MPA Financial Management
Inform, Educate, Inspire

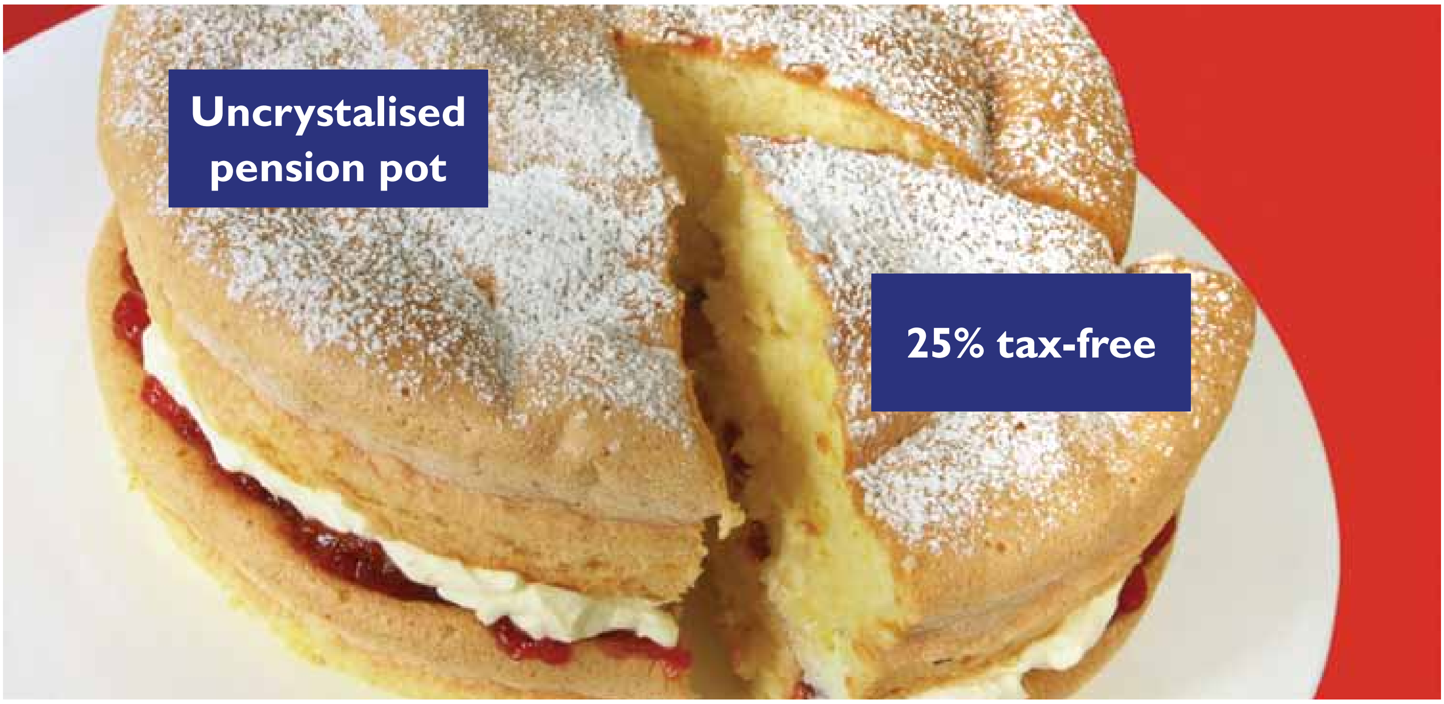
Making the most of Phased Retirement
Generating tax efficient income through flexible drawdown

OVERVIEW

New pension freedoms that have come into force in April 2015 give you much more choice - choices that may be somewhat mystifying without advice from experts in the field. There are opportunities to get hold of part of your pension fund before you finally retire, known as flexible access drawdown. Therefore phased retirement crystallises your pension fund bit by bit as opposed to securing it all in one go. This a very tax efficient way of accessing your income by taking it in increments where you will benefit from 25% of your income being tax free.

THE PRINCIPLES

This image depicts your pension pot as a cake, which you can access one slice at a time. Each slice that you access is 25% tax-free. For example if each slice is worth £10,000 then £2,500 will be tax-free and £7,500 will be taxed at your marginal rate of income tax.



In general, investors can take advantage of this approach to retirement from age 55 and there is no upper limit

25% of the fund can be taken as a tax-free lump sum

The balance of 75% is held in a drawdown plan and can be accessed at once or in chunks, but this element is taxable; care needs to be taken that drawdown income plus other income does not take you into a higher tax bracket

Taxable income can be left untouched to potentially grow - you can simply take the tax-free lump sum if you wish

Withdrawals could be on a regular planned basis, an 'as needed' basis, or a combination of both

Any funds remaining on your death can be passed to your dependants

Careless planning could result in running out of money

Making the most of Phased Retirement continued

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THE ADVANTAGES

- A tax-free lump sum of 25% of your fund is an attractive proposition, minimising income tax
- Withdrawal levels can vary according to need and your tax position
- There is no requirement to buy an annuity
- After withdrawal of the lump sum you can leave the remainder to grow in a tax efficient environment.
- You can decide on the level of risk for the remainder of the invested funds

THE DISADVANTAGES

- Charges can be higher for drawdown than for purchasing an annuity
- The drawdown contract could fall in value, making ongoing income less secure
- If you later wish to buy an annuity with remaining funds, rates may have gone down
- Emergency tax may be deducted on first accessing the taxable fund, meaning you will need to complete a form in order to reclaim any tax owing from HMRC.

THE OPTIONS

Option 1	Leave pension untouched to continue to grow
Option 2	Take 25% as tax-free lump sum and leave the rest of the investment to grow
Option 3	Take 25% as tax-free lump sum; schedule regular drawdown withdrawals for a steady income
Option 4	Take 25% as tax-free lump sum; make further withdrawals as and when required
Option 5	A combination of Option 3 and 4
Option 6	Take a combination of tax-free cash and income on a regular or an ad hoc basis.

SUMMARY

With flexible drawdown you crystallise (withdraw) from your pension pot only what you need. By doing this you are reducing your taxable income. You can also keep your pension pot in place for inheritance purposes, which also has tax advantages.

CONTACT US

Phone: 01564 795997
Email: enquiries@mpafm.co.uk.

The information in this article can in no way be construed as advice and professional qualified advice should be sought relating to your pension options.

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