DRAWDOWN VS LUMP SUMS

HARGREAVES
LANSDOWN

IMPORTANT INFORMATION

We've written this guide to give you useful information about accessing your pension, but it's not personal advice.

The earliest age you can normally take money from your pension is 55 (rising to 57 in 2028).

What you do with your pension is an important decision. We strongly recommend you understand all your options and check the option you chose is right for your circumstances. Take advice or guidance if you're unsure. Remember, investments can rise as well as fall in value, so you could get back less than you invest.

The government provides a free and impartial service to help you understand your retirement options. Go to **www.hl.co.uk/pension-wise** to find out more.

This is correct for the 2023/24 tax year based on announcements as of 16 March 2023. Pension and tax rules can change though, and benefits depend on your own circumstances.

In this guide where we mention an annuity, we mean a secure lifetime annuity. It's possible to buy other types of annuities where income isn't guaranteed for life.

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INTRODUCING YOUR OPTIONS

Two flexible ways to access your pension.

If you want to take money from your pension and you're looking for flexibility, you may consider moving your pension into drawdown or taking lump sum withdrawals.

Both options allow you to control the amount of income you take, and how often you take it, but they do work in different ways. To help you decide which option might be best for you, it's important you understand these differences and the risks involved.

Pension and tax rules can change and benefits depend on your circumstances.

DRAWDOWN
You can usually take up to 25% of your pension tax free when you move it into drawdown. You'll receive this as a single payment upfront. You can then choose how to invest the rest, and how much income you'd like to take (which is taxable).

You can choose to make regular withdrawals or just dip into the pension as and when you need to. You don't have to take an income straight away, or even at all – that's up to you.

For example, let's say you had a pension worth £100,000 and you decided to move all of it into drawdown. You could take up to £25,000 out in one go, totally tax free, to save or spend as you wish. You'd then choose where to invest the remaining £75,000. You might decide to live off your tax-free cash first, and put off drawing any income until a later date.

If you'd rather not move your whole pension into drawdown at once, that's fine too. You can move it in separate parts. Each time you do, you can usually take up to 25% of that portion tax free. This is called phased drawdown.

LUMP SUM WITHDRAWALS
This is also known as taking an Uncrystallised Funds Pension Lump Sum (UFPLS).

Using this option, up to 25% of the amount you withdraw will usually be paid tax free and the remaining 75% is taxable.

You decide how to invest anything left in your pension, and can make more lump sum withdrawals in the future.

For example, if you had a pension worth £100,000 and you decided to withdraw £10,000, up to £2,500 of your withdrawal would be tax free and the rest taxable. You'd then choose how to invest the remaining £90,000.

DRAWDOWN

Tax-free cash

Investments

Taxable income
You can choose to draw whatever income you like, when you like. Just remember these withdrawals will be taxable.

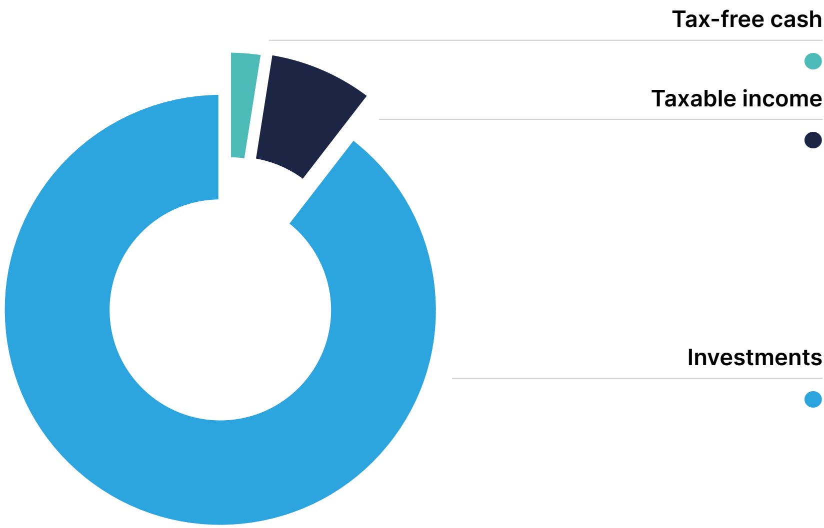
YOUR TAX-FREE CASH
Withdraw up to 25% in one go, tax free. (normally up to a maximum of £268,275). If you decide not to take tax-free cash you can't change your mind later on.

REMAINING PENSION STAYS INVESTED
You can either choose the investments yourself or pay an adviser to do this for you.

25%

paid in one go, tax free

LUMP SUM (UFPLS) WITHDRAWAL



YOUR WITHDRAWAL
Each time you take a lump sum, up to 25% is paid tax free. The rest is taxed as income. You can normally take up to a maximum of £268,275 tax-free payments in total.

REMAINING PENSION STAYS INVESTED
You can either choose the investments yourself or pay an adviser to do this for you.

25% of each withdrawal tax free

TAKING A FLEXIBLE INCOME

Weighing up what you want, against what you could lose.

Being able to access your pension flexibly can help you to achieve your goals and retire the way you want to. Whether that involves bridging the gap in your earnings while you phase out working, treating yourself to a well-deserved holiday, paying off your mortgage or buying a second home, drawdown and lump sum withdrawals can help make it possible to do the things you want to do.

But with this flexibility comes increased risks. It's important you understand these risks before making any decisions.

If you're in any doubt at all, you should seek guidance or personal advice.

BENEFITS

Both drawdown and lump sum withdrawals allow you to dip into your pension as and when you need to. You can even take the whole lot out if you wish.

Keeping your pension invested offers the potential to grow your pension value. If your investments perform well, you could receive a growing income throughout retirement.

Your loved ones can also benefit. Anything left over can be passed on to them when you die (tax free in some cases). This might be particularly important to you if you have dependants to think about.

RISKS
Unlike other options such as an annuity (which provides a guaranteed income for life), using drawdown and making lump sum withdrawals means income isn't secure. So they won't be right for everyone.

People are living longer these days, which means income from pensions might need to last longer too. If you withdraw too much too soon you might find yourself short of income later on, especially if you live longer than expected.

All investments can fall and rise in value. If your investments don't perform as you'd hoped, you could get back less than you invest or, in the worst case, run out of money completely.

If you run out of money in retirement it could have a serious impact on your lifestyle, and if your partner or loved ones rely on your income it could impact them too. This is something you need to be particularly aware of if your sources of income are limited, or a return to work isn't an option.

Because of these risks, it's important to make sure you have enough secure income to fall back on if things don't go to plan.

If you don't have a secure income in place, you should seriously consider whether buying an annuity would be an appropriate option. We cover more about annuities on pages 22-23.

HOW WITHDRAWALS ARE TAXED

Some things to be aware of.

25% is usually the most you can take from your pension tax free. Any other income is taxable.

Your pension provider will deduct tax via Pay As You Earn (PAYE). This is similar to how employers deduct tax. Though no National Insurance is taken from pension payments, whatever your age.

The income you withdraw from your pension will be added to any other income you receive that same tax year. So taking large withdrawals could push you into a higher tax bracket if you're not careful.

You can change the amount you withdraw each year to manage the amount of tax you pay. If you need to make a large withdrawal, you might consider spreading it over more than one tax year to take advantage of your personal allowance and tax bands.

Remember, tax rules can change and benefits depend on your own circumstances.

If you want to find out more about how your pension might be taxed, our income tax calculator and factsheet could help you. Go to www.hl.co.uk/pension-income-tax

YOUR FIRST WITHDRAWAL

The first time you take a taxable income from your pension, it's likely to be taxed using an emergency tax code or the tax code on your P45. HM Revenue & Customs (HMRC) guidance means your pension provider may have to use this code on a 'Month 1' basis at first.

Being taxed on a 'Month 1' basis means all previous pay and tax in the year isn't taken into account. It assumes you will receive the same amount each month, meaning the incorrect amount of tax may be paid initially.

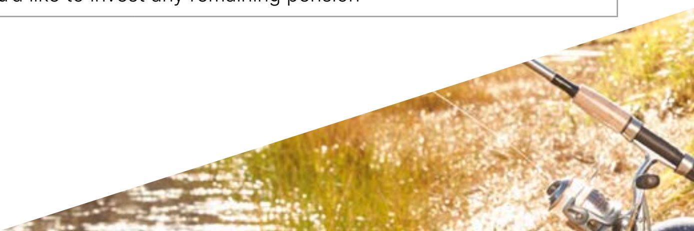
After your first withdrawal, HMRC will typically provide an updated tax code. The new tax code should automatically adjust any over or under-paid tax when you next receive a payment. You can also contact HMRC directly if you think you've paid too much or too little.

To see how your first withdrawal might be taxed you can use our emergency tax calculator at www.hl.co.uk/emergency-tax

DRAWDOWN VS UFPLS

A quick comparison.

<table>
<tr><th>DRAWDOWN</th><th>UFPLS (LUMP SUMS)</th></tr>
<tr><td colspan="2">Why you might consider this option</td></tr>
<tr><td>You'd like to receive your tax-free cash in one payment and want to keep the rest invested, with the option to take taxable income later on.</td><td>You'd like to receive a lump sum where some is tax free and some taxable. You'd also like to keep anything you don't take invested.</td></tr>
<tr><td colspan="2">You'd like to decide your income level, and change it as and when you like.</td></tr>
<tr><td colspan="2">You want the potential to increase your pension by investing.</td></tr>
<tr><td colspan="2">Things to consider</td></tr>
<tr><td colspan="2">Your income won't be secure and it could run out. So unless you have other secure income to rely on, these options might not be best for you.</td></tr>
<tr><td>Taking tax-free cash won't affect how much you can pay into pensions. But when you take a taxable income your pension contributions will be restricted (details on page 20).</td><td>As soon as you take a lump sum, pension contributions will be restricted (details on page 20).</td></tr>
<tr><td colspan="2">Do you have to use your entire pension?</td></tr>
<tr><td>No – you can move money into drawdown a bit at a time, so can take your tax-free cash a bit at a time too.</td><td>No – you can take lump sums as and when you want to.</td></tr>
<tr><td colspan="2">What decisions do you need to make at the start?</td></tr>
<tr><td>How much of your pension you want to move into drawdown (usually up to 25% of this amount can be taken as a tax-free lump sum).</td><td>How much you'd like to withdraw. Usually 25% of each withdrawal is tax free, and the rest is taxable.</td></tr>
<tr><td colspan="2">Where you'd like to invest any remaining pension</td></tr>
</table>



DRAWDOWN	UFPLS (LUMP SUMS)
What can you do with your pension afterwards?	
You can continue in drawdown for as long as you like, taking income as and when you want to. But if you feel it would better meet your needs, you can also exchange some or all of your drawdown pot for an annuity (a secure income for life) later.	You can move anything you have left into drawdown, make further lump sum withdrawals, or exchange some or all of it for an annuity (secure income for life).
How to find out more	
Request a personal drawdown illustration	**Request lump sum illustration**

THE SMALL POT RULE

If your pension (or an arrangement within a pension) is worth £10,000 or less, you could take it out in one go as a 'small lump sum' payment.

25% of each lump sum will be tax-free (unless any of the payment is from funds that are already in drawdown), and the rest taxed as income.

Current pension law allows payments of this type to be made up to three times from personal pensions. If you need any help, or want more information about this option, call us on **0117 980 9926**.

INCOME AND INVESTMENT STRATEGY

You know what's best for you.

You have the flexibility to choose your own investments based on your future goals and attitude to risk. It's important to choose them carefully, as their performance could affect your lifestyle and the income you receive.

Choosing investments that have similar aims to your own, and complement your withdrawal strategy, can increase the chances of achieving your goals.

WITHDRAWING THE NATURAL YIELD
Taking the natural yield means only withdrawing the income your investments make. So, if you have £100,000 invested in a fund yielding 4%, you'd take the £4,000 income and leave your original £100,000 invested.

There's less chance of running out of money with this strategy because your investments are left untouched. During market falls this can give your investments a better chance to recover. But remember, yields are variable and not guaranteed. Anything you leave invested could still rise or fall in value.

WITHDRAWING FROM CAPITAL
This means selling your investments and withdrawing the cash. When the natural yield isn't enough, this could give you a higher income, but it's a riskier strategy. Capital withdrawals will eventually drain your pension and reduce the income available for the future, so they may not be sustainable. If you are selling investments after markets have fallen it could mean you quickly erode the value of your fund.

INVESTING FOR INCOME
If you plan to make income withdrawals, perhaps by using a natural yield strategy, then you might want to look at investments which aim to pay a high yield. Investment options could include dividend-paying shares, bonds (because they pay interest), and the funds that invest in them. If you're investing in funds, for example, you might decide to choose 'income units', which pay dividends as cash.

INVESTING FOR GROWTH

If you don't need an income yet, perhaps because you plan to live off your tax-free cash for the meantime, a common approach is to choose investments that aim for long-term growth. Often this includes funds that invest in a wide range of companies, either in the UK or across the globe. It might also include higher-risk, smaller companies with the potential to grow into market leaders.

REVIEWING YOUR STRATEGY

If your goals or income strategy change, you may need to change your investment strategy to complement your new plans.

Even if your strategy doesn't change it's important to review your income and investments regularly.

CHOOSING YOUR INVESTMENTS

Pick your own, ready-made or pay an adviser.

Whether you're new to investing or more experienced, there are many different ways to choose investments. You could pick your own, choose from ready-made investing or pay an adviser to recommend investments for you.

PICKING YOUR OWN INVESTMENTS

Different types of investments can perform well at different times, and so can different markets around the world. Holding a mixture of investments (which could include a combination of funds, shares and bonds), across various markets, could help shelter you from volatility when some areas don't perform as well as others.

The experts who run investment funds (fund managers) also use a variety of strategies and styles. So choosing investments run by different fund managers, and investing in more than one fund in the same area, could be a good idea too, in case one of your funds underperforms.

If you'd like to pick your own investments, and you're looking for inspiration, you could take a look at our Wealth Shortlist. This is our analysts' selection of funds they believe have the potential to outperform their peers over the long term.

To find out more visit **www.hl.co.uk/funds/help-choosing-funds/wealth-shortlist**

If you're comfortable choosing individual shares and bonds, this is an option too. But you'll need to spend more time researching and reviewing your investments, and it will be harder to spread your investments over a number of areas.

READY-MADE INVESTING

Our portfolio funds can be used as all-in-one investments. Pick one from the different risk levels and you're good to go. You'll just need to check in every now and then to make sure it still meets your needs and circumstances.

Once you've chosen a portfolio fund, you can relax in the knowledge that our experts will manage the investment from there. They'll look to maximise returns according to the level of risk chosen.

Whichever level of risk you choose, it's important to remember that the funds can go down as well as up in value.

For more information visit **www.hl/funds/leave-it-to-an-expert**

FINANCIAL ADVICE

If you're not sure about investing, a professional adviser can give you one-off or ongoing financial advice, based on your circumstances and future goals. They can help you to get the most out of your money by creating a balanced and diversified portfolio which matches your attitude to risk. An adviser will work with you to understand your financial goals and help you to understand any potential tax shelters or upcoming legislation changes.

You can find out more about our advisory service at **www.hl.co.uk/financial-advice**

KEEPING CASH ASIDE

For your own peace of mind you might want to hold a couple of years' of anticipated income in cash. Having cash available means you might avoid having to sell your investments, or at least reduce the rush to sell, during a time when you don't want to (when markets fall, for example).

Just remember that cash has its own risks. It can lose value over time if interest rates are low and inflation is high. So it's unlikely to be a good long-term investment, but it can help you sleep at night knowing it's there if you need it.

If you're planning on making withdrawals from your pension, remember you'll need available cash within your account before any payments can be made to you.

PASS ON YOUR PENSION TO YOUR LOVED ONES

How can they benefit?

Anyone can benefit from what's left in your pension when you die, usually free of inheritance tax. For many people, this flexibility and control, is a positive of current rules.

You need to let your pension provider know who you'd like to benefit, and what proportion you'd like them to get. You can nominate as many people as you like, and can update them at any time.

These nominations aren't legally binding, but they let your provider know your wishes and they must be taken into account.

Your beneficiaries can either keep the pension invested by using drawdown (taking an income as and when they need to), exchange it for an annuity (secure lifetime income), or have it paid to them in one lump sum.

Remember, pension and tax rules can change and benefits will depend on circumstances.

How much tax your beneficiaries pay on withdrawals will depend on how old you are when you die.

- If you're under 75, the withdrawals your beneficiaries make won't usually be taxed.
- If you're 75 or older, withdrawals will be subject to income tax at your beneficiary's own rate. In this case, your beneficiaries might be able to reduce their tax bill by spreading withdrawals over a number of tax years.

To find out more about passing on pension wealth, or to request our detailed factsheet, go to **www.hl.co.uk/pension-death-benefits**

NEXT STEPS

Getting quotes, guidance and advice.

What you do with your pension is an important decision. There are steps you can take and services available to help you make more informed decisions.

REQUEST AN ILLUSTRATION
This is a sensible first step if you're considering moving into drawdown or making a lump sum withdrawal. It'll show you:

- How the income you choose could affect how long your pension lasts
- What various growth rates could mean for your remaining pension value
- What might be left to pass on to your loved ones

This can help you get an idea about what could happen, but figures will be estimates only. Actual figures will of course depend on the income you take, the investments you choose and the investment returns you get once you apply (which aren't guaranteed).

You can call us on **0117 980 9926** to request your illustration or do it online.

To get your drawdown illustration go to **www.hl.co.uk/drawdown-illustration**

To get your lump sum illustration go to **www.hl.co.uk/ufpls-illustration**

SEEK GUIDANCE
You should consider contacting Pension Wise. This is a government service which offers free, impartial guidance to help you make sense of your retirement options, including annuities, drawdown and lump sums.

It's not personal advice, but you'll find lots of information on their website and can book a face to face or telephone consultation with one of their pension specialists.

To find out more go to **www.pensionwise.gov.uk**

ASK FOR PERSONAL ADVICE
People want personal advice for many reasons, but common themes include retirement planning, investing and estate planning.

You might consider advice if your financial situation is complex, or if you want reassurance that what you plan to do is right for your circumstances.

There are many different forms of advice and the costs will often depend on the level of advice you take. You might choose to get an assessment of your financial position, personal recommendations suitable for your circumstances, or even on-going financial reviews.

To find out more about the advisory service we offer just go to **www.hl.co.uk/advice**

RESTRICTIONS IN RETIREMENT

Some rules that might affect you.

Just because you access your pension it doesn't mean you have to stop paying into it. But you do need to be aware of certain limits and restrictions.

Pension and tax rules can change, and any benefits depend on your own circumstances.

TAX RELIEF

If you're a UK resident under 75, you can add money to a pension and still receive tax relief, even if you don't work or pay tax. But you can only pay in as much as you earn each tax year, or £3,600 (whichever is greater).

No matter how much tax you pay, the government will always add basic rate tax relief (currently 20%) on top of your contributions. So it can pay to add money when you can, and for as long as you can.

For example, say you give up work completely, you can still pay in £2,880 to your pension, and the government will add an extra £720, bringing the total amount to £3,600.

ANNUAL ALLOWANCE

For most people, pension contributions are limited to a £60,000 annual allowance each tax year.

The contributions you, your employer, or anyone else makes on your behalf (plus any tax relief added by the government), all count towards this allowance.

Anything over this allowance will be subject to a tax charge.

MONEY PURCHASE ANNUAL ALLOWANCE

There's also a money purchase annual allowance (MPAA), which is currently £10,000 each tax year.

Once you've triggered the MPAA, future contributions into SIPPs (self-invested personal pensions) and other money purchase pensions will be restricted from that point onwards.

You'll trigger this limit when you first take a lump sum withdrawal (UFPLS) or a taxable income from most drawdown plans (just taking tax-free cash won't trigger anything).

There's more information about the annual allowance and MPAA in our factsheet. To get your copy go to **www.hl.co.uk/annual-allowance**

LIFETIME ALLOWANCE

This was the total you could accumulate in your pensions without paying a lifetime allowance tax charge, however the lifetime allowance tax charge was removed from 6 April 2023. Currently it provides an upper limit to the maximum tax-free cash an individual can typically take across all their pensions.

The standard lifetime allowance is currently £1,073,100 but is set to be removed from 6 April 2024.

There's more information on the lifetime allowance in our factsheet. To get your copy go to **www.hl.co.uk/free-guides/lifetime-allowance-factsheet**

TAX-FREE CASH RECYCLING

If you significantly increase pension contributions in the year you take tax-free cash from a pension, or in the two years before or after, this may be seen as 'recycling' tax-free cash. You may have to pay a tax charge of up to 70%.

For more information, you can request our tax-free cash recycling **factsheet online** or by calling us on **0117 980 9926**.

WHY YOU SHOULDN'T DISREGARD ANNUITIES

A secure income for life.

We believe every investor should have a safety net of secure income to fall back on. How much is up to you, but you should at least make sure your essential costs are covered.

An annuity is one of the few options available which offers a guaranteed income for the rest of your life, no matter how long you live, or what happens to the stock market.

Annuities are provided by insurance companies in exchange for all or part of your pension – you decide how much to use. You'll usually have the option to take up to 25% as a tax-free cash payment at the start, and the rest will be used to provide your regular income (which will be taxable).

You can choose features to match your needs. For example, if it's important that your spouse or partner continues to receive an income after you're gone, you can build this in. You can also choose for income to increase in line with inflation, or by a set amount each year.

The income each company offers will vary, so you should shop around to find the best deal. By confirming health and lifestyle information you could get more for your money. Even basic details like how much alcohol you drink, your weight and whether you smoke (or used to smoke) can make a big difference, and mean you qualify for a higher rate.

It's worth remembering though, that once an annuity is set up, you usually can't change or cancel it. So it's important to consider all your options carefully, and make sure you shop around to get the best deal.

25%

tax-free cash

PUTTING IT OFF

Annuity rates change frequently and could rise or fall in future. So if you decide to access your pension flexibly, and later decide to buy an annuity, there's the risk that the income available will be less than it is today.

It's possible buying an annuity now, instead of taking flexible income, could provide a greater total income over your lifetime.

To get the best of both worlds you might consider a mix and match approach. For example, you could exchange some of your pension for an annuity (enough to cover your essential expenses) and move the rest into drawdown to give you the potential of growth and a flexible income on top.

To calculate how much income you could miss out on, and when you might break even, go to **www.hl.co.uk/annuity-delay**

HOW TO GET AN ANNUITY QUOTE

Our annuity service could help you get more income than you might be expecting. We search quotes from across the market for competitive rates.

To find out more go to:
www.hl.co.uk/annuities

Or, call us on **0117 980 9940**

Quotes are only guaranteed for a limited time, but there's no pressure to apply. Even if you just want an idea of what you could get, or you want to compare different providers, getting quotes is a good starting point.

OTHER THINGS TO THINK ABOUT

Make sure you're not caught out.

TRANSFERRING PENSIONS
There are various reasons why people choose to transfer their pensions to a new provider. For example, they may offer better value for money, or retirement options that your current provider doesn't. You might also want to bring everything together for easier management.

Whatever the reason, before you transfer you should carefully consider your options. You should contact your existing provider to check you won't lose any valuable guarantees, or will be expected to pay high exit fees by transferring.

Pensions are usually transferred as cash. This means any market rises or falls won't affect your pension value during this time, until you reinvest.

If you prefer, it might be possible to transfer your existing investments without selling them. This is known as a stock transfer. You'll need to confirm you want to do this when you apply to transfer, and it's unlikely you'll be able to change your investments while the transfer's in progress.

THE DANGER OF INFLATION
The price of goods and services generally rises over time meaning you could get less for your money in future. For example, inflation at 5% could halve the buying power of your income in just 15 years. It's important to keep this in mind when you think about your retirement income and how far it might stretch.

Keeping your pension invested could help counter the impact of rising prices if your investments perform well and you don't take too much out. But there are no guarantees.

Two examples of pensions which are currently guaranteed to rise with inflation are the State Pension and some workplace pensions (e.g. final salary pensions). If you don't have enough secure, inflation-linked income, you can always exchange some of your pension for an inflation-linked annuity. To find out more about annuity options go to **www.hl.co.uk/annuities**

LOSS OF MEANS–TESTED BENEFITS
If you currently get means-tested benefits, or you plan to apply for them in future, you should take extra care before accessing your pension. Withdrawing money may reduce any means-tested benefits you can receive. Find out more at **www.gov.uk/benefits-calculators**

BEWARE OF INVESTMENT SCAMS
Unfortunately, fraudsters do try and target people at retirement. Their scams are becoming increasingly sophisticated, so it's important to be careful who you trust to look after your money once you withdraw it. Warning signs of a scam include pressure to act quickly, downplaying the risks involved and promoting tempting returns that sound too good to be true. You can find out more at **www.fca.org.uk/scamsmart**

LOSS OF PROTECTION FROM CREDITORS
If you get into serious financial trouble, you should take extra care before taking money out of your pension. Any money held in a pension might be protected from your creditors if you're in debt and they take action against you. But once you take it out any protection could be lost.

FINANCIAL SERVICES COMPENSATION SCHEME (FSCS)
This scheme can pay compensation to clients in the unlikely event a financial services firm they save or invest with stops trading. Some but not all investments clients hold within a pension will also be covered by the FSCS. For more information, please go to www.fscs.org.uk

ABOUT US

We're Hargreaves Lansdown – a secure, FTSE 100 company helping UK savers and investors for over 40 years.

Our clients like the wide investment choice available through our service, and how easy it is to manage their pension online and with our app. Our pension helpdesk is also here six days a week to help.

GET IN TOUCH
Call us: **0117 980 9926** with any questions you might have.

(Monday to Friday 8am-5pm
and Saturday 9:30am-12:30pm)

Email us: sipp@hl.co.uk

Write to us:
Hargreaves Lansdown
One College Square South
Anchor Road
Bristol
BS1 5HL

EXPLORE MORE
You can continue your research by using our drawdown calculator to see how long your pension could last: www.hl.co.uk/drawdown-calculator

Learn more about taking a lump sum and the effects of keeping anything left over invested: www.hl.co.uk/ufpls-illustration

Learn more about annuities and the benefits of a secure income: www.hl.co.uk/annuities

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