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Income drawdown

If you decide that you're not ready to convert your pension fund into retirement income by buying a lifetime annuity, but you do need funds, you have a few options. These are often known as income drawdown options.

What is an income drawdown plan?

Income drawdown is a type of pension product that lets you take an income from your pension fund while leaving it invested so you can continue to benefit from growth in the fund. By using income drawdown, you avoid or defer having to turn your fund into an annuity.

There are two kinds of income withdrawal: capped drawdown and flexible drawdown. In both cases, any income you take from your pension is taxed in the same way as all other pension income.

Capped drawdown

Capped drawdown is the more common type of the two types of income drawdown. There is:

- an upper limit on the income you can take
- a requirement to review the upper limit every three years
- no minimum level of income you must take – so your fund can remain invested for as long as you like without drawing any income at all

Flexible drawdown

Under flexible drawdown, **there are no limits on the income you can draw, but you must be able** to show you are already receiving other pension income of at least £12,000 a year. This minimum income level includes state pension benefits, salary-related pensions, lifetime annuities and scheme pensions. This limit applies to 2014-15 and applies until April 2015 when all restrictions around drawing of pension benefits are removed.

Income drawdown is an option with many personal pensions as well as with some occupational money purchase schemes. If you're in an employer's scheme and want to use income drawdown, you might first need to transfer your pension rights from the employer's scheme to a personal pension.

Due to the increased charges and investment risk associated with income drawdown, it is generally not used for pension funds smaller than £50,000.

Speak to us if you're unsure of your retirement options.