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Pension Portfolio

Income drawdown adviser guide

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AVIVA

Since pension freedoms were introduced, your clients have enjoyed complete flexibility in how they take their retirement benefits. They can:

- take tax-free cash (within limits) whenever they want
- take as much taxable income as they want, whenever they want

Income drawdown is a popular choice for clients when it comes to providing their retirement income. It allows your clients to keep their options open for longer, meaning more flexibility if their circumstances change.

Pension Portfolio on the Aviva Platform gives your clients the opportunity to take advantage of this flexibility – with a full range of income drawdown options. This guide is designed to show you which of our options could meet your clients' individual retirement income needs.

Please remember as the pension pot remains invested after income is taken, its value can fall as well as rise. Its value will depend on the amount of withdrawals, the performance of the fund(s) and impact of charges. Future income is not guaranteed and it may need to last a lifetime.

Tax planning is a key consideration. So later in this guide, we give you practical examples, showing how you can use drawdown options within Pension Portfolio to help your clients. We've included example case studies for a range of clients - from those with modest pension pots to high net worth individuals.

Please note that tax treatment depends on the client's individual circumstances, and that tax rules are subject to change.

Income drawdown options
for all your clients

Your clients will have different retirement income needs and tax planning requirements. The income drawdown options, through Pension Portfolio, work for all your clients, whether they simply need light touch tax planning or a more sophisticated, hands-on approach.

Pension Portfolio offers:

- Single drawdown
- Phased drawdown
- Capped drawdown (only for those already in capped drawdown at 6 April 2015).

Within these categories, we offer a number of drawdown options tailored to meet specific client needs.

Find the option to suit your clients' needs – at a glance

This useful summary shows which of our Pension Portfolio income drawdown options might suit your client's needs – at a glance. Once you've identified the client need, you can go to the relevant section for case studies and more information about each option.

Single/ phased	Client need	Pension Portfolio drawdown option	Drawdown category	Planning scenario(s) found in this guide	Page
Single	• Access to tax-free cash lump sum • Remaining 75% is invested to draw as an income	**Single drawdown**	Flexi - access Capped drawdown*	Typical client, considering the tax bands	Section 1 **page 5**
Phased	• Regular income as a mix of tax-free cash and taxable income to minimise tax liabilities	**Self-Select Income option**	Flexi- access only	Four examples of typical client situation, considering the PAYE issues.	Section 2 **page 7**
	• Regular tax-free income comes from the tax-free cash element	**Non-taxable Income option**	Capped drawdown*	–	–
	• Target income net of marginal rate tax	**Target Income option**	Flexi- access Capped drawdown*	Typical client situation, gross for taxable income and net of tax (20% and 40%)	Section 3 **page 10**
	• Specified taxable income	**Taxable Income option** for those in capped drawdown at 6 April 2015, subsequently moving to flexible drawdown.	Flexi- access Capped drawdown*	Typical client case study	Section 4 **page 12**

*Capped drawdown – only available for clients already in capped drawdown at 6 April 2015.

Pension Portfolio income drawdown – complete flexibility for your clients

Once they're eligible for income drawdown through Pension Portfolio, we won't place any restrictions on how your clients access their retirement funds. They'll have all the flexibility they need, whatever their individual requirements. The table below demonstrates this and applies to both our single and phased drawdown options.

Minimum client age	55
Minimum investment amount	No minimum
Minimum initial amount clients must move to their post-retirement account for single drawdown	No minimum
Minimum amount clients must keep in their pre-retirement account	No minimum
One-off withdrawals?	Yes, through the one-off withdrawal route. Only available on a gross basis.
Payment frequency	Monthly, quarterly, half-yearly or yearly. Paid on 1st - 28th of each month

Pension Portfolio income **drawdown** options – practical **case studies**

Here, we give you practical examples of how you can use drawdown options within Pension Portfolio to help your clients. We've included case studies for a range of clients - from those with modest pension pots to high net worth individuals.

1. Single drawdown

This may be suitable for clients who need a tax-free lump sum when they start taking their pension benefits.

With this single drawdown, the client can:

- take the whole 25% as tax-free cash
- take the tax-free cash in smaller amounts at different times.

Where a client takes 25% as a tax-free cash sum, you can move the remaining 75% into their post- retirement account. It's from here that your client can take taxable regular income payments or lump sums.

Your client will pay tax on any withdrawals at their marginal rate.

Pre- and post-retirement accounts

A pre-retirement account holds your client's uncrystallised funds.

A post-retirement account holds your client's crystallised funds. We use this money to pay your client's taxable income, crystallising enough funds into this account to meet their income needs.

Case study: **Sally**

Who needs to pay off debt.

Sally is about to reach State Pension age and has decided to retire.

Her retirement income will come from:

- a State Pension of £8,000 a year
- an employer pension of £4,000 a year
- her Pension Portfolio with Aviva, which has a current value of £60,000.

Sally has an outstanding mortgage of £15,000 and a credit card debt of £10,000. She'd like to pay both of these off when she retires and wants to know if she can use her Aviva Pension Portfolio to do this.

Sally can use single drawdown and crystallise the whole fund to give her tax-free cash of £15,000 (25% x £60,000).

She can also ask for a one-off payment from her post-retirement account to pay her credit card. She'll pay income tax through PAYE on the one-off payment. If HMRC uses an emergency tax code for this payment (1185L on a month 1 basis in 2018/2019), Sally should ask for a gross payment of £15,192.

Gross payment		**£15,192**
First	£11,850 / 12 x 0%	£0.00
Next	£34,500 / 12 x 20%	£575
Next	£115,500 / 12 x 40%	£3,850
Remaining	£1,704.50 x 45%	£766.80
Total tax due		£5,191.80
Net payment		**£10,000**

Sally may be entitled to a tax refund or have further tax to pay, depending on her tax position for the full year.

This case study does not reflect any differences in tax rates and thresholds in Scotland.

2. Self-Select option – phased drawdown

This may be suitable for clients who:

- **have specific income needs, which optimise tax bands and allowances**
- **need taxable income that doesn't exceed a specified crystallisation amount.**

With this option, your client will specify how much tax-free income they want.

You will have to crystallise four times the amount of tax-free income they ask for.

We'll pay 25% of the amount crystallised to your client and pay the remaining 75% into their post-retirement account.

Your client will then be able to take a taxable income from the post-retirement account. Your client will be able to take an income up to the full value of the 75% crystallised.

These four examples show how it could work.

Case study: **Jackie**

Who wants to top up her income to £14,500 a year from tax-free cash and taxable incomes.

At 65, Jackie is about to retire

Her retirement income will come from:

- a State Pension of £8,000 a year
- her Pension Portfolio with Aviva, which has a current value of £150,000.

Jackie would like to use her Aviva pension to top up her income to a total of £14,500 a year, including her State Pension.

Jackie's financial adviser recommends she takes a taxable income of £3,850 a year to make the best use of her personal allowance.

Jackie will also take an extra £2,650 from her tax-free cash to take her up to her £14,500 a year. By doing this, she can achieve her required income of £14,500 without paying any tax.

- £883.33 is crystallised from her Pension Portfolio each month.
- We'll pay £220.83 of tax-free cash to Jackie and move £662.50 into her post-retirement account.
- Her financial adviser sets up a regular income payment of £320.83 from her post-retirement account. This is taxable income, but as Jackie's within her £11,850 personal allowance, she won't have to pay tax on it.
- The balance of £341.67 will remain in Jackie's post-retirement account.

Case study: **Alan**

Who wants to top up his income to £15,000 a year from tax-free cash.

Alan is 66 years old and decides to retire.

His retirement income will come from:

- a State Pension of £8,000 a year
- an employer pension of £3,850 a year
- his Pension Portfolio with Aviva, which has a current value of £120,000.

Alan needs a total income of £15,000 a year. With his State Pension and his employer pension coming in at £11,850 a year, Alan needs another £3,500 to get the amount he needs.

His financial adviser tells him he can take a regular income of £291.66 a month tax free from his Pension Portfolio.

- £1,166.68 is crystallised from his Pension Portfolio each month.
- We'll pay £291.66 of tax-free cash to Alan and move £875.02 into his post-retirement account.
- We don't pay anything out of Alan's post-retirement account, so the money will remain there.

Case study: **Anna**

Who wants to top up her income to £11,850 a year from tax-free cash and taxable income.

Anna is about to start receiving her State Pension.

Her retirement income will come from:

- a State Pension of £8,350 a year
- her Pension Portfolio with Aviva, which has a current value of £75,000.

Anna needs a yearly income of £11,850. After taking her State Pension into account, Anna needs £3,500 more a year to take her up to her £11,850 personal allowance threshold.

Her financial adviser tells her she can take a regular income of £291.66 a month tax free from her Pension Portfolio.

- £388.88 is crystallised from her Pension Portfolio each month.
- We'll pay £97.22 of tax-free cash to Anna and move £291.66 into her post-retirement account.
- We'll pay Anna a regular taxable income of £291.66 every month from her post- retirement account. As she's within her £11,850 personal allowance, she won't have to pay tax on this money.
- There won't be any money left in her post-retirement account after we make the payment.

Case study: **Terry**

Who wants an income of £48,000 a year.

Terry is about to retire and comes to his financial adviser for advice.

His retirement income will come from:

- a State Pension of £8,000 a year
- an employer pension of £32,000 a year
- his Pension Portfolio with Aviva, which has a current value of £200,000.

Terry wants an income of £50,000 a year. His State Pension and employer pension add up to £40,000, leaving him £10,000 short.

His financial adviser recommends he takes a taxable income of £6,350 from his Pension Portfolio to take him up to £46,350, the starting point for higher rate tax. That leaves Terry with a shortfall of £3,650, which he can take from his tax-free cash.

- £1,216.67 is crystallised from his Pension Portfolio each month.
- We'll pay £304.17 of tax-free cash to Terry and move £912.50 into his post-retirement account.
- We'll pay Terry a regular taxable income of £661.46 every month from his post- retirement account. Terry will pay tax on this at his marginal rate.
- The balance of £251.04 will remain in Terry's post-retirement account.

These case studies do not reflect any differences in tax rates and thresholds in Scotland.

3. Target Income option – phased drawdown

This may be suitable for clients who:

- **need a set level of income each month**
- **want to maximise growth of their pre-retirement assets and the available pension commencement lump sum or income**
- **who do not have existing crystallised assets in their post-retirement fund**
- **want to achieve a set amount of income made up of 25% tax-free cash and 75% taxable income**

You can request income is paid to your client gross or net of 20%, 40%, 45% or Scottish rates of income tax.

The payment calculation assumes all of the taxable income will be taxed at the chosen rate. If your client pays tax on the taxable income at a different rate, the net amount will be different from the amount your client asked for. The payment calculation will also make use of any funds in the post-retirement account before starting any further crystallisations.

Let's say, for example, a client who has never accessed their pre-retirement account before has £3,000 available from their personal allowance (paid without deducting tax) and asks for £12,000 a year net of 20% tax. We'll crystallise £1,176.47 a month, with £294.12 (25%) paid tax free and the remaining £882.35 will be taxable.

If your client pays 20% tax on the taxable payment, the net payment would be £705.88. The client would receive a net payment of £1,000 as requested.

As your client has some of their personal allowance available, they will get £250 of the taxable payment without any tax deduction. This means the total net payment will be £1,050, made up of £755.88 of taxable income and £294.12 of tax-free cash.

These three examples show how this option could work for your clients.

Case study: **Susan**

Who needs a Target Income gross payment.

Susan is 60 and has just taken early retirement.

Her retirement income will come from:

- a State Pension of £8,000 a year from the age of 66
- her Pension Portfolio with Aviva, which has a current value of £150,000.

Susan is looking for an income of £800 a month. Her State Pension doesn't start for another six years and she has no other income than that she'll take from her Pension Portfolio. However, she does have £50,000 in ISAs, so she doesn't need to take a tax-free lump sum from her pension.

Pension Portfolio's flexi-access Target Income option lets Susan take an income of £800 a month gross from a combination of taxable income and tax-free cash.

- £800 is crystallised from her pre-retirement account each month and moved to her post-retirement account.
- We'll pay Susan £200 as tax-free cash.
- We'll pay her the remaining £600 as taxable income from her post-retirement account.
- If Susan has no other income, she won't have to pay any tax on the taxable income as it falls within the 2018/2019 personal allowance.
- This means she'll get all the gross payment she asked for.

Case study: **Felix**

Who needs a Target Income net of 20% tax.

At 65, Felix is about to retire.

His retirement income will come from:

- a State Pension of £8,000 a year
- an old final salary pension scheme totalling £18,000 a year
- his Pension Portfolio with Aviva, which has a current value of £250,000.

Felix wants to take a net income of £1,000 a month from his Pension Portfolio. He's already taken a tax-free cash lump sum from his final salary scheme and doesn't need a further lump sum at the moment.

Pension Portfolio's flexi-access Target Income option lets Felix take a net income of £1,000 a month.

- £1,176.47 is crystallised from his pre-retirement account each month and moved to his post-retirement account.
- We'll pay Felix £294.12 as tax-free cash, which is 25% of the crystallised amount.
- We'll pay him the remaining £882.35 as taxable income from his post-retirement account.
- Felix pays tax on this at 20%, which amounts to £176.47.
- This means that every month Felix gets £294.12 of tax-free cash, plus net taxable income of £705.88, giving him a total net amount of £1,000.
- Felix will get the net amount he's asked for as long as all his taxable income is taxed at 20% in the PAYE system.

Case study: **Joe**

Who needs a Target Income net of 40% tax.

Joe, 65, has recently retired.

His retirement income will come from:

- a State Pension of £8,000 a year
- an employer pension of £45,000 a year
- his Pension Portfolio with Aviva, which has a current value of £150,000.

Joe wants to take an income of £1,000 a month from his Pension Portfolio.

His income of £45,000 a year means he's already a higher rate taxpayer, so he'll pay tax at 40% on any taxable income from his pension.

Joe asks his financial adviser to set up an income of £1,000 a month net of 40% tax, which can be made up of tax-free cash and taxable income.

- £1,428.57 is crystallised from his pre-retirement account each month and moved to his post-retirement account.
- We'll pay Joe £357.14 as tax-free cash, which is 25% of the crystallised amount.
- We'll pay him the remaining £1,071.43 as taxable income from his post-retirement account.
- Joe pays tax on this at 40%, which amounts to £428.57.
- This means that every month Joe gets £357.14 of tax-free cash, plus net taxable income of £642.86, giving him a total net amount of £1,000.
- Joe will get the net amount he's asked for as long as all his taxable income is taxed at 40% in the PAYE system.

These case studies do not reflect any differences in tax rates and thresholds in Scotland.

4. Taxable Income option – phased drawdown

This may be suitable for clients who :

- **are existing capped drawdown clients switching to flexi-access**
- **need a set level of taxable income each month**
- **require a level of income to meet a tax band threshold.**

This example shows how this option could work for your clients.

Case study: **Michelle**

Who needs a target income.

At the age of 57, Michelle decided to reduce her working hours to one day a week. At the same time, she arranged an income from her Aviva Pension Portfolio, using the Taxable Income option under capped drawdown.

Michelle had an income of £5,000 a year from her employer. She topped that up with taxable income from her Pension Portfolio to make full use of the personal allowance.

Michelle is now 60 and is about to fully retire. As a result, she wants to increase her income from her Aviva Pension Portfolio. She won't qualify for a State Pension until she's 66 years old.

Her retirement income will come from:

- her State Pension of £8,000 a year from the age of 66
- her Pension Portfolio with Aviva, which has a current value of £70,000.

Michelle discusses her options with her financial adviser and decides to switch to flexi-access drawdown before increasing her target income to £11,850 a year.

Her adviser explains the switch to flexi-access drawdown will trigger the money purchase annual allowance. As Michelle's not going to continue contributing to her pension, she's not worried about that.

- By switching to flexi-access drawdown, Michelle can get her required income of £11,850 a year from her post-retirement account without needing to crystallise more funds.
- She can leave her pre-retirement account alone.
- Neither does she touch her tax-free cash. This means she'll be able to take it in the future as a lump sum or sums, an income or a combination of both.

The ongoing advice opportunity

Of course, there is more to consider than tax planning when it comes to income drawdown. Over a long retirement span, there'll be the opportunity for you to provide regular ongoing reviews – to help make sure your client's pension fund lasts for as long as it's needed. In planning and maintaining their income drawdown requirements, you'll be able to help your clients consider:

- the effects of inflation
- longevity
- what could be considered sustainable withdrawal levels
- the potential for market volatility
- sequencing risk – and the longer-term impact of poor returns in the early years

All of this allows you to demonstrate the value your expertise can bring.

Get in touch for more information

We hope you've found this guide and case studies useful in showing how our Pension Portfolio income drawdown options can help you meet your clients' varied retirement needs.

If you have any questions, please get in touch with your usual Aviva contact.

Got a technical query?
Call our Pension Portfolio technical support team on
0800 051 5437

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