

Flexible drawdown guide

What is flexible drawdown?

Flexible drawdown (FDD) gives pension scheme members the ability to ignore the maximum annual income limits on drawdown funds provided they have met certain conditions.

Most members can only withdraw (within an income drawdown year) a pension up to a maximum income limit. Anything they draw over and above that limit would be an unauthorised payment and attract tax charges. Up to the age of 75, the maximum limit is reviewed every three years. For members over 75, the maximum limit is reviewed annually.

Once a member has applied for flexible drawdown, and their application has been accepted by the scheme administrator, they are permitted to ignore the maximum income limit on their drawdown fund. In practice, a member could withdraw the whole of their drawdown fund. The ability to withdraw funds without limit also means that drawdown pension years and reviews become irrelevant. Reviews of maximum income are no longer carried out once a member's application for flexible drawdown has been accepted.

What conditions need to be met to be eligible for flexible drawdown?

Members must satisfy a number of conditions in order to be eligible for flexible drawdown. These are:

1. They must meet a Minimum Income Requirement (MIR).
2. They must fully complete a Flexible Drawdown Declaration and this must be accepted by the scheme administrator.
3. They must not make any contributions in the tax year in which the declaration is made.

Additional restrictions apply after the member has declared themselves eligible for flexible drawdown, details of which are confirmed below.

What is the minimum income requirement?

The MIR requires the member to have secure pension income of at least £20,000 per year.

Sources of secure pension income may include state pensions, lifetime annuities, income from The Financial Assistance Scheme and scheme pensions (subject to restrictions – see below). Members can also include overseas pensions that are broadly equivalent to these.

The MIR cannot include income from drawdown, purchased life annuities, assets held outside a pension scheme or from employment.

IMPORTANT NOTE - Income from scheme pensions will only qualify as secure pension income if it is paid from a scheme with at least 20 pensioner members who are already in receipt of a scheme pension.

Annuity payments will only qualify to the extent that the income is guaranteed to be paid for your lifetime or is subject to changes in accordance with the Retail Prices Index. Any other non - guaranteed annuity income will not qualify for the Minimum Income Requirement.

Where can I find a flexible drawdown declaration?

The Flexible Drawdown Declaration can be found http://www.ajbell.co.uk/downloadFiles/AJB_SSAS_Flexible_drawdown_declaration.pdf.

When completing the declaration you must provide basic items of personal information and further information regarding the sources of your secure pension income. These include the name and address of the person/organisation providing the income, and the amount of income payable in the current tax year. Where you include income from which you only received the first payment part way through the current tax year it is important that you only include the income that you will receive in the current tax year, not the total annual income. This may mean that you are not eligible for flexible drawdown until the following tax year.

As well as providing information regarding your secure pension income, you will also be required to provide evidence that payments are being made. This evidence must confirm that payments have already begun, be in writing, and must have been provided by the person/organisation paying the income.

Where can I find a flexible drawdown declaration? (cont)

Members must also make a number of declarations regarding the MIR and the non-payment of contributions to any registered pension scheme. Finally, the member must confirm that the information provided in the declaration is correct and complete.

HMRC has set out exact requirements for the information that must be contained in the declaration. It is therefore important for all information requested in the Flexible Drawdown Declaration to be provided. A declaration with any missing information will be invalid and so will not be accepted, even if we already hold this information.

When do I need to have stopped paying contributions to be eligible for flexible drawdown?

No contributions may have been paid (to any registered pension schemes) in the tax year a member applies for flexible drawdown. Furthermore, they cannot have been an active member of a defined benefits scheme. It is very important that the member checks the last date in which they made a contribution to or accrued benefits under a registered pension scheme.

If a contribution is paid in the same tax year as they make their declaration, the declaration will be invalid and the member will not be authorised to withdraw benefits under flexible drawdown. They can still withdraw income up to their maximum annual income limit, but any payment above this limit will be an unauthorised payment and subject to tax charges.

Once the declaration has been made and accepted, the member's annual allowance (the limit on contributions that can be paid to registered pension schemes in a tax year) is reduced to £0. If a contribution is paid which is tested against the annual allowance after they have applied for flexible drawdown, the contribution will be subject to an annual allowance charge.

In some circumstances it is possible that both the unauthorised payment tax charge AND the annual allowance charge may be applied.

Are there any limits on the amount I can withdraw under flexible drawdown?

There are no limits in respect of funds that you have moved into drawdown.

A member cannot withdraw any of their uncrystallised fund without first moving this fund into drawdown.

The tax implications of drawing a large amount from the pension is an area where we would recommend members seek advice. Pension payments withdrawn using flexible drawdown are treated in exactly the same way as normal drawdown and so are taxed at the member's marginal tax rate. This will be an important consideration for members as large pension payments will trigger tax of up to 50%.

Once outside the pension scheme, the funds may not benefit from exemptions to capital gains tax and investment income tax of funds held in the pension scheme. Further they may create or increase an inheritance tax liability after the member's death.

What happens if a member fully depletes their SSAS fund share through flexible drawdown?

If a member uses flexible drawdown to withdraw their fund share under the SSAS, we will provide them with a P45. If the member has not been drawing an income it is possible that the payment could be taxed on a Month 1 basis. This could result in the member paying more tax than would otherwise be due.

If there is only one member in the SSAS the scheme will typically be wound up.

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