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Adviser factsheet

nucleus

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Case study: flexi-access drawdown

Julie is a 52-year old optician who lives with her two dogs. She is fascinated by wartime Britain and one day she'd like to write a book called 'Living in the Forties'.

Ideally, Julie would like to reduce her hours as an optician as she gets closer to retirement, and so she can start writing her book. But how would she meet the shortfall financially?

During her career she's worked in a number of private and high street firms and acquired private and company pension arrangements. She's also opened some savings accounts and Isas and kept up regular contributions.

Julie's made an appointment with a financial planner to help her finances in order. He recommends she uses the pension schemes she has already accumulated, as well as building up new pension savings over the next ten years, to subsidise her income later on while she realises her goals.

			Value at the end of the year (including investment growth for that year, and any payments in or out of the pensions)	
Year	Description	Transactions	Uncrstyallised funds	Fad account
One	Julie opens a Sipp account with a £40,000 payment. She transfers four pension pots into it from company pension schemes of £18,000, £12,000, £23,000 and £78,000, making a starting total of £171,000. She also decides to pay monthly contributions to her pension of £250 per month (£3,000 a year).	+ £250 pm to uncrystallised + investment growth	£181,000	n/a
Seven	At the start of year seven, Julie's pension fund is valued at £240,000. She moves £100,000 into flexi-access drawdown (Fad), and takes £25,000 tax-free cash. This leaves £140,000 uncrystallised (at the start of the year). Julie reduces her working hours and stops her monthly pension contributions. She begins writing.	− £100,000 from uncrystallised + £75,000 to Fad + investment growth	£145,000	£78,000
Eight	Julies moves a further £40,000 from her uncrystallised pension funds into her Fad taking tax-free cash of £10,000 to supplement her (reduced) earned income from her employer. So far she has only taken tax-free cash and not touched her Fad income. Julie takes her first draft to a publisher.	− £40,000 from uncrystallised + £30,000 to Fad + investment growth	£109,000	£112,000
Nine	Julie moves a further £40,000 from her uncrystallised funds into Fad taking tax-free cash of £10,000. She starts working even fewer hours. As she needs to further supplement her income she takes £1,000 a month income. Julie's book is published and nominated for a national book award.	− £40,000 from uncrystallised + £30,000 to Fad − £1,000 pm from Fad + investment growth	£72,000	£136,000
Ten	Julie retires from the optician's job and begins to write her second book Dogs at War – a history of military canines. She needs funding to cover the cost of the research in France, and so decides to withdraw £20,000 from her Fad, in addition to her £1,000 monthly income.	− £1,000 pm from Fad − £20,000 from Fad + investment growth	£75,000	£109,000
Eleven	Julie completes her second book and submits it to the publisher. The film rights to her first book have been bought and she chooses to stop taking any income from her Fad.	+ investment growth	£78,000	£113,000

What happened?

Julie is initially able to use the tax-free cash from her pension savings to subsidise her reduced earned income. She gradually moves her uncrystallised pension funds over to Fad, where she leaves the majority invested. She is also able to take an income from the Fad.

But when she needs additional finance – to fund her research – she is able to withdraw a higher amount from her Fad. Of course, any income she does take, is subject to tax at her marginal rate, but this is the same as any income from an annuity.

The flexibility of the Fad is demonstrated once more when Julie decides to stop her income altogether in year eleven.

Summary

- Opens a Sipp and transfers in from four other company pension arrangements.
- Moves £100k to flexi-access drawdown and works part time.
- Moves £40k into her Fad, takes tax-free sum plus monthlty income.
- Retires and takes a further £20k from her Fad.

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