Alliance Trust Savings

Accessing Your Pensions Savings Guide

April 2016

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Welcome and thank you for investing with Alliance Trust Savings.

Ruth, Platform Proposition team

Introduction

Why should I read this guide?

You will make many important financial decisions in your life such as buying a house. The decision of how and when to take money from your pension could be one of the most important financial decisions of your life. The purpose of this guide is to cover these various options looking both at the benefits but also the risks associated with each approach. The guide will NOT recommend one approach over another but will hopefully assist you in the process of making an informed decision. We always recommend that you should seek professional financial advice if you are unsure. You can also access free impartial guidance from Pensions Wise (see page 25 for more detail).

This guide may be of interest if you have a defined benefit/final salary pension but please remember the retirement options covered in this guide are not available via these schemes.

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What else should I read?

In conjunction with this guide we also recommend you read our SIPP Key Facts document and our Platform Guide. We also recommend the following websites:

- **The Money Advice Service – Money Advice service is an independent organisation, set up by the Government to give unbiased money advice – www.moneyadviceservice.org.uk.**
- **Pension Wise – Is a free and impartial Government service that helps you understand your new pension options. You can visit their website at www.pensionwise.gov.uk.**

Understanding the basics

Before going into more detail there are some basic principles regarding retirement that are worth remembering and these are:

- **Normally you can only take money out of your pension from age 55.**
- **There is no age limit in terms of when you can take money out of your pension.**
- **You can tell us what age you plan to retire on application but change this at any time.**
- **Retirement income flexibilities are only available within defined contribution/money purchase pension schemes.**
- **You do not have to retire to take income from your pension.**
- **You can normally take up to 25% of your pension as a tax free lump sum with remainder taken as income and taxed as such.**

A Summary of your options

1. **Capped Drawdown**
2. **Flexi-Access Drawdown**
3. **Uncystallised Fund Pension Lump Sum (UFPLS)**
4. **Annuities**

Remember, before we go any further depending on your circumstances you may be able to use a blend of the above options. Two main exceptions are if you have previously purchased an annuity with 100% of your pension monies or you are fully crystallised i.e you have taken your full tax free cash entitlement or have specific forms of protection giving your increased tax free cash rights or you hold enhanced or primary protection.

Let’s look at these options in more detail.

Capped Drawdown

Capped drawdown allows you to take an income directly from your pension subject to an annual limit which is calculated in accordance with your age and a rate set by HMRC. You can choose to remain in capped drawdown from April 2015 and the following applies from 6 April 2015:

- **You will continue in capped drawdown as long as the income you take does not breach your stated maximum.**
- **Your maximum income will continue to be recalculated every 3 years until age 75 and annually thereafter.**
- **As long as the income you take does not breach your maximum annual limit, your annual allowance remains at the standard annual allowance, currently £40,000 (2016/17).**
- **If you ever decide to take more income than stated under capped drawdown you will move into flexi-access drawdown. At this point your annual allowance reduces to £10,000 known as the Money Purchase Annual Allowance (MPAA).**

Manage your account on our secure website:

www.alliancetrustsavings.co.uk

Write to us:

Client Services Team
8 West Marketgait
Dundee
DD1 9YP

Call us:

01382 573737

Let's look at a case study to bring the concept of capped drawdown to life.

Case Study – John is happy with his cap

John, aged 60

- **£150,000 in a SIPP**
- **Currently taking capped drawdown**

John started taking an income (January 2015) under capped drawdown and his current maximum per annum is £10,350 and currently John actually only withdraws £5,000. Despite John being able to take more income under the rules, his SIPP is his primary source of retirement income until he reaches state pension age and therefore John is content staying in capped drawdown.

John will have his maximum income recalculated in January 2018 known as a statutory review which occurs every three years. This process will continue until John reaches age 75 (review then carried out annually thereafter) or until he requests an income level above his cap after which point he will convert to flex-access drawdown.

What happens if all my pension savings are not in capped drawdown?

Although you have to be in capped drawdown prior to 6 April, you can designate further monies into a capped drawdown arrangement post 6 April. If you do this we will recalculate your maximum income but please note it does not change the date of your next statutory review.

Neil aged 67 entered capped drawdown 15th April 2014 – Maximum Income of £5,000 per annum

During year 2 Neil designates (moves) more money into his capped drawdown arrangement which results in his maximum income being recalculated to £6,000 remember this does not change his statutory review date.

On 15th April 2017 – Neil will have his maximum income reviewed. His maximum income will be dependant on the value of his fund (both performance of investments and value of income withdrawn) and other factors such as his increased age and the gilt yield. There is no guarantee on the level of income and in circumstances of poor investment performance the maximum income being taken can impact significantly the amount of income that can be taken going forward.

Please note these case studies represent examples only and do not represent any advice. !

Capped Drawdown with Alliance Trust Savings

If you are in capped drawdown and wish to designate more monies into your capped drawdown arrangement you will need to complete our Accessing Your Pensions Savings form. Once you have provided the necessary information we will:

- **confirm the amount of pension benefits used as a percentage against the lifetime allowance**
- **confirm whether there will be a lifetime allowance charge in respect of these pension benefits. Any charge due will be reported to HMRC by us and paid when due**
- **confirm the maximum pension commencement lump sum and the maximum annual income that can be taken in respect of your capped drawdown designation**
- **provide you with documentation so that you can confirm the tax free cash payable and the income you wish to take**

You may receive your regular income monthly, quarterly, half yearly or yearly. Payments are made directly to your bank account by BACS credit transfer on the 20th of the month or the previous business day. Payments are classified as taxable income, and are usually made net of tax at the basic rate. When we receive a tax code from HMRC then the payments made to you and tax deducted will be adjusted accordingly. You can in the future transfer your capped drawdown fund to another provider, however the capped drawdown fund cannot be added to an existing capped drawdown fund that you have with another provider. The same rule applies to transferring any SIPP accounts over to us, if the account is already in drawdown then this will be held in a separate account from any other SIPP accounts as we cannot merge these.

Flexi-Access Drawdown

This form of income drawdown allows you to take pension income (taxable) with no upper limit. You can take tax free cash (also referred to as pension commencement lump sum) with the remainder paid as income over a period of time or in one payment. This option is available to all individuals of minimum pension age. Key points to note:

- **Flexi-access drawdown replaced capped drawdown for individuals setting up a drawdown plan for the first time on or after 6th April 2015.**
- **You can usually take a tax free lump sum but if you begin to take any income in addition to your lump sum annual allowance (value of contributions that you can pay to your defined contribution/personal pension plans and receive tax relief on) falls to £10,000. If you only take your tax free lump sum your annual allowance remains at the current annual allowance of £40,000.**

John, Dealing Desk

Let's look at a few case studies.

Case Study 1 – Sam needs flexibility

Sam, aged 60

- **£200,000 in a SIPP**
- **Looking to retire early**

Sam has decided to take early retirement. She has a final salary scheme that will pay her an income of £15,000 per year (she has decided to take this at same time as her state pension) and she will receive the full state pension at 63.

Sam has decided to take her full tax free cash entitlement of £50,000 plus £10,000 in income (after tax), she will use this to provide an annual income of £20,000 over the next three years. When her final salary and state pension kicks in she plans to stop taking any income for a few years and will then re-evaluate her plans.

Case Study 2 – Robert still wants to continue

Robert, aged 64

- **£500,000 in a SIPP**
- **Needs access to a little capital**

Robert has no intention to retire but has decided that he would like to clear his mortgage. He is self-employed and earns in excess of £100,000 per annum and would like to continue to make significant contributions to his SIPP. Robert also intends to delay taking his state pension. Robert has £25,000 to pay on his mortgage.

Robert designates (moves) £100,000 into flexi-access drawdown and takes his 25% tax free lump sum on these monies providing the required capital to clear his mortgage with the remaining £75,000 (which may go up or down in value over time) available to pay an income when he requires. As Robert is only taking his tax free lump sum his annual allowance remains at £40,000.

Please note these case studies represent examples only and do not represent any advice.

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Laws and tax rules may change in the future without notice. The information here is our understanding in April 2016.

Flexi-Access drawdown with Alliance Trust Savings

If you are in flexi-access drawdown and wish to designate more monies into your flexi-access drawdown arrangement or you are moving into drawdown for the first time you will need to complete our Accessing Your Pensions Savings form. Once you have provided the necessary information we will:

- **confirm the amount of pension benefits used as a percentage against the lifetime allowance**
- **confirm whether there will be a lifetime allowance charge in respect of these pension benefits. Any charge due will be reported to HMRC by us and paid when due**
- **confirm the maximum pension commencement lump sum and the funds remaining that can be taken as income in respect of your flexi-access drawdown designation**
- **provide you with documentation so that you can confirm the tax free cash payable and the income you wish to take**

You may receive your regular income monthly, quarterly, half yearly or yearly or you can take the remaining fund value as a single payment. Payments are made directly to your bank account by BACS credit transfer on the 20th of the month or the previous business day. Payments are classified as taxable income, and are usually made net of tax at the basic rate. When we receive a tax code from HMRC then the payments made to you and tax deducted will be adjusted accordingly. You can in the future transfer your flexi-access drawdown fund to another provider, however the flexi-access fund cannot be added to an existing capped or flexi-access drawdown fund that you have with another provider. The same rule applies to transferring any SIPP accounts over to us, if the account is already in drawdown then this will be held in a separate account from any other SIPP accounts as we cannot merge these.

Uncrystallised Fund Pension Lump Sum (UFPLS)

A lump sum can be taken from uncrystallised pension savings with this option. Uncrystallised means that this portion of your pension has not had any tax free cash taken and/or it is not providing you an income. Typically, 25% of the lump sum will be tax free with the remainder being subject to income tax. For example you could take a £10,000 lump sum from your pension with £2,500 being paid tax free and the remaining £7,500 being paid as income but subject to tax. This option leaves remaining monies in your pension uncrystallised. Taking any UFPLS will result in your annual allowance being reduced to £10,000.

Taking tax free cash in this way is only one of a number of different methods. Let’s look at some of the ways a client could take their tax free cash from a fund of £200,000. Please note for this example we have assumed that the client has not moved monies into drawdown prior to 6 April 2015 meaning they do not have a capped drawdown arrangement.

All at once (no income)	**All at once (plus the rest of your pension)**	**In stages for example take tax free cash on £100,000**
You receive	**You receive**	**You receive**
£50,000 tax free	**£50,000 tax free £150,000 minus tax at your marginal rate(s)**	**£25,000 tax free**
You have left	**You have left**	**You have left**
£150,000 remains in your pension which you can take income from	**£0 you have withdrawn all monies from your pension**	**£75,000 that you can take a taxable income from and £100,000 left that you can take another tax free lump sum**
Available via Flexi-Access drawdown	**Available via Uncrystallised Fund Pension Lump sum option**	**Available via Flexi-Access drawdown**

Uncrystallised Fund Pension Lump Sum (UFPLS) with Alliance Trust Savings

A lump sum can be taken from uncrystallised pension savings with this option, this payment will consist of 25% tax free cash and 75% taxable income. You can take UFPLS as an ad-hoc payment or as a regular payment, in order to request these options you will need to complete our Accessing Your Pensions Savings form. Once you have provided the necessary information we will:

- **confirm the amount of pension benefits used as a percentage against the lifetime allowance**
- **confirm whether there will be a lifetime allowance charge in respect of these pension benefits. Any charge due will be reported to HMRC by us and paid when due**
- **provide you with documentation so that you can confirm the tax free cash payable and the income taken**

Ad-hoc payments of UFPLS will be made on any business day. The UFPLS payment consists of 25% tax free cash and 75% taxable income and are paid on the same date. With regards to the ad-hoc payments where there is no current year tax code it will be taxed at basic rate.

With regards to regular UFPLS the tax free cash and income will be paid in your chosen month, this can be paid monthly or quarterly only.

Katrina, Corporate Actions team

Annuities

An annuity is a product that converts the money you've saved up in your pension pot into a monthly or yearly guaranteed retirement income for you to live on. Alliance Trust Savings does not offer annuities but will purchase one from a life company on your behalf.

Currently, when you purchase an annuity you normally cannot reverse the decision (please note the Government are consulting on allowing certain clients to cash in annuities) and therefore you need to be confident that you are making the right decision, however from 6 April 2017 you will be able to sell your annuity as tax restrictions will be removed, giving an upfront cash sum in exchange for your right to future income streams.

Under the new changes retirees will be able to take the annuity as a lump sum, or place it into drawdown to use the proceeds more gradually.

An annuity can pay an income at any point from age 55 and it's designed to continue providing an income, no matter how long you live for. Normally the later in life you purchase an annuity the higher the level of income as the annuity on average will have fewer years to pay an income.

The amount you will get from an annuity depends on a number of factors including:

- **Current age**
- **Whether you want the income to increase in line with inflation**
- **Whether you want the annuity to continue to pay an income to your spouse or partner when you die**
- **Health**
- **Where you live (postcode)**

If you want your annuity to increase with inflation or provide an income after you die you will get a lower amount paid while you're alive.

Unlike other forms of taking an income your state of health can impact (some cases) significantly the value of income that an annuity will pay. If you have a medical condition such as diabetes, high blood pressure or heart problems you could be entitled to a higher income through an enhanced annuity. Enhanced annuities can also apply to lifestyle factors such as being a heavy smoker. If you are eligible providers will pay you an enhanced annuity as you are not expected to live as long as some who is in good health.

You don't have to buy an annuity the moment you retire or with your entire pension.

Please note you can purchase an annuity with funds that are in capped or flexi-access drawdown. !

Annuities with Alliance Trust Savings

Alliance Trust Savings is not a provider of annuities but can facilitate the purchase on your behalf. You arrange an annuity with an insurance company, usually through a financial adviser or annuity bureau. You must provide us with details of the annuity arrangements at least ten days in advance of your pension date. You must also make clear whether you want us or the insurance company to arrange for the payment of any pension commencement lump sum (your tax free cash).

If we are arranging for payment of the pension commencement lump sum, then we will need to carry out benefit crystallisation event tests and full details of any other pensions you have taken will need to be provided to us. After the benefit crystallisation events (the annuity purchase and lump sum payment) has been assessed, we will have established whether or not there is a lifetime allowance charge. This lifetime allowance charge, if applicable, will be deducted from the fund. The charge will be paid to HMRC by us when due.

The balance of the fund will be used to:

- **pay the pension commencement lump sum to you. The level can be decided by you, within the limits**
- **pay the balance of the residual fund to the insurance company to purchase an annuity**

If you decide that the insurance company is to pay the pension commencement lump sum to you, we will transfer to the insurance company the value of the fund from which you wish to take pension benefits for 'immediate vesting'. This can be the most efficient option to arrange if you wish to aggregate this fund with any other funds from other providers. If you elect this option, we will transfer the value of your funds as a cash payment to the insurance company as a transfer. The benefit crystallisation events (the annuity purchase and lump sum payment) will then be carried out by the insurance company. It will then be the responsibility of the insurance company to establish under these benefit crystallisation events whether there is a lifetime allowance charge due.

Any questions?

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Deciding how much income to take?

If you are in capped drawdown as we have already covered you will have a maximum income limit. It should be noted that even by staying within your capped drawdown limit there is no guarantee that your pension will continue to support your required level of income in the future. However, you have something to work from. If you are in flexi-access drawdown or taking money out of your SIPP through UFPLS how can you decide what the appropriate level of income is? You should remember you do not have to make this decision on your own you can speak to a financial adviser or alternatively receive guidance from Pensions Wise.

Before deciding how to take an income and at what level you need to consider your personal circumstance. The table opposite may act as a useful prompt.

Gordon, Customer Service team

Factor	Considerations
Your state of health	This is particularly pertinent if you are planning to take income via an annuity but is also a general consideration across all options. If you have a medical condition you should always disclose these to your annuity provider. For drawdown people commonly under estimate how long they will live. If you are 65 you can expect to live until almost 90 many do not realise this when considering the income they will take / need in the future.
Loss of guarantees	If you are transferring any pension you must be sure that you are not losing any valuable benefits as a result of the transfer. For instance defined benefit schemes, schemes with a guaranteed annuity rate or schemes that contain a Guaranteed Minimum Pension; it may be difficult match this level of income.
Dependants	Although, it is ultimately you as an individual who has to make a decision, for many the income that they take from their pension needs to provide for a partner / spouse or another dependant. If you purchase an annuity you need to consider whether the annuity needs to provide an income after you die. For other forms of income you need to consider how much needs to remain to pass on.
Inflation	Inflation will impact the buying power of annuity income (unless you purchase an inflation linked annuity) or income from drawdown. If you think £12,000 a year is adequate income level now you need to consider whether your pension can fund this amount of income increasing each year with inflation, if not you need to understand that the buying power of this income is likely to diminish over time.
Shopping Around	This is a concept that historically applied to annuities but is important in relation to all of the retirement options available to you. The flexibility that a provider offers and what they charge can vary significantly from provider to provider.
Sustainability of income in retirement	If your pension is a primary source of income for you in retirement then it is likely that you will need it to provide regular income for the rest of your life. This means the amount you withdraw needs to be sustainable and you need to review regularly.
Tax implications	Remember, you will normally have access to 25% of your pension fund tax free and then every £1 taken after that will taxed at your marginal rate (s) of income tax. By taking income your rate of tax may increase.
Impact on means tested benefits	If you are in receipt of or may be entitled to means tested benefits by withdrawing income from your pension it may result in you losing these benefits.
Debt	If you are in debt and withdraw money from your pension creditors may make claims on these monies. If you are withdrawing money from your pension to pay-off debt you need to consider what this will mean for your future income and whether it may make more sense to use other means to pay debt off.
Investment Scams	If you are withdrawing money from your pension to make an investment elsewhere are you confident that the investment is legitimate. A financial adviser will be able to help you assess an investment opportunity to ensure you are not taking risks you may be unaware of.

Metrics

Capped drawdown limits how much you can take from your pension. Over the years the maximum you can take has been 100%, 120% or 150% of GAD. What this means is the maximum income has either been 100% of that of an annuity, 120% or 150%. At the moment most individuals in capped drawdown can withdraw up to 150% of GAD. In order to understand the following tables you need to understand how the HMRC calculation works. Firstly you need to know your age and the current gilt yield (15 year gilt price). So for instance if you are 60 and the currently gilt price was 2.00% you would be able to withdraw £46 per £1,000 of pension fund (that will provide an income). If you had £100,000 to provide an income this means the basis amount you could take each year under capped would be £4,600. If using 100% GAD the maximum stays at £4,600, however at 120% GAD (you basically multiple £4,600 by 1.2) the maximum income would be £5,520 and £6,900 for 150% GAD. Remember, there is no guarantees on what this will mean in terms of sustainability of income but may give you some guidance – and remember you can take less than 100% GAD equivalent.

Age	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%
55	£41	£43	£44	£46	£48	£49	£51	£53
56	£42	£44	£45	£47	£49	£50	£52	£54
57	£43	£45	£46	£48	£49	£51	£53	£55
58	£44	£46	£47	£49	£50	£52	£54	£56
59	£45	£47	£48	£50	£51	£53	£55	£57
60	£46	£48	£49	£51	£53	£54	£56	£58
61	£47	£49	£51	£52	£54	£55	£57	£59
62	£49	£50	£52	£53	£55	£57	£58	£60
63	£50	£52	£53	£55	£56	£58	£60	£61
64	£51	£53	£55	£56	£58	£59	£61	£63
65	£53	£55	£56	£58	£59	£61	£63	£64
66	£55	£56	£58	£59	£61	£63	£64	£66
67	£56	£58	£60	£61	£63	£64	£66	£68
68	£58	£60	£61	£63	£65	£66	£68	£70
69	£60	£62	£63	£65	£67	£68	£70	£72
70	£62	£64	£66	£67	£69	£70	£72	£74
71	£65	£66	£68	£70	£71	£73	£75	£76
72	£67	£69	£71	£72	£74	£75	£77	£79
73	£70	£72	£73	£75	£77	£78	£80	£82
74	£73	£75	£77	£78	£80	£81	£83	£85
75	£77	£78	£80	£82	£83	£85	£87	£88
76	£81	£82	£84	£86	£87	£89	£91	£92
77	£85	£87	£88	£90	£92	£93	£95	£97
78	£90	£92	£93	£95	£97	£98	£100	£102
79	£95	£97	£99	£100	£102	£104	£105	£107
80	£101	£103	£105	£106	£108	£110	£111	£113
81	£108	£109	£111	£113	£115	£116	£118	£120
82	£115	£116	£118	£120	£122	£123	£125	£127
83	£122	£124	£126	£128	£129	£131	£133	£135
84	£131	£132	£134	£136	£138	£139	£141	£143
85 or over	£140	£141	£143	£145	£147	£149	£150	£152

The table below looks at maximum income based on £100,000 at 100% (GAD) – remember multiple the figure by 1.2 (for 120% GAD) and 1.5 (for 150% GAD)

Age	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%
55	£4,100	£4,300	£4,400	£4,600	£4,800	£4,900	£5,100	£5,300
56	£4,200	£4,400	£4,500	£4,700	£4,900	£5,000	£5,200	£5,400
57	£4,300	£4,500	£4,600	£4,800	£4,900	£5,100	£5,300	£5,500
58	£4,400	£4,600	£4,700	£4,900	£5,000	£5,200	£5,400	£5,600
59	£4,500	£4,700	£4,800	£5,000	£5,100	£5,300	£5,500	£5,700
60	£4,600	£4,800	£4,900	£5,100	£5,300	£5,400	£5,600	£5,800
61	£4,700	£4,900	£5,100	£5,200	£5,400	£5,500	£5,700	£5,900
62	£4,900	£5,000	£5,200	£5,300	£5,500	£5,700	£5,800	£6,000
63	£5,000	£5,200	£5,300	£5,500	£5,600	£5,800	£6,000	£6,100
64	£5,100	£5,300	£5,500	£5,600	£5,800	£5,900	£6,100	£6,300
65	£5,300	£5,500	£5,600	£5,800	£5,900	£6,100	£6,300	£6,400
66	£5,500	£5,600	£5,800	£5,900	£6,100	£6,300	£6,400	£6,600
67	£5,600	£5,800	£6,000	£6,100	£6,300	£6,400	£6,600	£6,800
68	£5,800	£6,000	£6,100	£6,300	£6,500	£6,600	£6,800	£7,000
69	£6,000	£6,200	£6,300	£6,500	£6,700	£6,800	£7,000	£7,200
70	£6,200	£6,400	£6,600	£6,700	£6,900	£7,000	£7,200	£7,400
71	£6,500	£6,600	£6,800	£7,000	£7,100	£7,300	£7,500	£7,600
72	£6,700	£6,900	£7,100	£7,200	£7,400	£7,500	£7,700	£7,900
73	£7,000	£7,200	£7,300	£7,500	£7,700	£7,800	£8,000	£8,200
74	£7,300	£7,500	£7,700	£7,800	£8,000	£8,100	£8,300	£8,500
75	£7,700	£7,800	£8,000	£8,200	£8,300	£8,500	£8,700	£8,800
76	£8,100	£8,200	£8,400	£8,600	£8,700	£8,900	£9,100	£9,200
77	£8,500	£8,700	£8,800	£9,000	£9,200	£9,300	£9,500	£9,700
78	£9,000	£9,200	£9,300	£9,500	£9,700	£9,800	£10,000	£10,200
79	£9,500	£9,700	£9,900	£10,000	£10,200	£10,400	£10,500	£10,700
80	£10,100	£10,300	£10,500	£10,600	£10,800	£11,000	£11,100	£11,300
81	£10,800	£10,900	£11,100	£11,300	£11,500	£11,600	£11,800	£12,000
82	£11,500	£11,600	£11,800	£12,000	£12,200	£12,300	£12,500	£12,700
83	£12,200	£12,400	£12,600	£12,800	£12,900	£13,100	£13,300	£13,500
84	£13,100	£13,200	£13,400	£13,600	£13,800	£13,900	£14,100	£14,300
85 or over	£14,000	£14,100	£14,300	£14,500	£14,700	£14,900	£15,000	£15,200

Please see appendix 1 for tables looking at pension funds of £50,000, £250,000 and £500,000.

The Annual Allowance (AA) and The Lifetime Allowance (LTA)

The pension freedom rules allow much greater flexibility in terms of how you can take your benefits. As result there are restrictions put in place on the amount you can contribute to your pension if you take income under flexi-access drawdown or UFPLS. The primary reason for this is to stop individuals taking high levels of income from their pension and then paying this back in and benefit from further tax relief.

The Annual Allowance (AA)

The annual allowance is the maximum amount of pension savings you can have each year that benefits from tax relief. This includes pension savings made by you, your employer, and any other third party.

The annual allowance for 2016/17 tax year is £40,000 or 100% of your earnings if lower than £40,000 providing you are in capped drawdown or in flexi-access drawdown but not drawing income. If you are still accruing rights in a final salary scheme you will retain your AA of £40,000.

However if you have accessed your benefits after the 6th April 2015 and taken income from flexi-access drawdown or utilised the UFPLS option then your annual allowance with be restricted to £10,000 which is referred to as the Money Purchase Annual Allowance (MPAA).

You have 91 days (from receiving notice from your pension provider) to inform any other defined contribution or money purchase pensions that you have that you currently contribute to or intend to contribute to in the future.

Please note non earners can only pay £2,880 and receive tax relief (topped up to £3,600).

To understand when the MPAA is triggered and NOT triggered look at the table below.

Action	MPAA Triggered
Taking an income via flexi-access drawdown	✓
In flexible drawdown prior to 6 April 2015	✓ you are now considered to be in flexi-access drawdown
Exceed your income limit in capped drawdown	✓
Payment of UFPLS	✓
Purchasing a flexible annuity	✓
Continue to take income within your limit in capped drawdown	✗
Only take tax free lump sum via flexi-access drawdown	✗

If you breach the AA or MPAA a tax charge may apply. Please contact your local tax office if you have any concerns. You can if eligible carry forward unused allowance from 3 previous tax years under the AA but NOT the MPAA or if you are a non-earner.

The Tapered Annual Allowance

From 6 April 2016, the annual allowance will be tapered for high earners (those earning in excess of £150,000). For every £2 of “adjusted income” above £150,000, your annual allowance will fall by £1.

There is a maximum reduction of £30,000, meaning that someone with adjusted income of over £210,000 will have an annual allowance of £10,000. Adjusted income is all income and in addition any employer pension contributions paid in the relevant tax year.

The tapered annual allowance is applied each tax year separately and you may have a tapered annual allowance in one tax year, and a full annual allowance in the following tax year depending on your income.

The Lifetime Allowance (LTA)

The LTA is an overall ceiling on the amount of tax privileged pension benefits that you can draw. The lifetime allowance applies to all your pension benefits from all sources. The lifetime allowance is £1 million from the 6th April 2016 (this was previously £1.25 million). When you decide to take your pension benefits, in whole or in part, these will be assessed against the lifetime allowance at that time. If all of your pension has not been tested at age 75 a test on monies that remain uncrystallised will be carried out. There are other events that trigger a test against the LTA and these are referred to by HMRC are as Benefit Crystallisation events:

- **Move into capped drawdown or further designations into capped drawdown**
- **Lifetime annuity is purchase before age 75**
- **Tax free lump sum (or serious ill health lump sum)**
- **Lump sum death benefits are payable**
- **Transfer to a qualifying recognised overseas pension scheme**

When a benefit crystallisation event occurs, the relevant funds must be valued and tested against the lifetime allowance. For this purpose, the market value of your pension fund assets is used. If you have pensions in payment on or before 5 April 2006, then these will be valued at 25 times the annual pension being paid, or 25 times the maximum income available from income withdrawal at the date of your first post 6 April 2006 benefit crystallisation event.

If your total pension entitlements exceed the lifetime allowance when you decide to take pension benefits, the excess over the lifetime allowance may be subject to a 'lifetime allowance charge'. The excess can either:

- **be taken as a lump sum, in which case the lifetime allowance charge will be 55%, or**
- **be taken as regular income, in which case the excess will be subject to a lifetime allowance charge of 25% and the income taken will be subject to income tax at your marginal tax rate when received.**

Carly, New Business team

Forms of Protection

Year	Value of the LTA	Protection Regimes
2006-07	£1.5m	Primary Protection, Enhanced Protection, Protected tax free cash
2007-08	£1.6m	
2008-09	£1.65m	
2009-10	£1.75m	
2010-11	£1.8m	
2011-12	£1.8m	
2012-13	£1.5m	Fixed Protection 2012
2013-14	£1.5m	
2014-15	£1.25m	Fixed Protection 2014 and Individual Protection 2014
2015-16	£1.25m	
2016-17	£1m	Fixed Protection 2016 and Individual Protection 2016

Primary Protection

Primary protection was available if your total pension funds, from all sources, exceeded £1.5m at 5 April 2006, and will apply if you take money from your pension on or after 6 April 2006. You will have had to register for Primary protection with HMRC. Once registered, HMRC will have calculated your personal lifetime allowance and this will be used to determine whether a lifetime allowance charge applies when you take money out of your pension from then on. Primary protection cannot be given up.

Enhanced Protection

If you have obtained enhanced protection, you should be able to protect the whole fund (including any future growth) from the lifetime allowance charge as long as no further contributions are paid to any registered pension scheme for defined contribution plan, For final salary plans, different rules apply. If further contributions are paid, protection is lost unless you have also registered for primary protection.

Fixed Protection 2012

The Government introduced a new transitional protection called fixed protection (2012) for customers who may have been affected by the lifetime allowance decreasing from £1.8m to £1.5m from April 2012. Fixed protection will offer protection on the £1.8m. If you have fixed protection you will be unable to make any contributions to any pension schemes you may have as by doing so you will lose this protection. To apply for fixed protection, HMRC must have received your fixed protection application by 5 April 2012.

Fixed Protection (2014)

The Government introduced a new transitional protection called fixed protection 2014 prior to the LTA reducing to £1.25m on 6 April 2014 for customers who believe they may have been impacted by the reduction in the lifetime allowance from £1.5m to £1.25m. You cannot apply for fixed protection 2014 if you already have fixed protection 2012 or enhanced protection certificate from HMRC. To apply for fixed protection, HMRC must have received your fixed protection 2014 application by 5 April 2014.

Individual Protection 2014

You can only apply for Individual Protection if the value of your pensions (across all registered pensions) at 5 April 2014 was at least £1.25m. Your lifetime allowance is then protected as per the value of your pension benefits as at 5 April 2014 (between £1.25m and £1.5m). You do not lose Individual Protection if you make a pension contribution but your protected Lifetime Allowance remains as the value of your pension benefits as at 5 April 2014. You could not apply for Individual Protection 2014 until 6 April 2014 at the earliest. HMRC will accept valuations dated between 31 March and 5 April 2014. For uncrystallised funds (Uncrystallised means that this portion of your pension has not had any tax free cash taken and/or it is not providing you an income) it is simply the value of these benefits. Uncrystallised benefits held in a defined benefit scheme will usually be valued at 20 times the level of the annual pension that the individual has accumulated, plus the value of any pension commencement lump sum rights that have accumulated. For crystallised benefits the information you will need to supply will depend on whether the original benefits were taken before or after 6 April 2006. You will need to know what the value of these benefits.

Fixed Protection 2016

From 6 April 2016 the Lifetime Allowance (LTA) for tax relieved pension savings will reduce from £1.25 million to £1 million.

In light of this HMRC are providing Fixed Protection 2016, however it will not be possible to apply for 2016 protection until after April 2016.

The application process for Fixed Protection 2016 will be online via a self-service portal. The online system will provide a response to the notification along with a protection reference number. You will need to provide this protection reference number to us in order to take your benefits using a protected LTA.

For FP2016 you will need to provide HMRC with

- **a declaration that you do not hold primary protection**
- **a declaration that you do not hold enhanced protection**
- **a declaration that you do not hold fixed protection**
- **a declaration that you do not hold fixed protection 2014**

Individual Protection 2016

From 6 April 2016 the Lifetime Allowance (LTA) for tax relieved pension savings will reduce from £1.25 million to £1 million.

In light of this HMRC are providing Individual Protection 2016, however it will not be possible to apply for 2016 protection until after April 2016.

The application process for Individual Protection 2016 will be online via a self-service portal. The online system will provide a response to the notification along with a protection reference number. You will need to provide this protection reference number to us in order to take your benefits using a protected LTA.

For IP2016 you will need to provide HMRC with

- **details of your relevant amount**
- **a breakdown of your relevant amount (as at 5 April 2016) consisting of**

Amount A: Pre A Day Pensions in Payment (£)Amount B: Post A Day BCE's (£)Amount C: Uncrystallised Rights (£)Amount D: Non UK Rights (£)

- **a declaration that you do not hold primary protection**
- **a declaration that you do not hold individual protection 2014 (IP2014)**

Pension Lump sum Protection

If you are a member of an occupational scheme and you had a right, prior to 6 April 2006, to take a lump sum in excess of 25%, you should take professional advice before transferring to the Select SIPP as any transfer may affect your right to take this pension lump sum.

Protecting your pension age

Other types of pension schemes set up prior to 6 April 2006 may have a retirement age earlier than age 50. If you are a member of such a scheme, you may be able to protect your right to take pension benefits at this earlier age. If you have this entitlement, you should take professional advice before transferring to the Select SIPP. You must remember that protection is a complex subject. If you are unsure whether it applies to you, or what action, should be taken, you should take professional advice specific to your own personal circumstances.

Whenever benefits are taken from a pension this is known as a **Benefit Crystallisation Event** (BCE).

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Pre A day refers to pensions in drawdown prior to 6th April 2006.

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The LTA and your SIPP with Alliance Trust Savings

In order that we can determine what proportion of the lifetime allowance has been used up, you will need to provide the following information, by completing our Accessing Your Pensions Savings form, before any benefit calculations and lifetime allowance tests are carried out:

- **the amount being crystallised under your SIPP**
- **the date you intend to take these pension benefits**
- **the amount of any pension lump sum that you wish to take**
- **details of any other pension benefits under any other scheme you anticipate crystallising prior to drawing pension benefits under your SIPP, or at the same time**
- **how much of the lifetime allowance that has been crystallised previously under other registered pension schemes. You should have received statements from other providers at each benefit crystallisation event. Please tell us if any statements are outstanding as this may delay the process**
- **if this is your first benefit crystallisation event, current income details of any pensions that came into payment on or before 5 April 2006**
- **details of any protection you may have.**

You must provide us with all the information appropriate to your personal circumstances before we can proceed. You should be aware that there are penalties under the legislation for providing incomplete or false information.

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Death Benefits

What happens to my pension if I die before age 75?

If you die before 75, the value of your SIPP can be passed on tax free up to your Lifetime Allowance. Your beneficiary(ies) can usually take it as a single lump sum or in the form of retirement income.

Option	Rules
Lump sum	Tax free if paid out within 2 years
Income	Tax free if taken as income drawdown or an annuity if designated within 2 years

When a client dies usually the Scheme Administrator has 2 years to pay a lump sum. If a lump sum payment is made after 2 years from death, prior to age 75 a 45% tax charge will apply but the lump sum is not tested against the Lifetime Allowance.

If death occurs pre age 75 and the funds were uncrystallised at the date of death, so in other words, you have not accessed your retirement benefits, and these funds are not designated to drawdown within 2 years of the date of death then any income is subject to income tax in the hands of the beneficiary.

What happens to my pension if I die after age 75?

If you die age 75 or over, this money is taxable. The tax your beneficiary pays depends on how they access the money.

Option	Rules
Lump sum	Recipients marginal rate of tax from 6th April 2016
Income	Taxed at the beneficiaries' rate of income tax

Dependant's drawdown and flexi-access drawdown

Where an individual is in receipt of a dependant's drawdown pension fund or dependant's flexi-access drawdown fund because the dependant is a child under the age of 23 of the member who has died, that individual will be able to continue to receive drawdown pension or flexi-access drawdown pension as authorised payments after reaching age 23 (This was announced in the Budget). Previously when the dependant child turned 23 they had to take the remaining funds as a lump sum taxed at 45% or lose the right to the funds.

Pensions Wise

The pension freedoms offer you greater flexibility in how you withdraw money from your pension. The government recognises the importance of a decision that often cannot be reversed and therefore has launched Pensions Wise. It is a free and impartial government service that helps you understand your pension options. We strongly recommend that you take advantage of this service or seek professional financial advice. To be clear Pension Wise won't recommend any products or tell you what to do with your money.

You will be able access the guidance in a way that suits you whether this be online or over the phone from the Pensions Advisory Service or face to face at your Citizen's Advice Bureau. There is no cost to you irrespective of how you access the service. For more information go to **www.pensionwise.gov.uk**

If you have a SIPP with Alliance Trust Savings we will regularly remind you of the Pension Wise service as you approach retirement. Laws and tax rules may change in the future without notice. The information here is our understanding in April 2016. This information takes no account of your personal circumstances which may have an impact on tax treatment.

Any questions?

www.alliancetrustsavings.co.uk

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Rachel, Platform Proposition team

Appendices

Appendix 1

Based on £50,000 pension fund to provide income

Age	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%
55	£2,050	£2,150	£2,200	£2,300	£2,400	£2,450	£2,550	£2,650
56	£2,100	£2,200	£2,250	£2,350	£2,450	£2,500	£2,600	£2,700
57	£2,150	£2,250	£2,300	£2,400	£2,450	£2,550	£2,650	£2,750
58	£2,200	£2,300	£2,350	£2,450	£2,500	£2,600	£2,700	£2,800
59	£2,250	£2,350	£2,400	£2,500	£2,550	£2,650	£2,750	£2,850
60	£2,300	£2,400	£2,450	£2,550	£2,650	£2,700	£2,800	£2,900
61	£2,350	£2,450	£2,550	£2,600	£2,700	£2,750	£2,850	£2,950
62	£2,450	£2,500	£2,600	£2,650	£2,750	£2,850	£2,900	£3,000
63	£2,500	£2,600	£2,650	£2,750	£2,800	£2,900	£3,000	£3,050
64	£2,550	£2,650	£2,750	£2,800	£2,900	£2,950	£3,050	£3,150
65	£2,650	£2,750	£2,800	£2,900	£2,950	£3,050	£3,150	£3,200
66	£2,750	£2,800	£2,900	£2,950	£3,050	£3,150	£3,200	£3,300
67	£2,800	£2,900	£3,000	£3,050	£3,150	£3,200	£3,300	£3,400
68	£2,900	£3,000	£3,050	£3,150	£3,250	£3,300	£3,400	£3,500
69	£3,000	£3,100	£3,150	£3,250	£3,350	£3,400	£3,500	£3,600
70	£3,100	£3,200	£3,300	£3,350	£3,450	£3,500	£3,600	£3,700
71	£3,250	£3,300	£3,400	£3,500	£3,550	£3,650	£3,750	£3,800
72	£3,350	£3,450	£3,550	£3,600	£3,700	£3,750	£3,850	£3,950
73	£3,500	£3,600	£3,650	£3,750	£3,850	£3,900	£4,000	£4,100
74	£3,650	£3,750	£3,850	£3,900	£4,000	£4,050	£4,150	£4,250
75	£3,850	£3,900	£4,000	£4,100	£4,150	£4,250	£4,350	£4,400
76	£4,050	£4,100	£4,200	£4,300	£4,350	£4,450	£4,550	£4,600
77	£4,250	£4,350	£4,400	£4,500	£4,600	£4,650	£4,750	£4,850
78	£4,500	£4,600	£4,650	£4,750	£4,850	£4,900	£5,000	£5,100
79	£4,750	£4,850	£4,950	£5,000	£5,100	£5,200	£5,250	£5,350
80	£5,050	£5,150	£5,250	£5,300	£5,400	£5,500	£5,550	£5,650
81	£5,400	£5,450	£5,550	£5,650	£5,750	£5,800	£5,900	£6,000
82	£5,750	£5,800	£5,900	£6,000	£6,100	£6,150	£6,250	£6,350
83	£6,100	£6,200	£6,300	£6,400	£6,450	£6,550	£6,650	£6,750
84	£6,550	£6,600	£6,700	£6,800	£6,900	£6,950	£7,050	£7,150
85 or over	£7,000	£7,050	£7,150	£7,250	£7,350	£7,450	£7,500	£7,600

Appendix 2

Based on £250,000 pension fund to provide income

Age	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%
55	£10,250	£10,750	£11,000	£11,500	£12,000	£12,250	£12,750	£13,250
56	£10,500	£11,000	£11,250	£11,750	£12,250	£12,500	£13,000	£13,500
57	£10,750	£11,250	£11,500	£12,000	£12,250	£12,750	£13,250	£13,750
58	£11,000	£11,500	£11,750	£12,250	£12,500	£13,000	£13,500	£14,000
59	£11,250	£11,750	£12,000	£12,500	£12,750	£13,250	£13,750	£14,250
60	£11,500	£12,000	£12,250	£12,750	£13,250	£13,500	£14,000	£14,500
61	£11,750	£12,250	£12,750	£13,000	£13,500	£13,750	£14,250	£14,750
62	£12,250	£12,500	£13,000	£13,250	£13,750	£14,250	£14,500	£15,000
63	£12,500	£13,000	£13,250	£13,750	£14,000	£14,500	£15,000	£15,250
64	£12,750	£13,250	£13,750	£14,000	£14,500	£14,750	£15,250	£15,750
65	£13,250	£13,750	£14,000	£14,500	£14,750	£15,250	£15,750	£16,000
66	£13,750	£14,000	£14,500	£14,750	£15,250	£15,750	£16,000	£16,500
67	£14,000	£14,500	£15,000	£15,250	£15,750	£16,000	£16,500	£17,000
68	£14,500	£15,000	£15,250	£15,750	£16,250	£16,500	£17,000	£17,500
69	£15,000	£15,500	£15,750	£16,250	£16,750	£17,000	£17,500	£18,000
70	£15,500	£16,000	£16,500	£16,750	£17,250	£17,500	£18,000	£18,500
71	£16,250	£16,500	£17,000	£17,500	£17,750	£18,250	£18,750	£19,000
72	£16,750	£17,250	£17,750	£18,000	£18,500	£18,750	£19,250	£19,750
73	£17,500	£18,000	£18,250	£18,750	£19,250	£19,500	£20,000	£20,500
74	£18,250	£18,750	£19,250	£19,500	£20,000	£20,250	£20,750	£21,250
75	£19,250	£19,500	£20,000	£20,500	£20,750	£21,250	£21,750	£22,000
76	£20,250	£20,500	£21,000	£21,500	£21,750	£22,250	£22,750	£23,000
77	£21,250	£21,750	£22,000	£22,500	£23,000	£23,250	£23,750	£24,250
78	£22,500	£23,000	£23,250	£23,750	£24,250	£24,500	£25,000	£25,500
79	£23,750	£24,250	£24,750	£25,000	£25,500	£26,000	£26,250	£26,750
80	£25,250	£25,750	£26,250	£26,500	£27,000	£27,500	£27,750	£28,250
81	£27,000	£27,250	£27,750	£28,250	£28,750	£29,000	£29,500	£30,000
82	£28,750	£29,000	£29,500	£30,000	£30,500	£30,750	£31,250	£31,750
83	£30,500	£31,000	£31,500	£32,000	£32,250	£32,750	£33,250	£33,750
84	£32,750	£33,000	£33,500	£34,000	£34,500	£34,750	£35,250	£35,750
85 or over	£35,000	£35,250	£35,750	£36,250	£36,750	£37,250	£37,500	£38,000

Appendix 3

Based on £500,000 pension fund to provide income

Age	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%
55	£20,500	£21,500	£22,000	£23,000	£24,000	£24,500	£25,500	£26,500
56	£21,000	£22,000	£22,500	£23,500	£24,500	£25,000	£26,000	£27,000
57	£21,500	£22,500	£23,000	£24,000	£24,500	£25,500	£26,500	£27,500
58	£22,000	£23,000	£23,500	£24,500	£25,000	£26,000	£27,000	£28,000
59	£22,500	£23,500	£24,000	£25,000	£25,500	£26,500	£27,500	£28,500
60	£23,000	£24,000	£24,500	£25,500	£26,500	£27,000	£28,000	£29,000
61	£23,500	£24,500	£25,500	£26,000	£27,000	£27,500	£28,500	£29,500
62	£24,500	£25,000	£26,000	£26,500	£27,500	£28,500	£29,000	£30,000
63	£25,000	£26,000	£26,500	£27,500	£28,000	£29,000	£30,000	£30,500
64	£25,500	£26,500	£27,500	£28,000	£29,000	£29,500	£30,500	£31,500
65	£26,500	£27,500	£28,000	£29,000	£29,500	£30,500	£31,500	£32,000
66	£27,500	£28,000	£29,000	£29,500	£30,500	£31,500	£32,000	£33,000
67	£28,000	£29,000	£30,000	£30,500	£31,500	£32,000	£33,000	£34,000
68	£29,000	£30,000	£30,500	£31,500	£32,500	£33,000	£34,000	£35,000
69	£30,000	£31,000	£31,500	£32,500	£33,500	£34,000	£35,000	£36,000
70	£31,000	£32,000	£33,000	£33,500	£34,500	£35,000	£36,000	£37,000
71	£32,500	£33,000	£34,000	£35,000	£35,500	£36,500	£37,500	£38,000
72	£33,500	£34,500	£35,500	£36,000	£37,000	£37,500	£38,500	£39,500
73	£35,000	£36,000	£36,500	£37,500	£38,500	£39,000	£40,000	£41,000
74	£36,500	£37,500	£38,500	£39,000	£40,000	£40,500	£41,500	£42,500
75	£38,500	£39,000	£40,000	£41,000	£41,500	£42,500	£43,500	£44,000
76	£40,500	£41,000	£42,000	£43,000	£43,500	£44,500	£45,500	£46,000
77	£42,500	£43,500	£44,000	£45,000	£46,000	£46,500	£47,500	£48,500
78	£45,000	£46,000	£46,500	£47,500	£48,500	£49,000	£50,000	£51,000
79	£47,500	£48,500	£49,500	£50,000	£51,000	£52,000	£52,500	£53,500
80	£50,500	£51,500	£52,500	£53,000	£54,000	£55,000	£55,500	£56,500
81	£54,000	£54,500	£55,500	£56,500	£57,500	£58,000	£59,000	£60,000
82	£57,500	£58,000	£59,000	£60,000	£61,000	£61,500	£62,500	£63,500
83	£61,000	£62,000	£63,000	£64,000	£64,500	£65,500	£66,500	£67,500
84	£65,500	£66,000	£67,000	£68,000	£69,000	£69,500	£70,500	£71,500

Thank you to the team for allowing us to use their photographs throughout this guide.

Clockwise L-R – **Stephen**, Intermediary Services team, **Bill**, IT team, **David**, Withdrawals team, **Sam**, Platform Proposition team, **Alison**, Customer Engagement team, **Sulma**, Intermediary Support team

Cover – L-R – **Luis,** Corporate Actions Team, **Sarah-Ann,** New Business team, **David**, Asset Administration team

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