Spotlight

the pensions advisory service

DRAWDOWN RULES FOR PEOPLE ALREADY USING INCOME DRAWDOWN

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

This fact sheet outlines the government's income drawdown rules which came into force on 6 April 2011 for people already using income drawdown.

On 6 April 2011, the term 'unsecured pension' was replaced with 'drawdown pension.'

Timescales

- If you are under 75, you may continue to draw income based on the old maximum limits until the end of your current five year review period.

- If you are age 75 or older on 6 April 2011 you may continue to draw income based on the old minimum and maximum limits until the start of your next annual review.

- Special rules apply if you reach 75 between 22 June 2010 and 5 April 2011 inclusive. If you wish to use flexible drawdown, you should contact your pension provider and ask whether you can do so.

The Pensions Advisory Service is unable to give individual specific advice and you should seek independent financial advice if you require further assistance.

The Old Rules: Individuals Under Age 75

If you are under 75, you may continue to draw income based on the old maximum limits until the end of your current five year review period.

The old rules were as follows:

- There was no requirement for you to draw any income.

- The maximum amount that you could draw was 120% of the single life annuity that a person of the same gender and age could purchase based on Government Actuary's Department rates.

The maximum amount was generally reviewed every five years until age 75.

Although the maximum amount was reviewed every five years until age 75, there were certain events when it had to be reviewed earlier than this.

The events where it would be reviewed were:

- If you used part of the fund to buy an annuity. (An annuity is a lifetime pension bought from an insurance company or pension provider.)
- If you used part of the fund to buy a scheme pension.
- If your fund was reduced on pension sharing on divorce.
- If your income drawdown contract accepted a transfer of funds from another income drawdown contract or you set further funds set aside ('designated') for drawdown.

Although the maximum amount had to be reviewed, this review did not change your existing reference period (i.e. the existing five year period).

You could have asked your pension provider to start a new five year review period (up to age 75) before your existing five year period ended. Your new five year period would have started at the next anniversary date of your current five year period. Your pension provider did not have to agree to this.

Your new five year period had to be in place before the new rules came into force on 6 April 2011.

The Current Rules: Individuals Under Age 75

The current rules are:

- You do not have to draw any income.
- The maximum amount that you may draw is reduced from 120% to 100% of the single life annuity that a person of the same sex and age could purchase based on Government Actuary's Department rates.

Your maximum amount will generally be reviewed every three years until age 75.

Although your maximum amount will be reviewed every three years until age 75, there are certain events when it has to be reviewed earlier than this. The events in question are the same as the old rules.

This review does not change your existing reference period (i.e. the existing three/five year period), unless you transfer drawdown benefits from one pension provider to another pension provider. If you do this, a new reference period will start on the last day of the drawdown year in which the transfer took place.

You can ask your pension provider to start a new three year review period (up to age 75) before your existing three year period ends. Your new three year period would start at the next anniversary date of your current three year period. Your pension provider does not have to agree to this.

The Old Rules: Individuals Aged 75 or Older

If you were 75 or older, you could continue to draw income based on your old minimum and maximum limits until the end of your current one year review period.

The old rules were as follows:

- The minimum amount that you could draw was 55% of the single life annuity that a person of the same sex and age 75 (even if you were older than 75) could purchase based on Government Actuary's Department rates.
- The maximum amount that you could draw was 90% of the single life annuity that a person of the same sex and age 75 (even if you were older than 75) could purchase based on Government Actuary's Department rates.

The minimum and maximum amounts were reviewed every year.

The Current Rules: Individuals Aged 75 or Over

- The requirement to draw a minimum level of income is abolished. There is no requirement for you to draw any income.
- The maximum amount that you may draw is 100% of the single life annuity that a person of the same sex and age could purchase based on Government Actuary's Department rates. The maximum amount will generally be reviewed every year.

Although the maximum amount will be reviewed every year, if you designate extra money into your drawdown pension fund, the maximum amount is reviewed at the time of the designation.

Special Rules

Individuals who reach age 75 between 22 June 2010 and 5 April 2011 inclusive have special rules available to them.

The Government announced on 22 June 2010 that you could stay in income drawdown under the old 'unsecured pension' rules until age 77, if your pension scheme rules and pension provider allowed this.

At age 77, you have the choice to buy an annuity with your pension fund or continue income drawdown under the 'alternatively secured pension' rules.

You will be allowed to continue to take advantage of the old 'unsecured pension' rules until your review period ends on or after 6 April 2011, when the new 'pension drawdown' rules will apply.

Spotlight on: Drawdown Rules for People Already in Drawdown

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Flexible Drawdown

Irrespective of your age, if you are already using income drawdown, you can ask your pension provider for 'flexible drawdown', which may allow you to take as little or as much income as they want from their fund if you meet certain conditions.

Please refer to our fact sheet 'Spotlight on the new flexible drawdown rules' for further information.

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

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