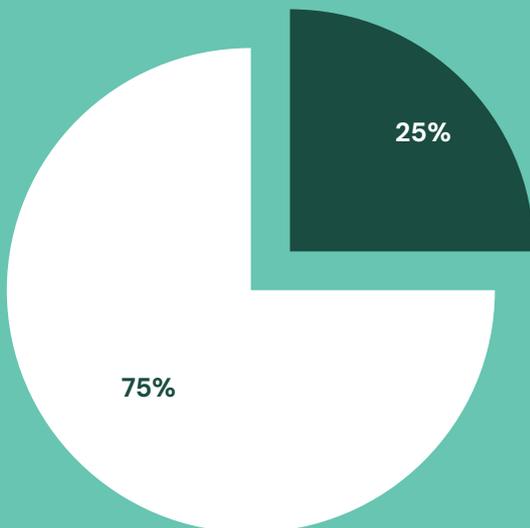
Death Benefit Considerations

Unlike some other retirement products, the funds remaining in your Income Drawdown pension plan can be passed on to your beneficiaries when you die. This means you can plan accordingly to leave a legacy behind for your loved ones when creating your financial plan.

HOW INCOME DRAWDOWN WORKS.

When it comes to Income Drawdown, there are typically four scenarios which explain how it works. Everyone's circumstances are different, so what may seem right for you could be the wrong choice for someone else.

TAKE THE TAX-FREE CASH ONLY

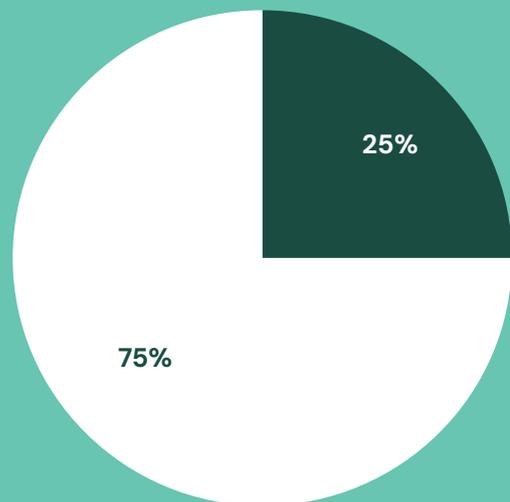


Withdraw tax-free cash

Leave the rest in the pot to provide an income now or use it later

When you take the remaining pension it will be taxed as income in the year you take it. This could be taken as Income Drawdown or the fund can be used to purchase an Annuity. This is a popular option and is a good way to provide any cash you need. However, the cash you withdraw will no longer benefit from tax-free investment growth and income.

TAKE YOUR WHOLE PENSION FUND



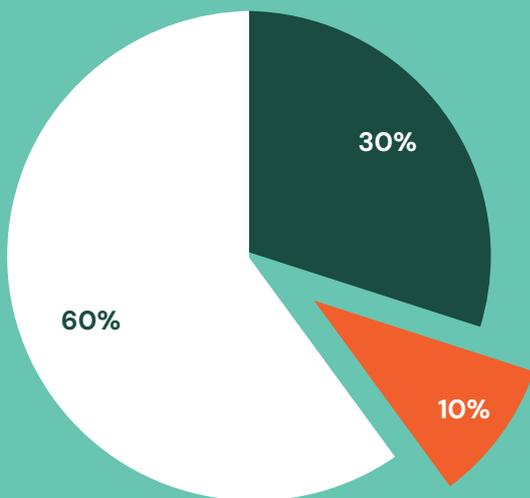
Tax-free cash

Taxable cash

Only 25% of the amount withdrawn will be tax-free and you will have to pay tax on the rest. This may mean that it is taxed at a higher rate of income tax.

If you take your pension in one go, you need to consider whether you have enough money left to provide an income as you grow older. However, if you need the cash and have retirement income from other sources, this may work for you. Alternatively, you could take the tax-free cash and use the balance to purchase an annuity.

TAKE PART OF THE TAX-FREE CASH



Withdraw some tax-free cash

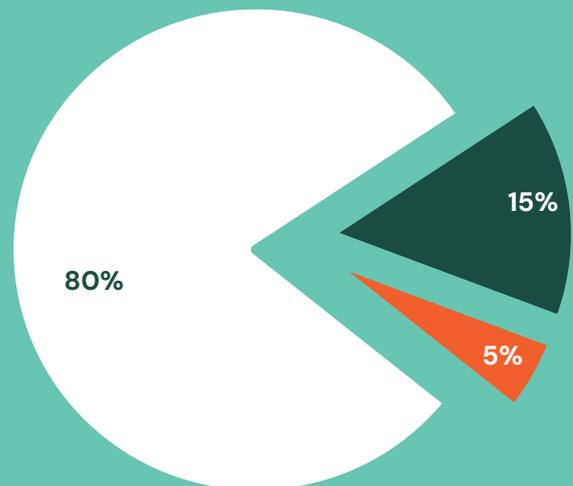
Drawdown fund created – leave in pot or take as taxable income

Remaining pot has not been accessed – 25% of this can be taken as tax-free cash later

In this example, you would like to access a part of your tax-free cash. To do this, you must “crystallise” a portion of your pension, of which 25% triggers the expected tax-free cash. A Drawdown fund is then created, from which taxable income can be withdrawn at any time.

This could be a good option if you need some cash but not as much as 25% of the whole fund. The amount not withdrawn is left in the pot to benefit from tax-free investment growth.

TAKE A LUMP SUM



Withdraw tax-free element of lump sum

Withdraw taxable element of lump sum

Remaining pot to be accessed later including tax-free cash

With this option, you can access a lump sum and leave the residual value invested. 25% of the lump sum is tax-free and the remaining 75% is subject to income tax. By taking a pension lump sum and leaving the rest invested, you’ll still have unused tax-free cash to take in the future. This will allow you to spread the tax-free benefit over several payments. This is known as Uncrystallised Funds Pension Lump Sum, or UFPLS.

If you decide to take a UFPLS, the amount you can continue to pay into your pension will reduce as you have flexibly accessed your pension income, which triggers the Money Purchase Annual Allowance (MPAA), which we cover in more detail later.

INVESTING WITH INCOME DRAWDOWN.

Income Drawdown allows you to keep your pension pot invested, which means its value can fluctuate.

It's important to remember that your pension value can go down as well as up, so you may get back less than you initially invested. So, it's crucial to think about how comfortable you are with investment risks, especially now that you're starting to withdraw an income from your pension.

When planning your retirement income, you need to carefully choose your investments and cash holdings to make sure you can meet your regular income needs. Regular reviews are essential to make sure your investment choices continue to align with your retirement goals.

PENSION LONGEVITY FACTORS

Your pension may not last as long as you would like if:

- Larger withdrawals are accessed in the early years or above those pre-planned
- Pension investments do not perform as expected
- The income withdrawn is not regularly reviewed to adapt to changing circumstances
- Life expectancy is greater than initially anticipated

Why Regular Reviews Matter

Market movements will impact your pension investments, and any growth needs to cover the costs of the plan, investment fees, advice fees and inflation. The goal is to grow your fund in line with the level of risk you're comfortable with, hoping to rebuild the fund after withdrawals and covering all associated costs. However, this growth isn't guaranteed and depends on how well the underlying investments perform, which is why it's important to regularly review your investments to make sure they are performing as best as they can.

Managing Withdrawals and Market Volatility

Taking larger withdrawals or withdrawing during volatile market periods can speed up the decline in your pension value. That's why it's vital to manage your pension investments, assess investment risks, and plan withdrawals accordingly. These steps are key to making your pension last as long as possible.

Ignoring these factors can lead to your pension running out during your lifetime, which is something we all want to avoid. By staying on top of your investment strategy and being mindful of market conditions, you can better secure your financial future.

HOW MUCH INCOME CAN I SAFELY TAKE?

Well-Managed Pension Plan

With a well-managed pension, you may have enough money to leave behind to your next of kind when you die. The goal with a drawdown pension is to make it last your lifetime.



Unsustainable Pension Plan

If your pension is not managed properly, you could run out of money in retirement long before you die, as well as increasing the likelihood of leaving nothing behind for your next of kin.



WHAT ARE THE RISKS?

While Income Drawdown offers flexibility and control over your retirement funds, it also comes with several risks that you should carefully consider:

Withdrawal Rate Risk

Determining the right amount to withdraw each year is crucial. Withdrawing too much can deplete your funds quickly, while withdrawing too little might mean you don't enjoy your retirement as much as you could. It's essential to find a sustainable withdrawal rate that balances your income needs with the longevity of your funds.

Taxation Risk

Withdrawals from your pension pot are subject to income tax. Large withdrawals can push you into a higher tax bracket, resulting in a higher tax bill. It's important to plan your withdrawals carefully to manage your tax liabilities effectively.

Management and Fees

Managing an Income Drawdown plan requires ongoing attention and potentially professional advice, which can incur additional costs. High fees can eat into your returns, reducing the overall effectiveness of your investment strategy.

Investment Risk

Income Drawdown involves keeping your pension invested, which means the value of your investments can go up or down. Market fluctuations can significantly impact your retirement savings, potentially reducing the amount of income you can withdraw.

Sequence of Returns Risk

The order in which you experience investment returns can significantly impact your retirement savings. Negative returns early in retirement can be particularly damaging, as they reduce the value of your portfolio at a time when you are starting to make withdrawals.

Longevity Risk

There's a risk that you might outlive your retirement savings. Unlike an Annuity, which provides a guaranteed income for life, Income Drawdown does not offer this security. If your investments perform poorly or you withdraw too much too soon, you may run out of money in your later years.

Regulatory Risk

Changes in pension regulations or tax laws can affect your retirement planning. Staying informed about potential legislative changes is crucial to ensure your strategy remain effective and compliant.

Inflation Risk

Inflation can erode the purchasing power of your retirement income over time. If your investments do not grow at a rate that keeps up with inflation, you may find that your income does not stretch as far as you would have liked.

MITIGATING THE RISKS

To mitigate the risks, consider the following strategies:

- Diversify your investments to spread risk across different asset classes.
- Regularly review your withdrawal rate to ensure it remains sustainable.
- Seek professional advice to help manage your investments and withdrawals.
- Stay informed about changes in regulations and market conditions.

OTHER KEY POINTS TO THINK ABOUT.

Pension Contributions

Once you take a taxable income from your pension, the level of future contributions that can be made to a defined contribution pension reduces from £60,000 (Annual Allowance) to £10,000 (Money Purchase Annual Allowance, or MPAA). This is important if you intend to take taxable income from your pension while continuing to make pension contributions.

Leaving a Legacy

You can nominate who you'd like to receive any money left in your drawdown pension when you die. If you die before the age of 75, any money left in your pension passes tax free, if claimed within two years, to your nominated beneficiary whether they take it as a lump sum or income. If you die after the age of 75, and your nominated beneficiary takes the money as income or lump sum, they will pay the tax at their marginal rate.

Blending Your Pension Options

An alternative is to mix the products used to provide a retirement income. For example, you can use half your pension value to purchase an annuity and the other half to access flexibly. Combinations can be made to meet your retirement circumstances when you discuss your potential pension options with a financial planner.

The Tax Position

Withdrawals above any tax-free cash entitlement are considered income and will be added to other sources of income for the tax year. It is important to understand your income tax position prior to withdrawing a taxable income as larger withdrawals may push you into the higher rate tax band. Previously, accessing benefits above the Lifetime Allowance would trigger further tax charges, but this is no longer the case from 6th April 2023.

TALK TO US AT WEALTH OF ADVICE

Our Chartered Financial Planners are here to help you get the most out of your finances, whether that's planning for retirement or managing your estate.

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