



THE NEW FLEXIBLE DRAWDOWN RULES

This is the second fact sheet of three on income drawdown.

This fact sheet outlines the government's rules on drawdown from 6 April 2011 which allows you to take as little or as much income as you want from your fund on retirement if you meet certain conditions.

Summary of the key rules

- If you have a secure pension income of £20,000 a year, you may use flexible drawdown to draw all your pension savings as income without any restriction.
- You will need to complete a declaration that you satisfy the required conditions.
- You will need to finish saving into pensions.

What is flexible drawdown?

Flexible drawdown may allow you to withdraw as little or as much income from your pension fund, as and when you need it. You have to declare that you are already receiving a secure pension income of at least £20,000 a year and have finished saving into pensions.

What is meant by secure pension income and how is the £20,000 calculated?

Secure pension income means:

- A scheme pension being paid to you from a UK pension scheme that has 20 or more people receiving a pension; or
- A scheme pension being paid to you from overseas; or
- An annuity/scheme pension being paid to you from a defined contribution scheme, such as a private pension or money purchase company pension scheme either from the UK or from overseas; or
- A dependant's pension/annuity being paid to you either from the UK or from overseas; or
- A state pension being paid to you either from the UK or from overseas; or
- Graduated retirement benefit, industrial death benefit, widowed mother's allowance, widowed parents allowance, and widow's pension payable from the UK or similar benefits from overseas; or

-
- A payment from the Pension Protection Fund and/or the Financial Assistance Scheme. Our understanding is that secured pension income is taken as the **gross** annual amount of pension (i.e. before any income tax is deducted).

The £20,000 limit might be subject to change in the future.

Can secure pension income include income drawdown?

No. Income drawdown is not regarded as secure pension income for this purpose. Short term annuities are not secure pension income.

What are the conditions for meeting the flexible drawdown rules?

In addition to meeting the requirement to have a secure pension income of £20,000 a year, the conditions you have to meet are as follows:

- You make a valid declaration to the pension provider that you meet the flexible drawdown rules; and
- No further contributions are made by you or on your behalf to a defined contribution scheme in the tax year in which a flexible drawdown payment is taken; and/or
- You are not building up further benefits in a defined benefit (or cash balance) scheme.

In effect, any new pension savings made after flexible drawdown is taken will not be tax-relievable and will be liable to the annual allowance charge in full.

A separate declaration will need to be made on each separate occasion flexible drawdown is used.

I have a protected rights fund. Can I use this fund for flexible drawdown?

No. Protected rights funds (i.e. money from contracting out of the State Second Pension and the State Earnings Related Pension Scheme (SERPS)), cannot be used to draw a flexible income. However, protected rights are expected to be abolished on 6 April 2012 which will effectively remove this restriction.

I am already using income drawdown. Can I elect to use flexible drawdown?

Yes, if you meet the conditions for flexible drawdown and your pension provider allows you to do this. Please see our fact sheet 'Spotlight on the new income drawdown rules for individuals already using income drawdown'.

Please check with your pension provider as to whether you can use flexible drawdown and if so, when.

Can a dependant elect flexible drawdown?

Yes. The same rules apply to dependants.

Spotlight on: The New Flexible Drawdown Rules

Will I be taxed on the flexible drawdown amount?

Yes. The flexible drawdown amount will be subject to income tax in the same way as other pension income.

Does my pension provider have to offer flexible drawdown?

No. It will be left to each pension provider to decide whether or not they will allow this.

If you are considering using flexible drawdown, please check whether your pension provider is offering this option. **If you are considering flexible 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



HELPLINE
0845 601 2923

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.