For professional advisers only

Adviser factsheet

nucleus

April 2025
nucleusfinancial.com

illuminatetech

Created to boost your knowledge and fine-tune your expertise, our technical factsheets offer detailed analysis on a range of useful topics, to help you resolve technical challenges, learn about upcoming developments in the market, and navigate changes to legislation. This valuable support enables you to deliver better outcomes for your clients, helping them to have a more rewarding retirement. Explore the full range on Illuminate Technical.

The benefits

Flexi-access drawdown pension

Introduction

This factsheet is designed to give an overview of one of the ways of taking benefits from a SIPP or SSAS. Although this factsheet concentrates on flexi-access drawdown pension, it should be noted that the option to purchase an annuity is available at any time.

Flexi-access drawdown pension

When can flexi-access drawdown pension be taken?

Drawdown pension can normally only be taken from the age of 55, however, there are exceptions where benefits can be taken earlier:

a. Where the member has a specific occupation and was already a member of a pension scheme for that employment prior to 6 April 2006, they can commence benefits at an earlier age; often 35. In these circumstances, the retirement age is referred to as being 'protected'. This protection is scheme specific and may be lost if the member transfers to another scheme post 6 April 2006, unless they adhere to certain conditions. Please refer to the protected pension age and block transfer factsheets for further information.

b. Anyone permanently incapacitated, and who can't carry on their normal occupation, or an occupation of a similar nature. This is a matter of fact, and medical evidence is required.

Scheme administrators offering flexi-access drawdown may still be able to offer capped drawdown pension where the member meets the relevant criteria.

The option to stop taking a drawdown pension and purchase an annuity is always available.

Can a lump sum be taken?

When a member commences drawdown pension, normally up to 25% of the fund value can be taken as a pension commencement lump sum.

Is there a limit on the income that can be taken?

There is no limit to the amount of income that can be taken via flexi-access drawdown. The member can therefore take anywhere between zero and 100% of their drawdown fund. However, any taxable income taken from the flexi-access drawdown fund will trigger the money purchase annual allowance (MPAA) and the member will be limited to a £10,000 annual allowance (AA) for any money purchase pension savings.

What are the mechanics for paying an income?

Within certain constraints, members can choose the frequency of when they receive their income, i.e. monthly, quarterly, half yearly or annually and either in advance or in arrears as appropriate. Alternatively they could decide to take their entire drawdown fund in one payment, or as a series of ad-hoc payments.

Most scheme administrators operate a PAYE system when paying income. It is therefore important that they have the member's latest tax coding from HMRC to ensure they can deduct the correct amount of tax. In the absence of such information, they would normally use the official emergency tax code until they receive confirmation of an alternative tax code from HMRC.

It is suggested members review their chosen income level on a regular basis to ensure they do not prematurely exhaust their fund.

Do all the member's rights have to go into flexi-access drawdown?

No. It's possible to designate only part of an uncrystallised fund for flexi-access and you cannot partially transfer a crystallised fund to another drawdown plan.

If a member has a protected pension age or scheme specific lump sum protection, these are lost if only part of the uncrystallised fund is designated for flexi-access drawdown. Please refer to the relevant factsheets for further details.

The money purchase annual allowance (MPAA)

The annual allowance (AA) is one of the mechanisms used to limit the amount of pension savings the member can make in a year that benefit from tax relief. The AA is £60,000, though some individuals can have a lower amount if they are caught by the tapered AA. Pension freedoms introduced from 6 April 2015 could have led to the situation where people manipulated their employment income to reduce income tax and National Insurance contributions, whilst funding a pension. The Treasury's solution was to introduce the MPAA, which is triggered when a member first flexibly accesses their pension.

There are a number of events that trigger the MPAA, one of which is taking income from a flexi-access drawdown fund. This will mean the member is subject to the £10,000 MPAA going forward. Taking the PCLS in itself will not trigger the MPAA. However, the MPAA will automatically apply where the member made a successful declaration for flexible drawdown before 6 April 2015.

The MPAA will not apply where the member draws income from flexi-access drawdown and the whole drawdown fund is a pension credit derived from rights their ex-partner previously crystallised. The other scenario where the MPAA is not applicable is where a beneficiary draws income from a beneficiary's flexi-access drawdown fund.

www.nucleusfinancial.com

"Nucleus" is the trading name for Nucleus Financial Platforms Limited (registered in England, number 06033126, whose registered address is at Suite B & C, First Floor, Milford House, 43-55 Milford Street, Salisbury, SP1 2BP) and its group. Further details of the Nucleus Group can be found at nucleusfinancial.com. (12/24)

0763.02
04-2025