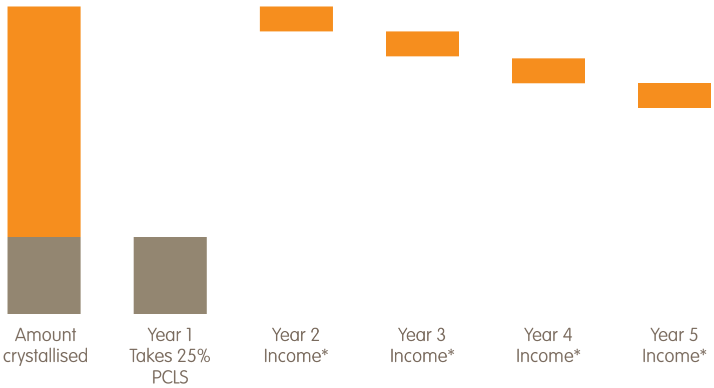
# Flexi-access drawdown

## Flexi-access drawdown

Flexi-access drawdown (Fad) is a form of drawdown for all plans set up after 6 April 2015. There are no minimum or maximum income withdrawal levels. This means clients have full freedom to withdraw as much money as they want whenever they want to do so.

Clients can take a 25% tax-free lump sum, known as the Pension commencement lump sum (PCLS) or tax-free cash from the Fad fund. The remaining 75% will be designated to provide drawdown. Any other withdrawals subsequently taken will then be treated as income and will be taxed at the client's marginal rate.




*Income is taxed at marginal rate.

### A drawdown pension could be

- Income withdrawal
- Short-term annuity – where an amount of money buys an annuity for a maximum five year term

Clients with Fad plans can choose to buy an annuity with their funds at any point.

It is up to the scheme to decide whether to offer Fad to their members. Some clients – particularly those with older style pension contracts – may wish to transfer to a newer contract to take advantage of this flexibility.

## Phased drawdown

Instead of crystallising an entire pension fund and designating drawdown in a single transaction, clients can also choose to phase drawdown. This allows clients to choose the most tax-efficient way of taking income from their pension plan.

Phasing drawdown means crystallising pension benefits in stages, rather than in one transaction. Clients take a small segment of pension savings at a time, and receive PCLS and taxable income. Clients can choose to take the amount of taxable income that best suits their circumstances, with any remainder staying within the drawdown account.

## Contributions

Clients with Fad plans can continue to make pension contributions, as long as they are paid from pension income or other sources of income and do not fall foul of the recycling tax-free cash rules. However, taking income from a Fad triggers the reduced Money Purchase Annual Allowance (MPAA) and means that money purchase pension contributions above £4,000 will be subject to the annual allowance charge. If this happens, then the scheme has 31 days to tell the member they now fall under the MPAA regime. The member then has 91 days to pass this information on to any other money purchase scheme they are contributing to.

If a client designates funds for Fad, and takes tax-free cash but does not take any income, then they can retain the higher annual allowance of £40,000.

## Capped drawdown plans

Clients who already have a capped drawdown plan (set up before April 2015) can continue to withdraw income from it as long as it doesn't breach the maximum Gad amount. If it does it will be converted into a Fad. Alternatively, they can convert the capped drawdown into a Fad at any time by notifying the scheme.

As long as the income withdrawals from the capped drawdown plan remain within the Gad amount, then the member can contribute up to the annual allowance (or tapered annual allowance) to their pension plans - in other words, the MPAA isn't triggered.

No new capped drawdown plans can now be set up.

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## Death benefits

The amount of tax due on any Fad funds on death depends on what age the member dies.

| Age the member dies | Before age 75 | After age 75 |
|---|---|---|
| Funds paid as a lump sum or as income to a beneficiary | Tax free | Marginal rate of tax |
| Fad funds paid to a trust as a lump sum | Tax free | 45% tax charge |

## Nominees and successors

Before 6 April 2015 the pension fund could only be inherited by dependants (normally a spouse/civil partner or a child under 23). From April 2015, a nominee can be anyone who has been nominated by the individual. If the member made no nomination and there are no dependants, the scheme administrator can nominate an individual to become entitled to the funds.

That beneficiary can also nominate a successor to 'inherit' the pension funds on their subsequent death. A successor can again be anybody. If no nomination has been made by the beneficiary then the scheme administrator can nominate someone.

## How can Nucleus help?

We offer a Fad facility as part of our Pension account. We also offer the facility to phase drawdown, taking a flexible approach through automatic crystallisation and payment of PCLS.

Taxable income can be paid without a direct link to each phased tranche and you have the ability to make changes through our self-serve functionality.

We also continue to offer capped drawdown for those who took out plans before April 2015. However, you can easily convert clients currently in capped drawdown to Fad by selecting this option in their online account.

## If you only read one thing…

- Flexi-access drawdown (Fad) offers clients the ability to access their retirement savings when and how they want to.
- Planning the size of withdrawal to take and when to take it will be crucial in reducing tax liability.
- The ability to cascade pension funds down the generations on death is very attractive, especially for those clients with substantial retirement funds who do not need all the capital to provide retirement income.

For more factsheets and product technical support, visit www.nucleusfinancial.com/technical-studio

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