



THE NEW DRAWDOWN RULES

This is the first of three fact sheets on income drawdown.

On 6 April 2011, the government announced that you no longer have to take pension benefits by the age of 75.

Previously, any tax-free cash lump sum had to be taken by age 75 and a pension set up at the same time. The only alternative was if you had a big enough fund to take an income directly from it (known as income drawdown).

This fact sheet outlines the government's new rules which affect benefits in personal pensions and money purchase occupational pension schemes.

Summary of the Changes

The changes are:

- You can now take a tax-free cash lump sum after age 75;
- You can now buy an annuity after age 75;
- The maximum income drawdown payment is calculated differently; and
- New 'flexible drawdown rules' with unlimited withdrawals if you already have a secure pension income of £20,000.

What is income drawdown?

Income drawdown allows you to take income from your pension fund while the fund remains invested and continues to benefit from any investment growth.

You generally need a substantial fund to take income drawdown. The amount of fund varies according to the rules of the pension provider, but is often around £100,000.

If you have a big enough fund to use income drawdown, you will be able to keep your funds invested and draw an income directly from it indefinitely.

In addition, if you have a 'secure' pension income of £20,000 a year, you can take as much income drawdown from your fund in retirement as you want by using 'flexible drawdown'. Please see our fact sheet 'Spotlight on the new flexible drawdown rules' for more details.

The new income drawdown rules provide an alternative option if you prefer to have greater control and flexibility over how and when you receive your pension income. Subject to the terms and conditions of your pension scheme, you may be able to leave your pension fund untouched for as long as you like.

What are the new income drawdown rules?

The new income drawdown rules are as follows:

- There is no minimum amount of income that you must draw, irrespective of age. This means that you may be able to leave your pension fund untouched for as long as you like, without having to draw any income.
- The maximum amount of income that you may draw has reduced. The new maximum amount of income that may be drawn is 100% of the single life annuity that a person of the same gender and age could purchase based on Government Actuary's Department rates. Your pension provider calculates the maximum income, using standard tables prepared by the Government Actuary's Department.
- The maximum income will generally be reviewed every three years until age 75 and annually from age 75, based on the Government Actuary's Department rates for a person of the same age and gender at the time of each review.
- Tax-free cash lump sums may now be paid after age 75 if you have chosen to set aside or 'designate' funds for income drawdown at the same time, even if you decide to take no income.

Will my pension provider have to offer income drawdown?

No. It will be left to each pension provider to decide whether or not they wish to provide income drawdown.

If I am already using income drawdown, can I buy an annuity at anytime?

Yes. The rules on this have not changed.

If you are considering using income drawdown or delaying taking your tax-free cash lump sum and starting your pension after age 75, please check whether your pension provider is offering these options. **If you are considering income drawdown, you should seek expert independent financial advice.** The Pensions Advisory Service is unable to give financial advice.

About Us

The Pensions Advisory Service has been providing help and guidance to members of the public on pension matters since 1983 either by telephone or written advice. We can also help people who have a pension complaint or dispute.

Our service is free and sustained by a nationwide network of volunteer advisers, who are supported and augmented by technical and administrative staff based in our London office.

Contacting us

The Pensions Advisory Service

11 Belgrave Road
London SW1V 1RB

We regret that we are unable to accept visitors at our office.

Helpline	0845 601 2923
General Office	020 7630 2250
Fax	020 7592 7000

enquiries@pensionsadvisoryservice.org.uk
www.pensionsadvisoryservice.org.uk

Please note that this guide is for information only. The Pensions Advisory Service cannot be held responsible in law for any opinion expressed, nor should any such opinion be regarded as grounds for legal action.