CURTIS BANKS

BENEFITS GUIDE

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These notes outline the benefits which can currently be taken from one of our SIPPs or SSASs and the issues to take into account.

You have a range of options on what you can do with your pension savings. We recommend you get guidance or advice to help you with this decision. Pension Wise is a service from the government that offers free and impartial guidance. We have included a letter to you from the government explaining what the service offers, at the back of these notes.

Professional advice should also be obtained if you are unsure which route to take. If we receive a request from you to take benefits, we will need to ask you a series of questions to find out if you understand the risks involved and, depending on your answers, issue you with risk warnings. This requirement does not apply if the benefit request is sent to us by a regulated independent adviser who has given you advice on taking benefits.

We aim to keep jargon out of our literature as much as possible, but in the case of benefits there are some HM Revenue & Customs expressions which occur frequently and we have shown them in bold type.

In addition to the rules below, further rules apply if the total value of all your pension arrangements exceeds a government **lifetime allowance** (£1,000,000 for 2017/18) and you should refer to our Lifetime Allowance guidance notes if you think you may be affected.

1. Your own benefits

Timing

You can take benefits from your fund from age 55 onwards and it is not necessary to retire or stop working. Benefits can be taken earlier on ill-health grounds.

Tax Free Cash

Up to 25% of your fund can be taken as a tax free lump sum. This can be done at any time after age 55 and the lump sum can be taken in stages.

Pension

The remainder of your fund is used to provide a pension, in one of 2 ways:

- buying an annuity from an insurance company of your choice – your fund is paid over to the insurance company and in return they pay you an income. Most annuities pay out for the rest of your life and are guaranteed, but there are other types linked to investment performance or payable for a fixed term. Variable income levels are available, including incomes which can go down as well as up, and guarantees if you die early. It is essential that you obtain financial advice in choosing the best type of annuity for you; or

- keeping the funds invested in your scheme and taking an income from the scheme itself. There are a number of options:

  - income drawdown in the form of **Flexi-Access Drawdown**
  - taking lump sums from the fund, this is called **Uncrystallised Funds Pension Lump Sum (UFPLS)**
  - income drawdown in the form of **Capped Drawdown** – this is only available if you started taking **Capped Drawdown** before 6 April 2015

These options are all described in more detail below, and you are recommended to take independent financial advice and consult the government's Pension Wise service before taking any of them up.

All pensions are subject to income tax at normal rates but not National Insurance ("NI") contributions. The pension will be added to your other sources of income to determine the tax payable, and this may be at higher rates than you expected. You should take care to establish how much tax you will pay, before drawing a pension.

Flexi-Access Drawdown

Under **Flexi-Access Drawdown** you can take a tax free lump sum of up to 25% of the fund, and then take the remaining funds as pension whenever you choose, without restriction. You can delay taking the pension for as long as you wish or, at the other extreme, you could take the funds out as pension over a shorter term.

When you first receive a pension under **Flexi-Access Drawdown**, your **Annual Allowance** for tax-relievable pension contributions to a Money Purchase arrangement reduces from £40,000 to £4,000.

It is possible to take **Flexi-Access Drawdown** on only part of the fund, and leave the rest untouched. For example, you could draw on 20% of your fund (taking up to 25% as a lump sum and the rest as a pension) and leave the other 80% untouched. A few years later you could draw on another 20%, leaving 60% still untouched, and so on. This is sometimes called **Phased Drawdown.**

Uncrystallised Funds Pension Lump Sum (UFPLS)

Under **UFPLS**, part of the fund can be taken as a single lump sum at any time, and 25% of this is tax free and the remainder is taxed as income.

As with **Flexi-Access Drawdown**, anyone taking UFPLS will become subject to the reduced **Money Purchase Annual Allowance** of £4,000.

UFPLS is similar to **Phased Drawdown** under **Flexi-Access**, i.e. it allows funds to be crystallised in stages, but does not allow the pension element of the drawdown fund to be deferred, so it is less flexible in that respect.

Capped Drawdown

This was the main form of drawdown before 6 April 2015, and anyone who started taking **Capped Drawdown** before that date can continue taking benefits in this way. However this option is **only** available to those who began taking **Capped Drawdown** before 6 April 2015. The main difference is that the annual pension which can be taken is restricted by a government limit based on age and the Annual Allowance for pension contributions is preserved at £40,000 under this option, unless your earnings result in you having a Tapered Annual Allowance (please see our Contributions notes).

If you have only taken part of your fund under **Capped Drawdown** and the rest is untouched, you are able to crystallise further funds under **Capped Drawdown** rules.

Alternatively, anyone in **Capped Drawdown** can convert to **Flexi-Access** at any time, and start taking pension at whatever rate they want. They can do this by notifying us, or by taking more than the maximum allowed under **Capped Drawdown**. The reduced **Money Purchase Annual Allowance** of £4,000 will be triggered as soon as the first payment is made under **Flexi-Access**.

2. Benefits on death

The fund will be used to provide one or more of the following:

- a tax free lump sum
- a pension to a dependant by payment from the fund
- an annuity for a dependant
- income payments to **Nominees** or **Successors**

Payments are tax free if you die before age 75, and taxed at the recipient's marginal rate if you die after 75.

The lump sum can be paid out to a wide range of beneficiaries, including spouses and partners, family members, the beneficiaries under your Will or anyone nominated by you. Pensions can only be paid to dependants, or **Nominees** or their **Successors**. A dependant is your spouse or civil partner, a child under 23 or someone who is financially, mentally or physically dependent on you. A **Nominee** is someone who has been nominated by you as being eligible to receive income payments on your death.

The beneficiaries will be decided by ourselves, taking account of any nomination you make and all other information available (our Expression of Wish Form allows you to nominate beneficiaries). We are not bound to follow your nomination but would normally do so unless there are good reasons not to. The lump sum must be paid out within 2 years of your death, if you die under age 75.

It is important that you make an expression of wish, and review it at regular intervals, to ensure that you have notified us of your nominated beneficiaries and that income payments can be made to as wide a range of beneficiaries as possible.

3. Issues to consider

Annuity or Income Drawdown?

The basic choice here is between keeping control of your pension fund under income drawdown, and accepting that the future pension is not guaranteed, or passing the money over to an insurance company in return for a guaranteed income. It is important to consider all the issues **and you are recommended to seek independent financial advice and make use of the government's Pension Wise guidance service:**

- Keeping the funds in your scheme gives you the opportunity to maximise future investment performance. Good investment performance can significantly improve the future pension from income drawdown, but the reverse applies for bad performance, especially in the early years. The combined effects of drawing a full pension and poor investment performance can rapidly deplete the fund, leading to a much lower future pension. Annuities can guarantee the pension regardless of future investment conditions.

- It is important to have a suitable investment strategy for income drawdown:

    - keeping the fund in fixed interest stocks may produce a pension no better than buying an annuity, and large cash deposits may produce even worse results.
    - an element of other investment, where the returns are potentially higher, is usually recommended in order to out-perform annuity rates, but this type of investment may produce negative results.
    - too heavy an investment into anything which is volatile can mean having to sell investments when markets are low in order to pay the pension.
    - good independent investment advice is recommended.

- Income drawdown has much more flexibility than an annuity purchase, both in terms of the benefits which may be drawn and the position on death. The terms for an annuity are fixed at the outset and usually the pension is fixed and there are limited options on death. By contrast, income drawdown allows varying pension payments each year and the full range of benefit options on death. Income drawdown also allows an annuity to be purchased at a later date, though future rates cannot be predicted and could be worse.

- There may be little point buying an annuity if your health is poor, as you may not get a full return on your money. It is possible to get "impaired health" rates from some insurance companies, but they may not fully reflect your state of health.

- If you opt for income drawdown, your funds will need to be checked against the **lifetime allowance** when you subsequently buy an annuity or reach age 75 (see our notes on the Lifetime Allowance for more detail). This could be a problem if your fund is much higher at that time, either through high investment performance or because you have delayed drawing your pension.

- An insurance company bases its annuity rates on a large number of lives and makes allowance for some dying early, which reduces the average cost. An individual drawing a pension from a fund will not have the benefit of this factor and will need to earn more on the fund to compensate for it and maintain the pension. This factor is called "mortality drag" and typically requires an extra 1-2% p.a. return on the fund.

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- Income drawdown means that you need to keep your scheme going and continue to pay fees. If you are the only member, it may be simpler and more cost-effective to wind it up and buy an annuity, particularly if the fund is small.

- Withdrawing large sums could also reduce the size of your pension and could result in you fully exhausting your plan or running out of money in retirement.

- If you withdraw 100% of your fund (full encashment) you may suffer an additional income tax charge depending on your level of income and you may increase the value of your estate that is subject to inheritance tax. Full encashment means that the pension scheme will be closed; funds are no longer invested in a pension scheme environment that offers tax advantages on growth and you will not have a pension fund that you may need in order to provide an income in retirement. There may also be an additional fee for closing the pension scheme; please refer to the product fee schedule for fee information. We recommend that you seek independent financial advice or use Pension Wise before you take any full encashment action.

A "critical yield" calculation is available when you take benefits, and at intervals thereafter. The "critical yield" is the investment return you will need to earn on your fund, allowing for the "mortality drag" above and the expenses of the fund, to produce a pension which matches that from an annuity. This will help you in judging whether income drawdown makes financial sense.

4. Other Points

Pension Payments

Income drawdown pensions are usually payable monthly, but can be paid quarterly, half-yearly or annually. Curtis Banks Ltd operates a pension payroll with 4 payroll dates each month (9th, 15th, 22nd and 28th) and you can select the date which is most suitable for you. We deduct tax at the appropriate rate and will need to deduct emergency tax (usually basic rate) until we have a tax code for you, and then will adjust future payments.

If you are resident overseas it is possible to agree with HMRC that the pension can be paid gross from the UK. The HMRC guidance notes for this are IR304. There are special rules which limit what is possible if benefits are taken by non-residents under flexible drawdown.

Liquidity

All benefit payments are subject to sufficient liquidity in the fund, both the initial payments and the ongoing pension. You or your advisers are responsible for ensuring that arrangements are in place for providing sufficient liquidity in advance of the payroll date. We require cleared funds by the preceding payroll date in the monthly calendar, e.g. for a pension payable on the 22nd, we require cleared funds by the 15th. If a pension instalment is missed, payment will be made at the next payroll date following which funds are available in accordance with this timetable.

Curtis Banks Ltd cannot pay benefits unless sufficient cleared funds are in your scheme's bank account and we accept no responsibility for delayed payments.

Cancellation Notice

When you take income drawdown from your scheme for the first time, you will have a 30 day period in which to cancel the drawdown. This will not apply to subsequent drawdowns from your fund.

Serious Ill-Health

If your life expectancy is less than one year, and you have not already taken any benefits from your scheme, the funds can be paid out as a lump sum. This will be tax free if you are under age 75, or taxed at your marginal rate if you are over 75. A doctor's letter confirming your life expectancy is required.

In addition, if you have commenced taking benefits and wish to access your residual fund, you can have this paid to you as a serious ill-health lump sum. The residual fund is taxed at your marginal rate.

Tax Free Cash Recycling

There are complex rules aimed at preventing you from taking a tax free lump sum and then paying this back into your SIPP as a pension contribution, thereby permitting a further 25% lump sum and so on. Further details can be supplied, but it should not be your intention to use your lump sum for this purpose.

Our Fees

Please refer to our Schedule of Fees for your SIPP or SSAS, for the additional fees for processing benefits.

In addition, the standard scheme fees continue to be payable and you will need to pay fees to any other advisers you use.