



How people could use the Income Drawdown Option

Pru Flexible Retirement Plan

The following examples are designed to represent typical situations reflecting today's retirement income needs. They do not relate to any particular individuals. You should not look upon them as financial advice or a recommendation of a particular course of action. Restrictions apply to Protected Rights funds. You should consider your own circumstances fully, along with your Financial Adviser, to help you make a decision.

1. **Bill** is looking for a cash lump sum but doesn't need any income from his pension fund for some time.
2. **Peter** wants to ensure his fund won't all be lost should he die prematurely and to control his tax bill.
3. **Suzanne** wants some income from her pension fund, but not all of it.
4. **Angus** has collected a number of pension plans over the years and wants to manage them all in one place.
5. **Amanda** wants to maintain complete investment control over her pension fund.

1. Bill: taking a cash sum, but no income yet



Bill has just turned 60 and would like to help his daughter get on the property ladder, but doesn't want to re-mortgage his own house to find the money. He recently read an article in the Sunday papers about taking 25% of his pension fund as a tax-free lump sum. He checks his personal pension statement to see how much it would be and discovers that he has £130,000 in his fund and can take his pension at any time from the age of 55 (when he set up the plan he'd thought of retiring early). But, like most men of his age, he is still fit and agile and has no intention of retiring, so he decides to see his financial adviser to see what options he has.

After considering Bill's personal circumstances and his various pension funds his Financial Adviser explains the options. Bill is delighted to learn that he can use his fund to set up an Income Drawdown arrangement (also known as unsecured pension), which means he can take £32,500 tax-free cash from his pension fund now, but he doesn't have to take any income from it immediately. He will still have control over where the fund is invested and when to start taking an income. Bill recognises that taking the cash now will reduce the amount of income he will get later, but feels he can rely on his company pension to give him enough to live on.

2. Peter: preserving his fund on death and saving tax



Peter, now 65, has been very fortunate with his businesses and used his pension plans as part of his tax planning. As a result he has built up a pension fund of £400,000.

Peter's main concern is that his fund would disappear should anything happen to him. Peter is also keen to draw his Tax-Free Cash lump sum before he reaches the age of 75 so that he does not miss out on the tax benefits. If he converts his fund into an annuity just for himself, it could end on his death. He could choose a joint life version, that would continue to pay an income to his wife, or he could opt to guarantee payments for 10 years, but neither of these options gives the flexibility and fund preservation he is looking for.

Peter calls his Financial Adviser, who suggests he could move his fund into an Income Drawdown product. This will allow him to keep control over his pension fund and how it is invested, right up to the age of 75.

If he dies during this time, his fund can pass on to his wife or family, either as a lump sum (less a 35% tax charge) or to provide an income. Peter also has the option to move his fund gradually into Income Drawdown, rather than all at once. Although he could only take income from the Drawdown fund, this would let him maximise the amount available on death, as only the Drawdown fund would be liable to the tax charge.

This gives Peter the reassurance he wants. An added benefit of Income Drawdown is that, subject to a maximum limit, he can choose the amount of income he takes each year. By adjusting it to fit with the other income he has, he could keep his total below the threshold for paying higher rate tax. This means he has some control over his tax bill whereas, with an annuity, he would have a fixed income and would pay 40% tax on some of it.

3. Suzanne: phasing her retirement



Suzanne, a youthful 55, has owned the local chemist shop for many years.

Now that her son is taking over, she wants to take a back seat in the business and do more voluntary work in the community. She will need to take a pay cut from the business, but doesn't want to take a full annuity from her pension fund yet because, at her age, the pension annuity rates will be quite low and she was hoping to build up a larger fund before retiring.

Suzanne's Financial Adviser explains how she can plan for a phased retirement with Income Drawdown. She considers the Income Drawdown option, as she thinks it will give her more control

over the amount of income she takes now and the investment approach that is needed to grow the fund. Suzanne can transfer part of her pension fund at a time into Income Drawdown, giving her a gradually increasing income as she reduces her working hours. She can also vary the amount of income she takes from her Drawdown fund, for added flexibility. Suzanne is comfortable with balancing the need for income with the need to invest the fund so that it has the potential for growth. She likes to keep a close eye on her investments and will work with her Financial Adviser to choose investments that have the potential to meet her future income needs as well as maintaining or increasing her fund value.

4. Angus: consolidating all his pension funds



Like many people, Angus has had more than one employer and seems to have quite a collection of pensions: one scheme from a previous employer, two personal pensions and his current employer's scheme.

Although Angus is nearly 65, he doesn't want to stop work just yet, but his employer contributions to his pension scheme will stop soon. He has two aims. Ideally he'd like to have all his pensions in one place, so he can see clearly what he has got, and he doesn't want to take any income from his pension schemes just yet.

Concerned, Angus visits a Financial Adviser to find out what his options are. His adviser works with him to find out the total value of his pension savings from his various schemes – a sum of £185,000.

He explains the opportunity to pull these funds together into one plan, which would also allow him to take an immediate tax-free lump sum, without starting to take any income. The adviser also explains the effect this would have on his future income.

Angus doesn't need the tax free cash now, or in the future, and wants to keep it invested, but he does like the idea of having just one plan, which will make it easier for him to track its progress. He also likes the idea that he can start to take an income when he is ready to and could even give up work gradually, replacing his earnings with income from his fund. Now that Angus is nearing 65, he is pleased to find a wide selection of funds that meet his investment preferences.

5. Amanda: managing her own investments



Amanda is 58 and is intending to take early retirement. She has run a highly successful business and has accumulated a sizeable pension fund. She has always taken a close interest in her investments and opted for a Self-Invested Pension Plan (SIPP), which she managed with advice from her financial adviser.

Amanda wants to continue having the freedom to invest her pension where she chooses after retiring. So her adviser recommends that she opts for Income Drawdown and selects the Self-Invested Fund option.

This allows her, with the help of her adviser, to choose investments from a very wide range of permitted types, including shares, unit trusts and even commercial property. This means she can have close control over how her pension fund is managed, right up to the age of 75.

The Income Drawdown (with SIPP) Option gives you access to over 50 funds with a broad range of risk profiles from low to high. The value of an investment may fluctuate and is therefore not guaranteed. You may not get back the full amount of your investment.

To find out more, contact your Financial Adviser.

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