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SIPP for Income

1

Reasons why SIPP for Income – Income Recycling

2

Reasons why SIPP for Drawdown

3

Reasons why SIPP for Drip-feed Drawdown

4

Comparison of Income Options

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Reasons Why SIPP for Drawdown – Drip-feed Drawdown and Risks

Features

- Each payment initially combines an amount of tax free lump sum with an amount of taxable income.
- Minimise income tax – to start with, each regular payment could be made up of tax free lump sum. Eventually the tax free lump sum entitlement would be used up and the regular payment would consist of taxable income.
- Maximise death benefits – more of the client's money stays invested in the pre pension pot for a longer period of time. Death benefits on pre pension monies are not taxed whereas those on post pension benefits are subject to a tax payment of 35%.
- Spread the encashment risk – by cashing in smaller amounts on a regular basis the risk of cashing in a large amount when the markets are low is reduced.
- Receive a regular, flexible income – the client can change the level of income, stop or restart it at any time (subject to certain limits). They can also change the frequency and the payment date at the 5 yearly review.
- The clients can choose to switch to full drawdown or annuity purchase at any time, which is a benefit as drip-feed may only be required for a short period of time dependent on the client's circumstances.
- Clients can continue to make regular, single or transfer payments when in drawdown up until age 75.
- Drip-feed drawdown is only available to clients who remain invested solely in Standard Life Investment Policy (SLIP) funds and they must be at least age 55.

Risks

- If the market value of the plan drops and a GAD review is undertaken the client's income may reduce.
- If the GAD limit reduces from the previous income year the client's income may reduce.
- If drip-feed drawdown has been taken and tax free lump sums run out during the income year the client's income may reduce or in extreme circumstances stop for the remainder of the income year.
- If the plan is not reviewed regularly the client risks running out of funds completely.
- After age 75, when in the ASP stage, the client can no longer take their tax free lump sum entitlement and cannot make any new payments to their plan.
- The plan will require frequent monitoring to ensure the level of income is appropriate to the performance of the fund.
- As the client's fund remains invested, its value may fall which means the client would receive a lower income.
- If the income taken plus charges is higher than the growth on the fund the fund value will decrease.
- Usually only suitable if the pension fund is more than £100,000 or the client has other assets or income to live on.

Every client's circumstances will be different and require individual advice. No guarantees are given regarding the effectiveness of any arrangements entered into on the basis of these comments.

Tax and legislation are liable to change. The information here is based on Standard Life's current understanding of law and HM Revenue & Customs practice. The value of tax relief and other tax rules may also change and will depend on your client's financial circumstances.