An Introduction to Flexi Access Drawdown

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What is Flexi Access?

Under the pension rules introduced in 2015, you can access as much or as little of your pension as you wish, once you reach age 55. You can take up to 25% as a tax-free lump sum and leave the remaining funds invested to provide you with an income which would then be taxed at your usual rate. This is known as flexi access drawdown.

Things to consider:

- How you take your pension is entirely under your control and if you decide to change your level of income you can do so at any time.
- Your pension pot remains invested so the value could rise as well as fall. It's important to ensure the funds that you are invested in are appropriate for your circumstances.
- You must manage your pension pot carefully to ensure it provides you with a sufficient level of income for as long as possible. This will depend on the value of your pot, the growth of the investments and the amounts you withdraw.
- You can change provider and products at any time but there will be charges for setting up and ongoing management which should be factored in.
- Once you have started taking an income from your pension your annual tax free allowance for making contributions tax free will be reduced to £4,000.
- If you die before age 75 any remaining funds in your pot will be passed on to your beneficiaries tax free. If you die over the age of 75, your beneficiaries will be taxed at their usual rate.
- Shop around as pension providers offer different options, features and limitations and not all pension providers offer flexi access drawdown anyway.

Cash Withdrawals

You can decide to take your pension as one lump sum (not recommended) or as a series of cash lump sums. 25% of each lump sum will be tax free whereas the remaining 75% is added to your income and taxed at your highest rate of tax. Note that this additional income may push you into a higher tax bracket.

Things to consider:

- Taking your entire pension in one lump sum won't provide you with a secure income for retirement unless you choose to re-invest in a suitable income producing investment. Even then it is likely to be in a less tax efficient environment.
- If you use the cash for a luxury purchase or to clear debts, you will have less to live on in your retirement.
- Taking a large lump sum could reduce the amount of state benefits you are entitled to either now or in the future.
- If the value of your pension is at or near the prevailing lifetime allowance and the funds have not been assessed against the allowance, you could be liable for further tax charges.
- Once you reach age 75 and you wish to withdraw funds in excess of your remaining lifetime allowance, your 25% tax free sum will be reduced to 25% of the remaining lifetime allowance, rather than 25% of the entire amount you withdraw.

- When you die, any cash that has been taken out of your pension pot and hasn't been spent will be included in your estate for inheritance tax purposes, whereas any funds remaining in your pot untouched will not normally be liable.

Your Options

You no longer have to select just one option for your retirement income, you now have a choice. You can mix and match and the table below provides a useful summary of the options available. It is essential that you seek professional financial advice before making any decisions as your choices could have an impact not only on your future income levels but also on your tax liability.

	Lifetime Annuity	Flexible Access (flexi access drawdown)	Cash Withdrawals	
			Cash all in one go	Taken in stages
How much tax free cash can I get?	Up to 25% of the pot*	Up to 25% of the pot*	25% of the pot	25% of each withdrawal
Regular income?	Yes	Yes (if required)	No	Yes
Guaranteed income for life?	Yes	No**	No	No
Do I need to review my pension pot regularly?	No	Yes	N/A	Yes
Could my pension pot run out?	No	Yes	Yes	Yes
Pays higher income for medical conditions or poor lifestyle?	Yes (subject to provider)	No	No	No
How much tax will I pay?	After tax-free cash the rest is subject to income tax	After tax-free cash the rest is subject to income tax	After tax-free cash the rest is subject to income tax	After tax-free cash the rest is subject to income tax
Is tax relief on any further pension contributions affected?	No	Yes	Yes***	Yes
Flexibility to change options later?	No, unless short/fixed term annuity taken	Yes	N/A	Yes
What happens when I die?	Depends if you have selected a joint life annuity, any guaranteed period, or protection. If not, the guaranteed income will end	Remaining pot will be payable to your beneficiaries	N/A	Remaining pot will be payable to your beneficiaries

* *Applies to the amount allocated for this product, eg if you use all or part of your pension pot. Once you've allocated money to either flexible access or guaranteed income you can't take further tax-free cash from it later.*
** *Some providers may offer some form of guaranteed income with their flexible access products*
*** *Unless your pot is £10,000 or less and taken under the 'small lump sum rules'.*

The content of this briefing note is based on our understanding of current tax and pensions legislation, which may change in the future.

For help and advice please call us on: 01789 263257 or email: justask@jjfsltd.com

Information in this document is valid for tax year 2021/22