

For Adviser Use Only

PHASED DRAWDOWN ADVISER Q&A

ADVISER GUIDE

Build your business on ours



1. FEATURES OF PHASED DRAWDOWN

What is Phased Drawdown?

Phased Drawdown is a useful financial planning tool, to help you support your clients' income needs in later life. It allows you to set up regular payments of tax-free cash which can be supplemented with regular payments of taxable income. This can be useful for those who want to control the amount of tax due on their pension income.

Can clients take income and tax-free cash?

Your clients can choose the amount and the frequency of the tax-free cash payments, and also the amount and frequency of any taxable income. The balance between tax-free and taxable income can be tailored to meet your client's income needs in line with your advice.

Any taxable income will be subject to income tax at your client's highest marginal rate (although we will deduct tax under PAYE taking into account the tax code we receive from HMRC).

Is Phased Drawdown available across all pension wrappers?

Yes, your clients can take income from their Personal Pension, SIPP, Executive Personal Pension and Section 32 wrappers. Please note, if the pension contains protected tax-free cash, using Phased Drawdown may restrict the tax-free cash to 25%.

What state should the source wrapper be in?

Phased Drawdown is only available if the source wrapper has tax-free cash available. If your client has already placed all of their pension benefits into Flexi-access Drawdown (FAD), or if the tax-free cash rights in the source wrapper are less than 25%, they will not be able to instruct a Phased Drawdown.

Is there a charge for setting up a Phased Drawdown?

No – there are no additional charges for Phased Drawdown.

Can clients use Phased Drawdown if they have Lifetime Allowance Protection?

Yes, clients who hold Fixed or Individual Protection can use Phased Drawdown. Please ensure that you provide details of your client's Lifetime Allowance Protection in Section 6 of the Pension Benefit Form (T020). Please note, we may need to restrict the use of Phased Drawdown if your clients have Enhanced or Primary Protection.

2. INSTRUCTING A PHASED DRAWDOWN

How do I instruct a Phased Drawdown?

Please use our Pension Benefit Form (T020) to instruct Phased Drawdown for your clients. We have updated the form to include information required to allow us to proceed with a Phased Drawdown instruction.

We have also created a Pension Benefit Form (T020) - Completion Guide and a Phased Drawdown User Guide which includes a section to help you complete the form.

Can an existing FAD be linked to a new Phased Drawdown instruction?

Yes, if your client has an existing FAD wrapper then this can be used to receive the amount being crystallised for the Phased Drawdown. The only restriction is that the FAD wrapper must not contain benefits that were crystallised before 6th April 2006.

How frequently can income be taken?

Phased Drawdown allows your client to choose between a monthly, quarterly, half-yearly or yearly payment.

Is there a minimum payment that can be made?

The minimum payment of tax-free cash and taxable income combined is £100, in line with Transact Terms and Conditions.

On which dates can payments be made?

Payments can be made on the 7th, 17th or 27th, starting from a chosen month.

Can a client have a different Phased Drawdown payment date from any existing drawdown payments?

The dates for Phased Drawdown payments can be different for different drawdown tranches (i.e. where they have been crystallised on different dates), but your client cannot have different payment dates for the same tranche.

How is income paid?

Payment will be made in line with the instruction provided in Section 5 of the Pension Benefit Form (T020.) Where your client has chosen payment to a nominated bank account, payment will be made by BACs on the regular payment date selected.

How will the first payment be taxed?

The taxable income element of the first payment to your client from a Transact pension will usually be subject to PAYE based on an emergency tax code. We would then expect to receive a tax code from HMRC to use against future payments.

3. MANAGING A PHASED DRAWDOWN

What happens if a client's tax code changes?

Tax codes can change at any time and these changes might impact the amount of income your client receives. If a client believes the tax code we have is not correct, they can contact HMRC and ask them to send us a new code. It usually takes around 3-5 business days for the code to be updated, though we cannot guarantee this.

What if there is insufficient cash to pay for the income required?

The source accrual wrapper and the Destination Drawdown Wrapper must remain compliant with the Transact minimum cash balance requirements. Please note, 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.

To check whether sufficient cash is available please log in to Transact Online and go to Reports > Valuation > Cash Report.

NB: Where there is insufficient cash available, payment will not be made to your client.

How long can clients receive tax-free income for?

Unless you specify an end date on the Pension Benefit Form, we will continue to pay tax-free income until the available tax-free cash within your client's pension has been exhausted. Also, the payment of tax-free cash will cease if there is insufficient Lifetime Allowance available to make the payment.

What if my client's needs change?

If at any time your client would like to change or stop their income payments they can do so.

To stop or change the value of the taxable income payments, or to cease the Phased Drawdown completely, please send a secure email to confirm the required change.

To increase or decrease the tax-free component of cash being paid, please complete a new Pension Benefit form (T020) as this is an instruction to amend the amounts being crystallised. (We do not need one if your client just wants to change their taxable income.)

If there is an existing regular income payment in place you should use the form to confirm the new total income payment required. For example, if your client is taking an income payment of £100 but they would like to increase it to £200, please state £200 on the form.

Is it possible to have a different investment strategy for the amount moved into drawdown?

Yes. As the Destination Drawdown Wrapper will be separate to the accrual wrapper, you can use a different investment strategy.

How do I ensure funds earmarked for a specific purpose are not swept into a rebalance by an appointed Discretionary Investment Manager (DIM)?

If you have, for example, earmarked funds to generate Phased Drawdown, you should ensure that the Destination Drawdown Wrapper is not serviced by a DIM to prevent this from happening. The same applies where a Regular Sale has been established in the accrual wrapper to generate regular tax-free cash. The monies could be reinvested if a DIM is linked to the accrual wrapper. If there is insufficient cash, the whole crystallisation event will fail.

What if I need more help?

We have created various resources to help you. Our User Guide includes information about illustrations, completing the Pension Benefit Form and also some simple examples.

A video is available on TOL that provides a step-by-step guide on creating a Phased Drawdown illustration.

If you need any further help please engage in a Live Chat, a co-browse, contact your Adviser Support Manager or call your Client Service team.

This document is for use by financial advisers only. Unless stated otherwise any opinions expressed are our own and based on our interpretation of relevant rules and regulation. This document is for information purposes only and firms cannot rely solely on the information to ensure compliance with the rules.

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