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Briefing note

Drawing benefits from a SSAS

Our go-to guide contains everything you need to know about drawing benefits from a typical money purchase SSAS set up on Barnett Waddingham's standard rules. From details about the Lifetime Allowance and Capped Drawdown to taking a tax-free lump sum and the Money Purchase Annual Allowance, you'll find all the information you need in this comprehensive note.

How are my benefits calculated?

Your benefits are based on the value of your share of the scheme assets at your benefit date, as agreed between you and the trustees.

When can I take benefits?

You can start to take benefits from age 55. If you are in serious ill health, or in a recognised qualifying occupation, or have a protected pension age, you may be able to take benefits earlier.

What is the maximum amount of benefit I could have?

There is no limit on the overall value of your apportionment within the SSAS. However, if the total value of all your registered pension schemes exceeds the Lifetime Allowance (LTA), which is £1 million for the 2017/18 tax year, then a tax charge may apply on the excess amount above the LTA. Your LTA may be different if you have a form of LTA protection, evidenced by a certificate or reference number issued by HMRC (for example, Fixed Protection).

What is the Lifetime Allowance?

The LTA is the total amount you can save into pensions in your lifetime while still getting tax relief. As stated above, the standard LTA is £1 million for the 2017/18 tax year.

If you go over the LTA you will pay a tax charge on the excess when you draw out your savings as cash or pension.

Your SSAS entitlement will be assessed against the relevant LTA when you take benefits, and again when you buy an annuity, or reach age 75. Each time you take new benefits a portion of your LTA is used up.

Where you exceed the LTA you pay tax on the excess amount called the 'Lifetime Allowance charge' at 55% if taking the excess as a lump sum, or at 25% if you take it as income. (If you take it as income you will also pay tax on it at your usual Income Tax rate).

The trustees/scheme administrator must deduct the LTA charge before paying any benefits. If you have a form of LTA protection, (for example, Enhanced Protection), this may serve to reduce or eliminate any LTA charge that would otherwise be payable.

If you die leaving untouched pension savings that exceed the LTA and they have not already been assessed against it, then your nominated beneficiary will be liable for the extra tax charges on the amount that exceeds the LTA. This applies whether you die before or after age 75. Pension funds can normally pass tax-free to nominated beneficiaries if you die before age 75.

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Can I have a tax-free lump sum?

This is now known as a 'pension commencement lump sum'. You will usually be able to take up to 25% of your scheme entitlement (or 25% of your available LTA, if lower) as a pension commencement lump sum, which is tax-free. There may be a tax charge levied by HMRC if you 'recycle' this lump sum to increase your normal pension contributions.

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> The annual income from an annuity is decided by the insurance company you select to provide the annuity.

If you have registered with HMRC for Enhanced, Primary, Fixed or Individual Protection, or have a scheme-specific protected lump sum, then different rules apply on the amount of your pension commencement lump sum and you should seek specific confirmation from the SSAS Trustees or Scheme Administrator. If you have Enhanced Protection for example, you may be limited to a lower percentage of your unrestricted fund, or you may be subject to the standard rule of no more than 25% of the LTA.

Can I receive an income?

Yes, by purchasing an annuity, and/or by drawing an income directly from your fund (via ‘Capped Drawdown’ or ‘Flexi-Access Drawdown’) and/or by taking one or more part-taxed cash sums (an ‘Uncrystallised Funds Pension Lump Sum’) and/or by having the trustees provide you with an inflexible income (‘Scheme Pension’).

The annual income from an annuity is decided by the insurance company you select to provide the annuity.

The maximum annual income under Capped Drawdown is calculated by the scheme administrator using government issued tables. However, selecting this income option is no longer possible from 6 April 2015.

With Flexi-Access Drawdown, however, there is no annual income limit and you may decide how quickly you draw down your pension fund.

The level of Scheme Pension is decided by the trustees. Actuarial advice is recommended before doing this.

When can I purchase an insured annuity?

You can purchase an insured annuity (that is, a guaranteed income for life) at any time after you are able to access benefits with all or part of the value of your SSAS entitlement (usually from age 55, under current legislation). You would choose the insurance company. Annuity purchase will trigger a check against the prevailing LTA, (see ‘What is the Lifetime Allowance?’ above).

There are a number of different types of guaranteed incomes for life;

a. An ‘escalating’ guaranteed income increases over time to keep up with the increasing cost of goods and services, known as inflation. Your income will start at a lower level and will increase by your chosen percentage each year;
b. A ‘level’ guaranteed income will remain fixed. Your income will start at a higher level than an ‘escalating’ guaranteed income, but as you get older, inflation may increase, meaning, therefore, you would buy less with the same income;
c. A guaranteed minimum payment term can be incorporated, even if you do not survive to the end of that term;
d. A guaranteed income based on your medical history and lifestyle factors, (for example, if you smoke, have high blood pressure, are on prescribed medication or have a medical condition). You may be eligible for an ‘enhanced’ guaranteed income (also known as ‘impaired’, ‘lifestyle’ or ‘underwritten’ annuity). These tend to pay a higher amount of income on the basis that your life is expected to be shorter, and so the income will not be paid out for as long; and
e. A guaranteed income that provides an income just for you is known as a ‘single life annuity’.

Some guaranteed incomes can provide an ongoing income for a nominated beneficiary should you die. These are known as ‘joint life annuities’ and provide a slightly lower income initially, but payments will continue to your dependant after you die, or for a guaranteed period (see (c) above).

You could also consider protecting your annuity payments through ‘value protection’. Value protection is an option that, if you die without having received the full value of your pension fund, returns a lump sum (minus total gross payments made and tax). As a result, value protection gives the ability to protect up to 100% of the original amount used to purchase the annuity.

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> “Capped Drawdown allows you to retain full flexibility over your chosen investments in the scheme.”

Therefore, an annuity will normally pay you an income for the rest of your life. It provides certain security over the income for your life rather than the flexible, but not guaranteed, future benefits provided by Flexi-Access Drawdown (see below).

If you purchase an annuity with the full value of your scheme entitlement, you will have no further benefits in the SSAS in your own name, but may be able to continue as a trustee, with the agreement of the other trustees.

It is important to ‘shop around’ to find the best annuity for you, as you would with any other purchase, as it is worth comparing what each annuity provider can offer. The Pension Wise website provides more information on shopping around at www.pensionwise.gov.uk/shop-around

How does Flexi-Access Drawdown work?

From 6 April 2015, the method of providing drawdown income for those not already in drawdown is from a Flexi-Access Drawdown fund.

Flexi-Access Drawdown allows you to draw pension income without limit. In other words, you are not restricted by the annual Government Actuary’s Department rate mentioned below for Capped Drawdown.

Funds designated as available for Flexi-Access Drawdown will remain invested in the pension arrangement and withdrawals can be made with payments being taxed as income. Tax should be deducted at source under PAYE.

There is no limit, other than availability of funds, on how much can be drawn out each year, which includes the possibility of drawing out the entire fund in one taxable instalment.

If this is the intention when funds are first accessed, then an Uncrystallised Funds Pension Lump Sum (UFPLS) may represent a more appropriate method of accessing funds (see ‘How does an Uncrystallised Funds Pension Lump Sum work?’ below).

Because there is no annual income limit, (as with Capped Drawdown) there is also no concept of a ‘pension year’, or a need to undertake three-yearly, or annual, income recalculations. There is also no requirement to purchase an annuity at any stage, although this remains an option.

How does Capped Drawdown work?

If you commenced Capped Drawdown before 6 April 2015, you are able to continue with it after that date, or voluntarily convert it to Flexi-Access Drawdown (see above).

It is not now possible to set up a new Capped Drawdown fund (other than for transfers of existing cases), or a new ‘Flexible Drawdown’ fund (a former drawdown option available prior to 6 April 2015).

Capped Drawdown allows you to retain full flexibility over your chosen investments in the scheme.

The maximum annual income amount is calculated in line with the annuity income your fund would otherwise provide, calculated using tables provided by the Government Actuary’s Department (GAD). The maximum income is set at 50% higher than the tabled annuity income rate.

These rates take account of your age and yields on fixed interest government stock (‘gilts’) at the time of the calculations. The rates are not related to the income the SSAS receives from its investments and this can result in the amount available for maximum Capped Drawdown being less than the income received from high-yielding assets.

The maximum income is calculated when each part of your fund comes into payment and again at three yearly intervals prior to age 75, and annually thereafter.

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> If there is an existing Capped Drawdown fund in place on 5 April 2015, any additional unvested funds requiring to be drawn after 5 April 2015 can be allocated to the existing Capped Drawdown fund rather than to a new Flexi-Access Drawdown fund.

You can request an interim review on an anniversary of the date you began Capped Drawdown and this might be useful to ensure your chosen income is sustainable and will not deplete your fund. There is no minimum income payment.

It is up to you to decide if and when you use up your maximum income allowance during any pension year, but you should not exceed the maximum. If you do exceed the maximum, you will automatically convert to Flexi-Access Drawdown, which then has implications for any future contributions into the scheme (see 'What is the Money Purchase Annual Allowance (MPAA)?' below). You cannot carry forward any unused contribution amounts to subsequent tax years once you are subject to the MPAA.

Although not required by legislation, you should regularly review your chosen level of income if you intend for your SSAS to provide a sustainable pension in the future.

How do I convert from Capped Drawdown into Flexi-Access Drawdown?

An existing Capped Drawdown fund can be converted to a Flexi-Access Drawdown fund on or after 6 April 2015 by:

- notifying the scheme administrator and receiving acceptance from them; or
- drawing more than the current maximum capped amount; or
- where there is a transfer, notifying the scheme administrator of the receiving scheme as part of the transfer process. Whilst converting to Flexi-Access Drawdown will save the cost of pension reviews, (which could include the cost of updating property valuations), it does come with the downside of invoking the MPAA, and so may not be suitable for everyone.

If there is an existing Capped Drawdown fund in place on 5 April 2015, any additional unvested funds requiring to be drawn after 5 April 2015 can be allocated to the existing Capped Drawdown fund rather than to a new Flexi-Access Drawdown fund. This would enable the pension commencement lump sum and Capped Drawdown income to be paid without triggering the MPAA.

How does an Uncrystallised Funds Pension Lump Sum work?

This option constitutes an alternative way of drawing out, in one go, all of the funds being accessed, when compared with receiving a pension commencement lump sum and then asking for the whole of a Flexi-Access Drawdown fund to be extracted.

The differences from the pension saver's point of view are hard to spot, but relate largely to the administration of the payments.

The tax-free cash element of the Uncrystallised Funds Pension Lump Sum (UFPLS) is usually 25% (it may not be if paid after age 75 and there is insufficient LTA available). As such, an UFPLS is, in almost all cases, taxed as income on 75% of it, with the remainder tax-free.

However, the date of the LTA calculation for an UFPLS must be the date on which it is actually paid. This could delay the payment date, if the funds are invested in assets whose final value cannot be ascertained until the cash equivalent is received, (for example, shares).

In addition, the payment of an UFPLS is treated as flexibly accessing pension, and so will trigger the MPAA if this has not already been triggered by an earlier event (see 'What is the Money Purchase Annual Allowance?' below).

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When choosing your options, you need to consider how much income you require now and for the rest of your life.

Who is eligible for an Uncrystallised Funds Pension Lump Sum?

The simplified treatment of tax-free cash means an UFPLS is not available to all pension savers.

In fact, the legislation states that an UFPLS cannot be paid from funds that:

- are already in drawdown; or
- would trigger a LTA excess tax charge; or
- are designated as being disqualifying pension credits; or
- relate to a member with lump sum protection (see below).

Further, the UFPLS must be paid on or after 6 April 2015 in respect of a money purchase arrangement, and can only be paid when the member has reached normal minimum pension age (or an earlier age, if the ill-health condition applies).

The lump sum protection that is relevant here is the protection of lump sum rights of more than £375,000 for members with either Enhanced Protection or Primary Protection.

It also includes members whose maximum remaining pension commencement lump sum is less than 25% of their fund, where they have an enhanced LTA, as a result of Primary Protection, or various other reasons.

Members entitled to lump sums in excess of 25% of their fund, but less than £375,000, may effect an UFPLS, but would find their tax-free element restricted to 25% of the fund.

Can I mix my benefit options?

Yes. You can choose a combination of the benefit options over time or over your total SSAS fund, whichever suits your needs.

For example, you could normally take 25% of your SSAS fund tax free, use half to buy a guaranteed income for life, and take the remaining quarter as a flexible income.

When choosing your options, you need to consider how much income you require now and for the rest of your life. You also need to consider how important it is to you that this income is guaranteed.

What is the Money Purchase Annual Allowance?

If you flexibly access your pension, such as by receiving income from a Flexi-Access Drawdown fund or receiving an UFPLS, the consequence is that you will be subject to more restrictive rules on how much you can save tax-efficiently within a money purchase pension fund for the rest of your life.

The restriction was brought in to forestall abuse of the new pension freedoms, which enable salary to be paid into a pension plan and then drawn out, more or less immediately, with a view to saving income tax.

The standard AA is £40,000 gross per tax year and you can also 'carry forward' up to three previous tax years of unused contributions, where available.

If you flexibly access your pension, a reduced Annual Allowance (AA), known as the Money Purchase Annual Allowance (MPAA) then applies to subsequent contributions to a money purchase pension arrangement.

The MPAA is currently £10,000 gross per tax year* and, furthermore, the ability to carry forward any unused allowances is lost. However, those members who have defined benefit pension arrangements (for example, a 'final salary' occupational pension scheme) will still be able to accrue up to a further £30,000 gross worth of benefits in those arrangements, on top of the £10,000 gross MPAA.

*Legislation is currently going through Parliament that, once Royal Assent is received, will see the MPAA reduce to £4,000 gross per tax year, with retrospective effect from 6 April 2017.

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> Scheme Pension can be offered by the SSAS trustees, usually as an alternative to purchasing an annuity or going into Flexi-Access Drawdown.

Please note that it is the first payment of income, rather than the establishment of a Flexi-Access Drawdown fund that triggers the application of the MPAA (unless you were already in Flexible Drawdown prior to 6 April 2015). This means that the pension commencement lump sum can be paid in isolation, and a Flexi-Access Drawdown fund set up, without causing a reduction in the AA – until such time as income is drawn from the Flexi-Access Drawdown fund.

The MPAA is also triggered for payments from a pre-6 April 2015 Capped Drawdown arrangement that exceeds the cap, and in certain other limited circumstances.

If you exceed the MPAA a tax charge is made, which claws back any tax relief that was given at source. If your tax earnings in the year are below the MPAA then tax relief on defined contribution pension savings is limited to 100% of your earnings, (or £3,600 gross if you have no earnings).

How does Scheme Pension work?

Scheme Pension can be offered by the SSAS trustees, usually as an alternative to purchasing an annuity or going into Flexi-Access Drawdown. The trustees will offer you either a pension income from the trust, or a fund to purchase an annuity.

We strongly recommend that the trustees seek actuarial advice on the level of Scheme Pension to offer. It is then up to the member to decide whether to accept the Scheme Pension offer.

The Scheme Pension is designed to be paid to you on a regular basis for the rest of your lifetime, and the trustees will decide how to invest the fund backing your Scheme Pension.

Scheme Pension from a SSAS cannot be converted later into a Flexi-Access Drawdown fund. The only ‘exit route’ is by purchase of an annuity, and transfers out of the SSAS may be limited.

Is pension income subject to tax?

Pension income, whether from an insured annuity, Capped Drawdown, Flexi-Access Drawdown or Scheme Pension, is treated as earned income and taxed under the Pay-As-You-Earn (PAYE) system.

A PAYE scheme should be set up for the SSAS in its own right and we can assist the trustees in effecting this. The PAYE administration must comply with HMRC’s Real Time Information (RTI) requirements. Gross pensions cannot be made directly to members.

Pension income is not subject to National Insurance.

What about pension scams?

Beware of pension scams; for example, people contacting you unexpectedly about an investment or business opportunity that you’ve not spoken to before. You could lose all your money and face charges of up to 55% and extra fees. Speaking to Pension Wise or The Pensions Advisory Service or dealing with a financial adviser can help minimise the risk of falling victim to a scam. For more information on how to protect yourself from scams, visit the Pensions Regulator’s website: www.pension-scams.com

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Do I have to purchase an insured annuity when I reach age 75?

No. Your benefits are checked against the LTA at age 75 and any excess over the LTA may be subject to tax.

Can Barnett Waddingham give me advice on what benefits to take?

No. Our client managers will be able to detail the various benefit options available to you, but they will not be able to advise which option is the best for your personal circumstances.

We are happy to work with your existing advisers to implement any decisions you have made.

Where can I seek help?

There are a number of ways that you can find out more about your pension options:-

- **Pension Wise** – the free and impartial Government service (see 'Where can I seek guidance?' below) www.pensionwise.gov.uk/ (0800 138 3944)
- **The Pensions Advisory Service** – who offer free and impartial guidance to people with workplace and personal pensions: www.pensionsadvisoryservice.org.uk/ (0300123 1047)
- **Money Advice Service** – who offer free and impartial guidance on all money matters: ww.moneyadvice service.org.uk (0800 138 7777)
- **A financial adviser**: Money Advice Service provides on online directory of regulated advisers: https://directory.moneyadviceservice.org.uk/en

Where can I seek guidance?

Pension Wise is a free, impartial government service that helps you understand what you can do with your pension fund. If offers guidance on the Pension Wise website about the options for taking your pension fund and can help you understand the tax implications.

If also offers free guidance appointments over the telephone or face-to-face, where you can talk through these options, ensuring you have the information you need to make the right decision for you. Pension Wise will not recommend any products, or tell you what to do with your money.

The Pensions Advisory Service offers a free helpline and its advisers can talk you through your options. The Money Advice Service offers free and impartial money advice and a printed guide called 'Your Pension: it's time to choose' that outlines all of the options for taking your pension fund.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

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