

Phased Drawdown

User guide

This user guide is designed to provide you with an overview of Phased Drawdown, why you might use it with your clients, factors to take into account when recommending income, and finally how you can set up a Phased Drawdown for your clients.

Contents

1. What is Phased Drawdown?.....	2
2. How your clients' income needs might be determined and some examples	3
3. How to set up a Phased Drawdown.....	4
4. Completing the Pension Benefit Form (T020)	7

1. What is Phased Drawdown?

Phased Drawdown is a useful financial planning tool to help you manage your clients' income needs in later life. For example, it can be a useful tool in managing the income for those who want to gradually ease back from working full time and start to replace their earnings with pension income.

Compared to other pension withdrawal methods, Phased Drawdown offers your clients the ability to take regular income whilst controlling the amount of income tax arising on their payments. It can also help reduce their exposure to inheritance tax.

This is achieved by allowing you to set up regular payments of tax-free cash which can be supplemented, if required, by regular payments of taxable income. Paying the tax-free cash gradually, rather than withdrawing it all in one go, means that more wealth is held in the pension for longer and this can help reduce the inheritance tax that might be due when your client dies.

While Uncrystallised Funds Pension Lump Sum (UFPLS) allows for regular payments of tax-free cash, it also pays out taxable income in a fixed ratio of £1 tax free cash: £3 taxable income.

With careful management Phased Drawdown can help your clients:

- Draw income while paying less tax.
- Maximise use of their personal tax allowances.
- Manage their income around the relevant tax bands.
- Maximise use of their tax-free cash.
- Keep more of their funds invested in the pension wrapper and therefore benefit from tax-free investment growth and the generation of more tax-free cash over time.
- Avoid triggering Money Purchase Annual Allowance by drawing only tax-free cash and no taxable income.
- Avoid withdrawing lump sums that act to increase Inheritance Tax liabilities.

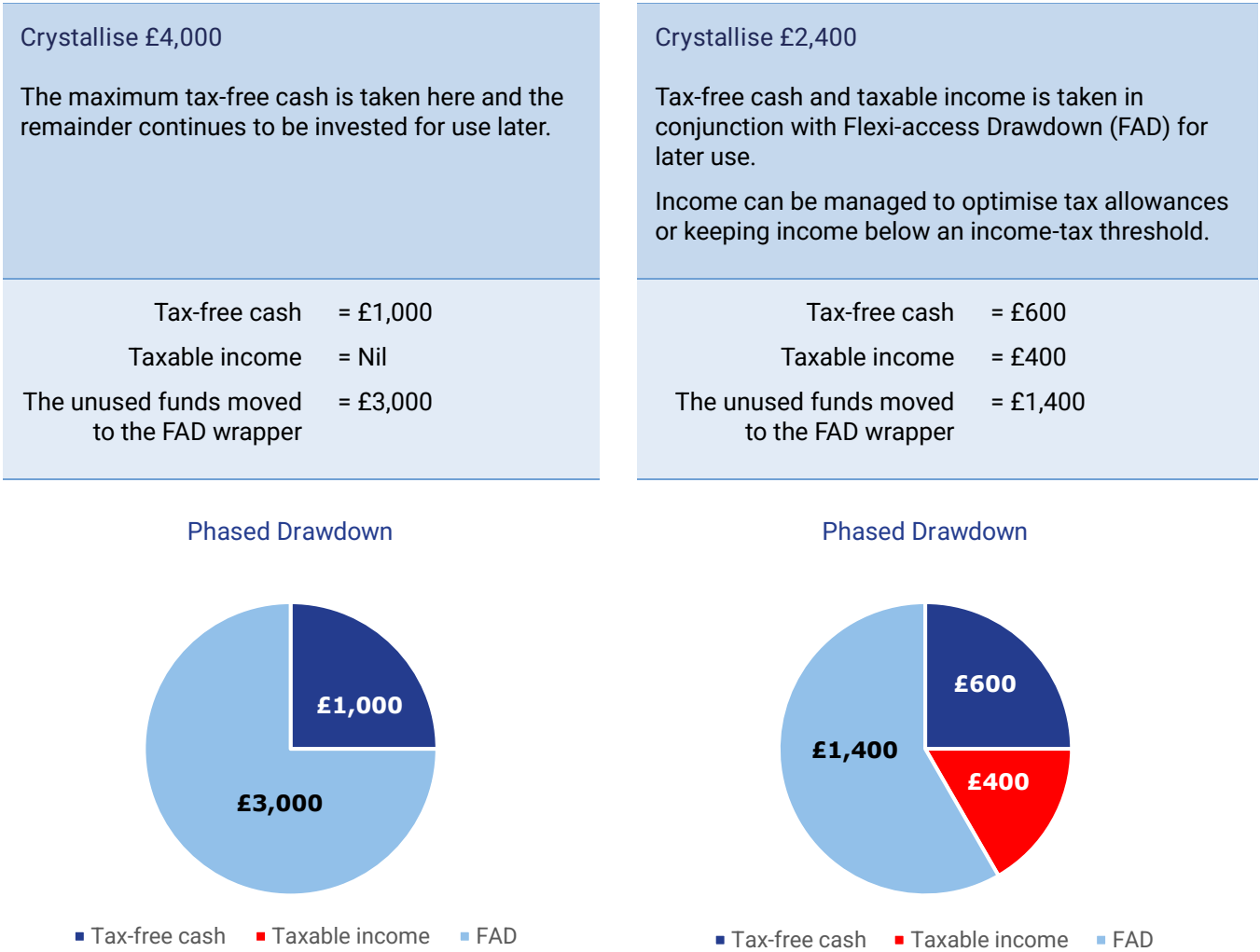
It provides more tax-efficient benefits for your client's survivors when your client dies. The death benefits are usually tax free on death before reaching the age of 75. However, if death takes place at age 75 or later, the funds may be subject to income tax payable by the recipient.

2. How your clients’ income needs might be determined and some examples

Deciding how much income your clients can afford to take under Phased Drawdown needs careful planning. It depends on:

- The size of their accrued pension.
- The desired amount of income and their attitude to risk.
- The performance of their investments over time.
- Any other sources of income they have to rely on.
- How long they expect to live.
- Whether they want to provide for someone else after they die.

Here are two examples, showing how £1,000 of income might be generated.



3. How to set up a Phased Drawdown

First of all you need to prepare an illustration. There are a number of ways of doing this dependent upon whether the illustration is to:

- Create a new accrual wrapper and a new FAD wrapper for a client
- Create a new FAD wrapper for a client with a pension in accrual
- Top up income in an existing FAD wrapper.

A new accrual wrapper and a new FAD wrapper

When preparing an illustration for a new accrual wrapper and a new FAD wrapper, choose Phased Drawdown from the drop-down list shown below in Step 1.

Personalised Illustrations

Add Illustration

Step 1. Wrapper Details | **Step 2. Contributions and Investments** | **Step 3. Phased Drawdown / UFPLS**

Wrapper Type: Personal Pension

Projection Type: Accrual / Phased Drawdown / UFPLS

☐ Override Adviser / Inv

Extra Client Details

☒ Wrapper Name: New Wrapper

At Step 3, choose the tax-free cash and taxable income required. Note the 'Taxable Income available based on TFC entered' as shown on the screen below.

Personalised Illustrations

Add Illustration - Personal Pension (Accrual) - New Wrapper - Client New

Step 1. Wrapper Details | **Step 2. Contributions and Investments** | **Step 3. Phased Drawdown / UFPLS**

(Please enter new income details.)

☒ Phased Drawdown ☐ UFPLS

Income

Tax Free Cash Required	£ 200.00	Amount that will be crystallised	£800.00
Taxable Income Required	£ 100.00	Taxable Income available based on TFC entered	£600.00
Total Regular Payment Requested	£300.00		

Payment Frequency: ☒ Monthly ☐ Quarterly ☐ Half-Yearly ☐ Yearly

From: 4 March 2020 To:

Destination Drawdown Wrapper

Remaining balance of £500.00 every month to be transferred to Destination Drawdown Wrapper

The illustration produced will include the existing taxable income from the selected wrapper

New FAD Wrapper

Pre A-Day Pensions and other Pension types are not available for selection

A new FAD wrapper for a client with a pension in accrual

If you would like to prepare an illustration for an existing client who has a pension in accrual, is of pensionable age, and would like to start taking an income by creating a new FAD wrapper, then click on the button circled below.

Personalised Illustrations

Summary - Client New

[Add Illustration](#)

Investor	Wrapper	Wrapper Charges	Apply Wrapper Fee	
New, Client	Personal Pension (Flexi-access Phased Drawdown) - New Wrapper	Default used	<input checked="" type="checkbox"/>	<div style="border: 2px solid red; padding: 2px; display: inline-block;"> Edit <small>includes Phased Drawdown</small> </div> Remove

Type	Frequency	Amount	Contribution Charges
Contribution	Lump sum deposit	£50,000.00 (Gross)	Default used: 0.00%
Income (Phased Drawdown)	Monthly	£300.00	

Existing Wrapper value: £0.00 [?](#)

Switch contributions: £0.00 [?](#)

New contributions: £50,000.00 [?](#)

Related Investor TPV: £0.00 [?](#)

Adjustment: £ [?](#)

Total Illustrated Funds: £50,000.00 [?](#)

[Add Illustration](#)

[Back](#)
[Save](#)
[Next](#)

Enter the required income at Step 3 below.

Personalised Illustrations

Edit Illustration - Personal Pension (Accrual) - Client New

Step 1. Wrapper Details

Step 2. Contributions and Investments

Step 3. Phased Drawdown / UFPLS

[Delete](#)

(Please enter new income details.)

☒ Phased Drawdown
 ☐ UFPLS

Income

Tax Free Cash Required	£ <input type="text" value="250.00"/>	Amount that will be crystallised	£1,000.00
Taxable Income Required	£ <input type="text" value="200.00"/>	Taxable Income available based on TFC entered	£750.00

Total Regular Payment Requested £450.00

Payment Frequency

☐ Monthly
 ☒ Quarterly
 ☐ Half-Yearly
 ☐ Yearly

From: [?](#)

To: [?](#)

Destination Drawdown Wrapper

Remaining balance of £550.00 every quarter to be transferred to Destination Drawdown Wrapper

The illustration produced will include the existing taxable income from the selected wrapper

New FAD Wrapper [?](#)

Pre A-Day Pensions and other Pension types are not available for selection

Top up income in an existing FAD wrapper

Instead of setting up a new FAD wrapper, you might choose to top up an existing FAD wrapper, because your client's wrappers require different investment strategies, payment dates or frequencies. Proceed with the illustration by clicking the 'Edit' button and at Step 3 selecting the appropriate FAD wrapper.

Personalised Illustrations

[Add Illustration](#)

Investor	Wrapper	Wrapper Charges	Apply Wrapper Fee	
-	Personal Pension (Accrual) (Existing Wrapper)	Default used	<input checked="" type="checkbox"/>	<div style="border: 2px solid red; padding: 5px; display: inline-block;"> Edit <small>includes Phased Drawdown</small> </div> <div style="display: inline-block; vertical-align: top; margin-left: 10px;"> Crystallise <small>full / partial crystallisation</small> </div>
Type	Frequency	Amount	Contribution Charges	
Current Wrapper Value	N/A	£327,254.28 (Gross)	Charge Basis: 0.00%	
Contribution	Monthly deposit	£966.00 (Gross)	Default used: 0.00%	

Investor	Wrapper	Wrapper Charges	Apply Wrapper Fee	
-	Personal Pension (Flexi-access Drawdown) (Existing Wrapper)	Default used	<input checked="" type="checkbox"/>	Edit
Type	Frequency	Amount	Contribution Charges	
Current Wrapper Value	N/A	£114,300.07	Charge Basis: 0.00%	
Income	Monthly	£100.00		

Existing Wrapper value: £449,925.29 [?](#)

Switch contributions: £0.00 [?](#)

New contributions: £1,116.00 [?](#)

Related Investor TPV: £0.00 [?](#)

Adjustment: £ [?](#)

Total Illustrated Funds: £451,041.29 [?](#)

[Add Illustration](#)

Back

Save

Next

1. Investor Details

Name

Portfolio Number

Mrs Anne Smith

-

Have you received guidance on accessing your pension benefits from Pension Wise or the Money and Pensions Service? If not, we strongly recommend that you speak to your Financial Adviser, visit the Government-backed Pension Wise information service at www.pensionwise.gov.uk, or telephone Pension Wise on 0800 138 3944.

☐ Yes
 ☒ No

2. Source of Benefit

Which pension do you want to take the benefit from?

☒ Transact Personal Pension ☐ Transact SIPP ☐ Transact Executive Pension ☐ Transact Section 32 Buy Out Bond

Wrapper name (if applicable): **Personal Pension Accrual**

If you want to take benefits from more than one pension, please use a separate form for each.

If your client would like to crystallise more than one wrapper, please submit one form for each instruction.

* Please provide a letter from a registered medical practitioner to support your request.

In this example we have selected Phased Drawdown, so we will proceed to section 3D.

How regular payments work

The source accrual wrapper will be used to make the tax-free cash payment (PCLS) requested in section 3D.

3D. Complete this section for Phased Drawdown

If you select this option, we will pay you a regular amount of tax-free cash (PCLS) along with the option of regular taxable income.

Tax-free cash (PCLS) required: £	250.00	Timing			
Gross taxable income required: £	100.00	Frequency (M, Q, H, Y)	Day (7th, 17th, 27th)	Start Month	End Date (dd/mm/yyyy)
		M	7th	June	/ /

Units crystallised will vary depending on price movements, and we may need to adjust the cash component to meet the required payment amount.

Next: go to section 4.

Three times the value of the tax-free cash payment will be moved to the Destination Drawdown Wrapper, in line with the instruction provided in section 4 below.

The Destination Drawdown Wrapper will be used to make any taxable income payment requested in section 3D.

This means that you will need to monitor the source wrapper to ensure that there is cash available to cover the tax-free cash payments and the Destination Drawdown Wrapper to ensure there is cash available to make the taxable income payment.

In this example, this client has requested £250 in tax free cash per month and £100 of taxable income per month.

The client has requested that we move investments and cash proportionally to the Destination Drawdown Wrapper. Depending on the allocation within the wrapper this may not include enough cash to cover income payments.

Please note that there *must* be sufficient cash in the client's source accrual wrapper to cover the ongoing tax-free cash payments.

One way to achieve this would be to set up a Regular Sale instruction in the source accrual wrapper for an amount that matches or exceeds the amount of tax-free cash requested.

Additionally, where clients have also requested a regular amount of taxable income, a Regular Sale instruction could also be set up in the Destination Drawdown Wrapper.

4. Crystallised Benefit

For Phased Drawdown, top up or partial drawdown, please indicate the destination drawdown wrapper, as well as assets you want to transfer from your accrual pension wrapper to the drawdown wrapper.

You can specify Cash or Investments and Cash. Remember that both the source accrual wrapper and the destination drawdown wrapper must remain compliant with the Transact minimum Cash balance requirements.

Please ensure that sufficient cash is available. If you require sales to be placed in order to generate sufficient cash, these can be instructed on Transact Online or you can use our T003 Dealing Form.

Destination Drawdown Wrapper



Create new drawdown wrapper

☐

Cash only

☒

Investments and Cash proportionally

☐

Investments and Cash as set out below (please specify either amounts or percentages):

Investment	ISIN	Amount (£)	Percentage (%)

Please note: Limited Liquidity Assets (LLA) may be included, provided they account for no more than 25% of the total transfer value.

Next: go to section 5.

For Phased Drawdown, top up or partial drawdown use this section to indicate the investments that should be moved from the accrual wrapper to the Destination Drawdown Wrapper.

Please note, this is not a dealing instruction. Please place Regular Sales in order to generate sufficient cash via Transact Online. A T003 will be provided on TOL if one is required. You will need to monitor available cash on an ongoing basis.

Where there is insufficient cash available payment will not be made to the client.

Making payments

5. Cash Benefit

Please indicate where you want us to transfer the Cash that you are taking out of your Pension.

	UFPLS	PCLS	Income
My Transact General Investment Account	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Nominated Bank Account	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Next: go to section 6.

You can check to see if a client has a nominated bank account on Transact Online. Go to *Reports > Other > Investor Portfolio Details*.

If the client does not have a nominated bank account, please send in a signed T061 Bank Account Details form to nominate the bank account.

Transact will deduct tax before paying out your client's taxable income.

When your client first takes income from a pension, the taxable part will usually be taxed using an emergency tax code. This will apply to future withdrawals until HMRC sends us the investor's correct tax code. Tax rules can change and more tax may be taken than they owe, in which case they may need to reclaim this from HMRC directly.

Remember that the taxable income will be added to any other income your clients have received in that tax year, so taking large withdrawals could push them into a higher tax bracket.

How Phased Drawdown appears on Transact Online

To view the regular transactions please log in to Transact Online and go to *Reports > Regular Transactions*. As an example, the report of a client already receiving income from a FAD wrapper, and choosing to receive additional tax-free income and taxable income, might look like this:

Wrapper	Type	Investment	Amount	Units	Start Date and End Date	Frequency	To/From	Adviser Payment Initial	Adviser Payment Switch	Portfolio Establishment
Personal Pension	Phased Drawdown	Cash - Tax Free Payment	£100.00	-	07/07/2019 onwards	Monthly	HALIFAX (A TRADING NAME OF BANK OF SCOTLAND PLC) (11-07-34) *****902	-	-	-
		Proportional	£300.00	-	07/07/2019 onwards	Monthly	Personal Pension - Phased	-	-	-
Personal Pension - Flexi-Access Drawdown	Payment	Cash	£1,040.00	-	27/04/2019 onwards	Monthly	HALIFAX (A TRADING NAME OF BANK OF SCOTLAND PLC) (11-07-34) *****902	-	-	-
Personal Pension - Phased	Payment	Cash	£100.00	-	07/07/2019 onwards	Monthly	HALIFAX (A TRADING NAME OF BANK OF SCOTLAND PLC) (11-07-34) *****902	-	-	-

The additional income of £200 is shown in two parts. The tax-free portion of £100 and the taxable portion of £100. The Proportional payment is moved to the Destination Drawdown Wrapper.

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