INCOME DRAWDOWN GUIDE

A flexible way to use your pension pot

NFU Mutual
RETIREMENT PLANNING

Our leaflet 'TAKING BENEFITS FROM YOUR PENSION POT' explains the different ways you can use your pension pot.

This guide is intended to help you decide if Income Drawdown is the right choice for you and assumes you're happy to set up and run your Income Drawdown plan yourself. This guide is not personal advice or a recommendation.

If you are unsure whether Income Drawdown is the right option for you, you should seek guidance or take financial advice.

HOW DOES INCOME DRAWDOWN WORK?

One of the most popular ways to take money from a pension pot is through Income Drawdown. This is available once you reach age 55 (this will rise to age 57 from 2028).

When moving your pension pot into Income Drawdown you can normally take up to 25% of your pension fund as a tax-free lump sum*. You can only take the tax free lump sum at the time you move into drawdown, you cannot take it from money once it's in your Income Drawdown plan. You can also choose whether you want to move all of your pension pot at once or move it in stages to suit your needs.

*In most cases, the maximum tax-free cash you can take across all your pensions is £268,275 unless you have registered for Lifetime allowance protection.

You're in control. Once invested in drawdown you can choose to:

- Take regular income withdrawals from your plan. You have the flexibility to increase and decrease the amounts you take and stop and restart income withdrawals to suit your circumstances
- Take one off payments from your plan. These can be in addition to any regular withdrawal payments you take
- Leave your pension pot invested and start to take income withdrawals at a later date
- At any time, you can use what's left in your drawdown plan to buy a guaranteed income for life (known as an annuity).

When using your drawdown plan for regular income withdrawals, it's important to consider your total income from all sources – including the State Pension and any other pension pots you have – to check that your money will last for the rest of your life.

You'll also need to decide how the money left in your pot is invested and to regularly check how your investments are performing.

INCOME DRAWDOWN – ADVANTAGES & DISADVANTAGES

When deciding if using Income Drawdown is right for you, you should consider the advantages and disadvantages. We've highlighted some key issues for you to consider.

What are the benefits?	
Your pension fund remains invested	Giving the potential for your pension pot to grow in value.
Tax free growth	Any investment growth on your pension pot continues to be free from UK Income Tax and Capital Gains Tax.
You choose your income payments	You set the level of income you want and when it's payable. You can stop, start, increase or decrease the income you take from your pension pot.
Investment choice	You decide how your pension pot is to be invested. If you do not choose, you'll be invested in the Investment Pathway fund that suits the plans you have for your pension pot over the next 5 years.

What are the benefits?	
On death any remaining funds can be passed on	You can make clear who you would like to benefit, but the Pension Scheme Trustees will make the final decision.
Flexibility	You can take your tax free lump sum and leave your pot invested, deciding later if you want to take an income from your pot or use all, or some, of that pot to buy a guaranteed income for life.
Further payments	You and/or your employer can make further payments into your pension up to age 75 and benefit from tax relief.

What you need to consider?	
The value of your pension pot could fall	This would reduce the amount of income you can take during your retirement.
Taxable income	Any money you take out is subject to Income Tax.
You could run out of money	If you take out too much, your investments don't perform or you live longer than you expect, you could run out of money with no further income payments then possible.
You'll need to monitor your investments regularly	If you select your own investments you'll need to check that your investments are performing as you expect and that they continue to match your attitude to risk. If invested in an Investment Pathway fund you'll need to check its performance and that the fund continues to match the plans you have for your pension pot.

What you need to consider?	
If you die after 75 there will be a tax charge	On any money taken out by the beneficiaries.
Uncertainty	Leaving your pension pot invested has no guarantees as to its future value or what income you can take. If you're worried about this, you might want to consider using your pot to buy a guaranteed income for life instead of using Income Drawdown.
Restricting the amount you or your employer can pay in	Once you take any taxable payment from your Income Drawdown plan, the amount that can be paid in is reduced to a maximum of £10,000 each tax year. This reduction doesn't happen if you only take your tax free lump sum and no income, or if you buy a guaranteed income for life.

HOW MUCH INCOME CAN I TAKE?

You can take any amount of income you wish. If the income you take is greater than any investment growth, the value of your pension pot will reduce.

You may need to change the amount of income you are taking depending on how your investments perform, the level of inflation and your own income needs.

You can use the Income Drawdown calculator provided by the government's MoneyHelper service to work out how long your pension pot will last, based on the level of income you wish to take and the investment return you think will be achieved.

Simply go to: **moneyhelper.org.uk**

HOW SHOULD I INVEST MY INCOME DRAWDOWN POT?

You're free to choose your own investments as you wish. When deciding how to invest, you should consider how you intend to use your drawdown plan. If you are using it to take an income then you should consider your income needs and how your investments can support those and also the investment risk you are happy to take.

Income

When thinking about your income needs, consider:

- how much you'll need from your pension pot and for how long
- whether you need an income immediately (and if so, how much) or whether you're investing for growth with a view to taking income at a later date
- the impact of inflation and charges on the value of your pension pot.

Investing

When thinking about where you want to invest your pension pot, consider:

- choosing an investment approach to match how you plan to use your drawdown investment plan
- deciding if you want to use a fund that itself invests in a wide range of different investments to diversify your money, or allocating your investment yourself
- how much investment risk you are able or willing to take
- how a drop in the value of the pot would affect the income you could take and what this would mean for your household finances.

You should review your level of withdrawals and investment approach regularly to ensure it continues to meet your needs.

You can find information about the investment funds we offer and our investment risk categories in our 'A guide to investing with NFU Mutual'. Speak to your local NFU Mutual agency office for your copy of the guide.

INVESTMENT PATHWAYS

If you do not choose where to invest we will allocate your drawdown fund to one of four Investment Pathway funds. Which fund depends on which of the following options best fits with what you plan to do with your drawdown pot over the next five years. The options are:

Option 1	I have no plans to touch my money in the next five years.
Option 2	I plan to use my money to set up a guaranteed income (buy an annuity) within the next 5 years.
Option 3	I plan to start taking my money as a long-term drawdown income within the next 5 years.
Option 4	I plan to take all my money out within the next 5 years.

You can find more information about our investment pathways funds in our guide ‘A guide to Investment Pathways’, you can download a copy from our website at **nfumutual.co.uk**

Remember that the values of your pension funds can go down and you may get back less than you invested.

If you don’t feel confident dealing with all the complex decisions, you can speak to an NFU Mutual Financial Adviser. They’ll help you review your options and decide if Income Drawdown is right for you.

CAN I STILL PAY INTO A PENSION?

You and your employer, if you have one, can normally pay into a pension up to the level of your earnings, capped at £60,000 each tax year. You may be able to pay more than this depending on your circumstances.

For example, you might be able to carry over any annual allowance you didn't use from the previous three tax years. Alternatively, if this option is not available, you may choose to pay into your pension above the £60,000 cap and suffer an annual allowance tax charge.

If you take any money – not including your 25% tax-free cash sum* – from an Income Drawdown pot, this annual allowance reduces to £10,000.

If you are still working and the total contributions to your plan from yourself and your employer are likely to be more than £10,000 a year, you may want to delay taking income from your drawdown pot.

*In most cases, the maximum tax-free cash you can take across all your pensions is £268,275 unless you have registered for Lifetime allowance protection.

WHAT ABOUT TAX?

Normally you can take up to 25% of your pension pot as a tax-free lump sum*.

Any money you take from the remaining pot is added to any other income you have and you pay Income Tax on it.

Any growth on the money invested in your Income Drawdown pot is free of UK Income Tax and Capital Gains Tax.

Remember that the tax treatment of pensions depends on individual circumstances and may change in the future.

*In most cases, the maximum tax-free cash you can take across all your pensions is £268,275 unless you have registered for Lifetime allowance protection.

WHAT HAPPENS WHEN I DIE?

Any money left in your Income Drawdown pot can normally be left free of Inheritance Tax. You nominate who you would like to receive this money and the trustees will take your nomination into account when they decide who will benefit.

Your beneficiaries will be able to take some or all of the money as a lump sum or leave it invested and make withdrawals of income or smaller lump sums as they wish.

If you die before age 75, any money taken out by the beneficiaries will be free of Income Tax.

If you die after age 75, any money taken out by the beneficiaries will be subject to Income Tax.

WHAT ARE THE ALTERNATIVES?

Before deciding if Income Drawdown is right for you, it's important to look at the other choices you have.

Buy a guaranteed income for life

You can use some or all of your pension pot to buy what's called an annuity. This provides an income which is payable to you for the rest of your life. You can choose:

- to have the income increase each year or stay the same
- for all or part of this income to continue to be paid to your spouse, civil partner or other dependant if you die before them
- for the income to be paid for a minimum number of years even if you (or your spouse, civil partner or other dependant) die before that.

The level of income you receive will depend on your age, health and lifestyle and you could get a larger income if you share relevant information with your provider about factors which impact your life expectancy. For example, you might have, or have had, health problems or a lifestyle which could affect your life expectancy such as long-term smoking.

This information could change the amount you receive – an enhanced annuity could provide you with substantially more annual income.

The amount of income available from an annuity will also vary significantly between providers, so it's important to shop around. We can do this shopping around for you, just let us know.

Some pension plans have a guarantee that means you are guaranteed to receive a minimum level of income from an annuity.

This is known as a Guaranteed Annuity Rate. This minimum income is often higher than the income you can find by shopping around. It makes sense to check your pension or seek advice before taking any action. Once you've bought an annuity you can't change your mind and take your money elsewhere.

Taking lump sums

Rather than take all your tax-free cash from your pension in one go, you could choose to take a series of lump sums with each withdrawal being made up of 25% tax-free cash* and the rest taxed at income.

*In most cases, the maximum tax-free cash you can take across all your pensions is £268,275 unless you have registered for Lifetime allowance protection.

Remember that the tax treatment of pensions depends on individual circumstances and may change in the future.

MAKE SURE YOU UNDERSTAND YOUR OPTIONS

Deciding how to use your pension pot to provide an income is an important decision. If you know what you want to do, then we're here to help you put your plans in place.

It's important that you understand all your options and the associated risks before making any pension decisions.

You may also find it helpful to review the information at **moneyhelper.org.uk**, which will help you understand the options.

Remember that shopping around and reviewing the pension products available from different providers will help you to choose a pension product or withdrawal option which best suits your needs. This may offer a higher level of retirement income.

BEFORE YOU TAKE THE PLUNGE

Before deciding what to do with your pension pot, we strongly recommend that you speak with Pension Wise – a government service that offers free, impartial guidance to help you understand your pension options. If you would like us to book you an appointment with them, please call us on **0800 622323**.

Otherwise, you can find out more by visiting

pensionwise.gov.uk

or calling

0800 011 3797

Alternatively, you can speak to an NFU Mutual Financial Adviser. They'll help you review your options and decide if Income Drawdown is right for you. There is a charge for any advice and we will tell you what this is when you contact us.

NFU Mutual Financial Advisers advise on NFU Mutual products and selected products from specialist providers.

NEXT STEPS

To discuss your pension options with NFU Mutual and for more advice call

0800 622 323

Or visit:

nfumutual.co.uk

We're committed to supporting our customers, whatever your circumstances or needs we're here to help.

If you'd like this document in large print, braille or audio, just contact us.

If you're hard of hearing or deaf, or you have difficulty with your speech, you can contact us by using the Relay UK app on your smartphone or tablet, or by dialling 18001 before our number on your textphone.

To find out more about how we use your personal information and your rights, please go to nfumutual.co.uk/privacy. To stop us contacting you for marketing write to Marketing Department (Do Not Contact Me), NFU Mutual, Tiddington Road, Stratford-upon-Avon, CV37 7BJ or contact your local agency office.

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