Retirement Benefit Options

SIPP

www.ebspensions.co.uk

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Introduction

This booklet is intended to give you facts about the retirement options that are available under SIPPs administered by EBS Pensions Limited (EBS). Choosing your retirement option(s) might be one of the most important financial decisions you make.

If you are in any doubt about how to access your pension savings and how this may impact upon your circumstances, we strongly recommend that you seek regulated financial advice.

The tax treatment of pensions depends on individual circumstances and may be subject to change in future.

EBS cannot give you guidance or financial advice and no information in this booklet should be taken as advice or a personal recommendation. The information in this booklet is based on our understanding of UK legislation and H M Revenue & Customs (HMRC) guidance at the date of publication, April 2020. The rules regarding pensions can change with little notice and we suggest that you check the current rules before making a decision.

Information and guidance is available from the Government's Pension Wise service. If you are taking benefits for the first time, Pension Wise might be able to offer you a telephone or face to face meeting. On the Pension Wise website, www.pensionwise.gov.uk, you can book an appointment and obtain guidance about the options outlined in this booklet.

For further information about your SIPP, please read the;

- Key Features Document
- Terms of Business
- Fee Schedule

To help you make your decision we can also provide you with a Key Features Illustration.

You are not restricted to just one retirement option. The options outlined in this booklet can be combined to help meet your requirements.

Execution only

If you decide to take retirement benefits but choose not to receive advice from a financial adviser, we will process your request on an execution only basis.

If you are making your own decision, our Regulator, the FCA, requires us to issue warnings of the risks associated with the option(s) you have chosen. This process can take some time to complete due to its nature and is designed to ensure you carefully consider your actions.

Normal minimum pension age

The earliest age at which you can take any retirement benefits is currently 55 unless you are in ill health or have a special pension age.

Retirement benefit options

From the minimum pension age you can use your SIPP funds in one or more of the following ways:

- To buy a lifetime annuity from an insurance company
- To take a Flexi-Access Drawdown pension and a Pension Commencement Lump Sum (PCLS)
- Use Flexi-Access Drawdown funds to buy an annuity from an insurance company
- To take an Uncrystallised Funds Pension Lump Sum

Before you take any benefits from your SIPP, all funds in the SIPP are known as uncrystallised funds. To take benefits from the SIPP you must crystallise some or all of these funds. When you crystallise funds, you use up part or all of your lifetime allowance.

If you receive a Flexi-Access Drawdown pension payment or an Uncrystallised Funds Pension Lump Sum (UFPLS), any contributions to the SIPP or to any other money purchase pension schemes will be subject to the money purchase annual allowance.

Our 'Taking Your Benefits – Instruction Form' which you need to complete when you request benefits from your SIPP, includes a Lifetime Allowance declaration. We will use the information you provide in the declaration to calculate how much of your remaining Lifetime Allowance will be used up by the crystallisation event and, where the amount crystallised exceeds your remaining Lifetime Allowance, to confirm the amount of the excess and the tax to be paid.

Benefits crystallisations and the Lifetime Allowance

When you ask us to provide retirement benefits from the uncrystallised funds in your SIPP, it is known as a Benefit Crystallisation Event. The main benefit crystallisation events occur when:

- Buying a lifetime annuity
- Taking Flexi-Access Drawdown pension and PCLS
- Taking an UFPLS
- You reach age 75

Each Benefit Crystallisation Event uses up part or all of your remaining Lifetime Allowance.

If the amount you are crystallising exceeds your remaining Lifetime Allowance, the excess will be subject to a Lifetime Allowance tax charge (unless you have a valid certificate of Enhanced Protection from HMRC).

If you take the excess as a lump sum (an option that is only available before your 75th birthday) the tax charge will be 55% of the excess. If you leave the excess in the fund to pay a drawdown pension, the charge will be 25% of the excess and the pension payments will be assessable income for tax purposes.

Lifetime Annuity

You can use part or the full amount of your SIPP fund at any time to buy an annuity from an insurance company who will then be responsible for paying you a guaranteed income for the rest of your life, which will be assessable income for tax purposes.

If you buy a Lifetime Annuity from uncrystallised funds, you can normally take 25% of those funds as a tax-free PCLS.

The amount of lifetime allowance used when buying a Lifetime Annuity will depend on whether it is bought with uncrystallised or crystallised funds.

Flexi-Access Drawdown and Pension Commencement Lump Sum

Subject to any tax-free lump sum protection you may have, up to 25% of any uncrystallised funds you crystallise for Flexi-Access Drawdown can normally be taken as a tax-free PCLS at any time within 12 months of the crystallisation date.

The balance of the crystallised funds can then be used to provide you with Flexi-Access Drawdown pension payments through the SIPP's payroll, which will be assessable income for tax purposes.

You do not have to take pension payments. You can defer starting payments until you wish to. The only limit on the amount of Flexi-Access Drawdown pension that can be paid is the value of the Flexi-Access Drawdown funds available in your SIPP.

Example 1

In July 2020, Ben is 60. His SIPP fund is worth £200,000 and is made up of uncrystallised funds. He has no other pension schemes.

Ben crystallises the entire £200,000 and takes benefits in the form of a tax-free PCLS of £50,000 (25% of £200,000) and, from the remaining £150,000, Flexi-Access Drawdown pension payments of any amount until such time as those funds have been exhausted. Each pension payment is assessable income for tax purposes.

This crystallisation uses up 18.64% (200,000/1,073,100) of the Standard Lifetime Allowance of £1.073,100.

Example 2

In October 2016, Leanne is 55. Her SIPP fund is worth £800,000 and is made up of uncrystallised funds. She crystallises £500,000 of these funds. This uses up 50% of the Standard Lifetime Allowance at the time of crystallisation of £1 million.

From the crystallised funds, she takes a tax-free PCLS of £125,000 (25% of £500,000) with the balance of £375,000 (£500,000 less £125,000) as Flexi-Access Drawdown funds.

Leanne takes annual pension payments from the Flexi-Access Drawdown funds of £45,000 and can continue to do so until the funds run out. She can also ask for the amount of pension to be varied at any time. Each pension payment is assessable income for tax purposes. She still has £300,000 of uncrystallised funds available for future benefit crystallisations.

In October 2018, the value of Leanne's uncrystallised funds has increased from £300,000 to £350,000 due to investment growth and additional contributions to the SIPP. Leanne crystallises the entire £350,000, which uses up a further 34% of the Standard Lifetime Allowance at the time of crystallisation (which is now £1.03 million) and takes a tax-free PCLS of £87,500 (25% of £350,000). The balance of the crystallised funds of £262,500 (£350,000 less £87,500) is added to the Flexi-Access Drawdown funds from the first crystallisation and Leanne increases her annual pension payments to £65,000.

If there had been a loss on the fund and the value of the uncrystallised funds had decreased from £300,000 in October 2016 to £250,000 in October 2018, Leanne's tax-free PCLS would have been only £62,500 (25% of £250,000).

Uncrystallised Funds Pension Lump Sum

Provided you have sufficient remaining lifetime allowance, you can usually take part or the full amount of any uncrystallised funds in your SIPP as a lump sum. 25% of this will be tax-free and the remaining 75% will be paid as a single amount through our payroll and be assessable income for tax purposes.

There are no cancellation rights for an UFPLS so you cannot change your mind once it has been paid to you.

You cannot take an UFPLS if the uncrystallised funds are from a disqualifying pension credit; if you have Enhanced or Primary Protection including protection for lump sum rights in excess of £375,000 on 5 April 2006; if you have a Lifetime Allowance Enhancement Factor and your remaining Lifetime Allowance is nil or less than 25% of the lump sum; or if you have already used all of your Lifetime Allowance.

If you have pre 6 April 2006 'scheme specific' tax-free lump sum protection of more than 25%, you would lose some of this if you took an UFPLS.

Example 1

In May 2020, Peter is aged 60 and has £200,000 of uncrystallised funds in his SIPP. This is his first occasion of drawing any retirement benefits.

He can therefore take an UFPLS of £200,000 with £50,000 tax-free and £150,000 assessable income for tax purposes.

The £200,000 UFPLS uses up 18.64% (200,000/1,073,100) of the Standard Lifetime Allowance of £1,073,100.

Example 2

In July 2020, Joshua is aged 58 and he has £350,000 of uncrystallised funds in his SIPP. He decides to take £50,000 each year as an UFPLS until the fund is exhausted.

Each payment will consist of £12,500 tax-free and £37,500 assessable income for tax purposes. Ignoring any investment growth, the fund would be used up in 7 years.

When you reach age 75

Any remaining uncrystallised funds and any growth on the crystallised funds since the crystallisation date are measured again at age 75 against your remaining Lifetime Allowance. If the value of the uncrystallised funds and/or the growth on the crystallised funds exceeds the amount of your remaining Lifetime Allowance, a Lifetime Allowance tax charge of 25% will be applied to the excess.

Example

In February 2016, Maria was 68. Her SIPP was worth £1 million and was made up of uncrystallised funds. She crystallised £900,000 of these funds and took a PCLS of £225,000 (25% of £900,000).

The Standard Lifetime Allowance at the time of crystallisation was £1.25 million. Therefore, the £900,000 Maria crystallised used up 72% (900,000/1.25 million) of her Lifetime Allowance. She has 28% of the Lifetime Allowance remaining.

The balance of Maria's SIPP fund was then;

- Crystallised funds £675,000
- Uncrystallised funds £100,000
- Total fund £775,000

On Maria's 75th birthday in February 2023, her SIPP fund is made up of;

- Crystallised funds £900,000
- Uncrystallised funds £150,000
- Total fund £1,050,000

Assuming the Standard Lifetime Allowance in February 2023 is £1.1 million, Maria's remaining Lifetime Allowance of 28% equates to £308,000. However, the total of the uncrystallised funds of £150,000 and the growth on the crystallised funds of £225,000 exceed this amount by £67,000 (£375,000 less £308,000) and the excess is subject to a Lifetime Allowance tax charge of 25%.

Income tax

If we do not have a relevant tax code for you or a P45 for the tax year in which the Flexi-Access Drawdown pension or UFPLS is paid, we are required to apply the emergency tax code. There is a strong possibility that too much tax will be deducted from the payment.

If you decide to receive regular monthly drawdown pension payments, any overpayment or underpayment of income tax will automatically be adjusted through your tax code, once HMRC have confirmed to us what your tax code is. If you take a single taxable payment in the tax year, you will be able to get any overpaid income tax back but you may have to wait until after the end of the tax year and you may have to complete a Self Assessment Tax Return.

In some cases you may have to pay further income tax, especially if you are a higher rate tax-payer or if the taxable payments you receive from your SIPP mean that you become a higher rate tax-payer.

Reclaiming Overpaid Income Tax

If you already complete a Self Assessment Tax Return you must make any reclaim for overpaid income tax in your Return. If not, you can use the following forms;

- P50Z – if you have drawn your entire SIPP fund and you have no other income in the tax year;
- P53Z – if you have drawn your entire SIPP fund and you have other taxable income in the tax year;
- P55 – if you have not drawn your entire SIPP fund, you have only taken one payment and do not intend to take a further one in the tax year.

The forms are available from your usual HMRC office or on the Government website. If you do not have a usual HMRC office, you can contact HMRC on 0300 200 3300 to discuss your situation. You can also visit www.gov.uk where you will find information about tax.

The amount of income tax that you overpay or underpay will depend on your own personal tax position and the amount of money you draw from your SIPP fund.

What happens when you die?

You can indicate how you would like the SIPP trustees, under their discretionary powers, to distribute any remaining SIPP fund between beneficiaries in the event of your death. Although not binding on the trustees, they will take your wishes into consideration in determining to whom and in what form benefits are paid.

If you die before your 75th birthday

The trustees will be able to distribute your SIPP fund in one or more of the following ways:

- lump sum payments to your beneficiaries;
- to buy annuities for your dependants and/or nominees (i.e. any other individuals you have nominated to receive a pension);
- to provide dependants and/or nominees with Flexi-Access Drawdown pensions.

Each option will normally be tax-free provided they take place within two years of your death and, where relevant, you had enough remaining Lifetime Allowance.

If you die on or after your 75th birthday

The trustees will be able to distribute your SIPP fund in one or more of the following ways:

- as one or more lump sum payments to your beneficiaries subject to tax;
- to buy annuities for your dependants and/or nominees, which will be assessable income for tax purposes;
- to provide dependants and/or nominees with Flexi-Access Drawdown pensions, which will be assessable income for tax purposes.

In certain circumstances lump sum payments to charities will be tax-free.