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# SIPP for Income

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\*Authorised and regulated by the Financial Services Authority

# Comparison of Income Options

When a client decides to take some form of income from their pension arrangement they have two options; an annuity or income drawdown.

The table below compares the flexibility of a conventional annuity and income drawdown.

Bear in mind that there are other types of annuity (eg. investment linked) which may provide some of these benefits. We are only comparing conventional annuities.

	Conventional Annuity	Income Drawdown
Guarantee a minimum level of income for life	✓	✗
Protection against mortality risk	✓	✗
Provides a safety net when the markets fall	✓	✗
Potential for growth on income when markets are rising	✗	✓
Ability to actively invest	✗	✓
Income flexibility to meet changing needs	✗	✓
Allows further choices to be made in the future	✗	✓

- The choice between an annuity or drawdown is often summarised as guarantees vs. flexibility. Although drawdown cannot guarantee an income, the investment flexibility of our SIPP means that a client can invest in cash deposits instead of stockmarket linked assets so that their fund is not eroded if equity performance is poor. Some income drawdown (non SIPP) contracts will only offer a range of insured funds.
- No turning back. Once your client has annuitised there is no turning back. When in drawdown a client can choose at any time to switch drawdown on or off and can transfer out into an annuity at any time. Unlike some SIPP providers, Standard Life offer an annuity (a Compulsory Purchase Annuity) and if you require more details please ask for a copy of the Key Features Document (CPA17). The client also has the ability to exercise the Open Market Option (OMO) when considering an annuity.
- Unlike some competitors the Standard Life SIPP does not charge an annuity purchase fee whether the client is annuitising with Standard Life or exercising the OMO.

## The income drawdown options

- Full Drawdown – This is when the client moves all of their pension monies into drawdown (also referred to as ‘post pension’ or ‘unsecured income’) taking up to 25% as a tax free lump sum in one Benefit Crystallisation Event (BCE). At the time of this BCE the maximum income is calculated which is reviewed 5 years later. The client can take any income between the maximum income and £0 (until the age of 75 when an income must be taken) and can change the income at any time, between the maximum and minimum. Please note that minimum and maximum limits are set by HM Revenue & Customs. Although, the limits are reviewed every 5 years, regular reviews of income should take place and the client should adjust their income according to their fund performance.

# Comparison of Income Options

- Phased Drawdown – is when a client moves part of their fund into drawdown in phases rather than the complete fund at once. Phased drawdown allows clients to take up to 25% of each phase as a tax free lump sum whilst also keeping funds in the ‘pre-pension date’ environment which may have better death benefits (for more information on death benefits please consult the death benefits guide SLSIP11). Again, at the BCE the maximum income is set, but this will be reviewed again when the next phase is moved into drawdown. When this review takes place it is likely that the maximum income will change, depending on a number of factors, including the value of the entire post pension pot, gilt yields and the client’s age.
- Drip-feed Drawdown – is an innovative feature only available from Standard Life that automatically provides a regular income made up of both a tax free lump sum and taxable income. All you need to do is tell us your client’s income needs and subject to GAD rules we will do the rest. You must be age 55 to take drip-feed drawdown and remain solely invested in SLIP pension funds. See the insert “Reasons Why SIPP for Drip-feed Drawdown”.

## Key benefits of the income drawdown options

Drawdown option	Key benefits
Full Drawdown	<ul style="list-style-type: none"> <li>• Client knows what they are getting in terms of a tax free lump sum.</li> <li>• Can take the full tax free lump sum entitlement but take no income (up until age 75).</li> <li>• Clients that will be impacted by the 50-55 legislation can take their tax free lump sum but take £0 income and by doing this it will give them the ability to increase their income from £0 up to the GAD maximum post 6 April 2010.</li> <li>• If the client dies before age 75, the remaining fund value can be passed on to a dependant subject to 35% tax. This is better than a conventional annuity where the full fund could be lost or a joint annuity where typically the annuity reduces to 50% of its original value.</li> </ul>
Phased Drawdown	<ul style="list-style-type: none"> <li>• Allows clients the flexibility to withdraw their tax free lump sum in instalments as and when they need it. Clients do however still have the option to take their tax free lump sum in one payment.</li> <li>• By not moving all of their money to post pension they can potentially increase the pound value of their tax free lump sum entitlement. This would happen if their fund grows between each phase, consequently if the fund declines, the amount they can take would be less.</li> <li>• Maximises death benefits. Pre-pension monies can be passed on to a dependant with no tax liability. Only the monies in the post pension pot would be subject to a 35% tax charge.</li> <li>• If GAD maximums are low the client may not want to move into full drawdown and prefer only to phase a specified amount and move more, or the rest, when GAD levels are more favourable to their personal needs.</li> </ul>

# Comparison of Income Options

Drawdown option	Key benefits
Drip-feed Drawdown	<ul style="list-style-type: none"> <li>• Drip-feed drawdown is only available to clients who are age 55 or older and who remain solely invested in Standard Life Investment Policy (SLIP) pension funds.</li> <li>• Minimise income tax – it allows your client to reduce the amount of income tax payable on the pension income by taking a proportion of each payment from the tax-free lump sum entitlement. However, this does mean that your client loses the potential benefit of taking their tax free lump sum entitlement in one large payment.</li> <li>• Compared to other income options the lump sum available on death can be maximised. This is because more of your client's money stays invested for longer in the pre-pension date accounts where the fund is not subject to 35% tax on death.</li> <li>• Spreading the encashment risk – by cashing in smaller amounts on a regular basis you are spreading the risk of encashing a large sum when market values are low.</li> <li>• Regular, flexible pension income – your client can change the amount of income required at any time, subject to certain limits, and they can change the frequency and payment date(s) at the review date. However, the plan will require careful monitoring and should be reviewed regularly. If your client's needs change, they can still take all or some of their benefits.</li> </ul>

## Risks you and your clients should be aware of:

- 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.
- From 6 April 2010 a client must be 55 or older in order to move into drawdown. This rule applies to each movement into drawdown. Therefore a client who is between 50-54 and using phased drawdown will not be able to move subsequent monies into drawdown after 6 April 2010 until they are age 55.
- 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.