

# Flexi-Access Drawdown



## Introduction

Flexi-access drawdown allows individuals to take an income and tax-free cash (Pension Commencement Lump Sum (PCLS)) from their money purchase pension arrangement while it remains invested.

If an individual chooses to take flexi-access drawdown, they can still buy an annuity at any time.

All new drawdown plans taken out from 6 April 2015 will be flexi-access drawdown arrangements.

## Requirements

Benefits can be taken under flexi-access drawdown from age 55 or earlier where a lower protected pension age applies or if benefits are being taken through ill-health.

There's no requirement to have a minimum level of income from other sources.

## Existing Drawdown Pensions

All pre-6 April 2015 flexible drawdown arrangements automatically became flexi-access drawdown arrangements.

A pre-6 April 2015 capped drawdown arrangement can elect to convert to flexi-access drawdown or, where the capped drawdown income limit is exceeded, it is automatically converted to flexi-access drawdown to avoid the unauthorised payment rules applying.

## Income

Flexi-access drawdown arrangements have no restrictions on the amount of withdrawals that can be made and so no review system.

## Tax

Individuals can normally take 25% PCLS from their designated flexi-access drawdown fund, subject to having available Lump Sum Allowance (LSA) and Lump Sum and Death Benefit Allowance (LSDBA). The remainder of the fund can be taken as taxable income (with no upper limit). Income payments are taxed through the PAYE system at the individual's marginal rate for earned income and the tax is deducted from the payment before it's paid to the individual.

## Protected PCLS

Individuals, who qualify, may take more than 25% PCLS under their scheme through scheme specific tax-free cash protection or if they have either primary or enhanced protection and the lump sum at 6 April 2006 was more than £375,000.

The fund remaining being designated to provide drawdown pension.

But note that the normal rules apply to protected PCLS. So, for instance, for scheme-specific tax-free cash protection, the whole fund must be crystallised at the same time otherwise the protection will be lost (for example, it would be lost where the fund is being phased into drawdown).



## Death Benefits

If an individual dies before age 75 with remaining flexi-access drawdown funds:

- any income payments to beneficiaries will be paid free of tax, and
- any lump sum payable will be paid free of tax up to their available LSDBA. Note: Any funds placed into drawdown before 6 April 2024 won't be tested against the LSDBA on death on the basis that they will have already been previously tested under the former Lifetime Allowance.

If an individual dies on or after age 75 with remaining flexi-access drawdown funds, any lump sum or income payments made to beneficiaries will be taxed as pension income under PAYE at the recipient's marginal rates.

## Transfers

Flexi-access drawdown benefits can be transferred from one provider to another without resulting in an unauthorised payments charge provided:

- the benefits are transferred to a new 'empty arrangement' under the receiving scheme (prior to being merged into a single arrangement), and
- the benefits are paid as flexi-access drawdown under the receiving scheme.

Once an individual has commenced flexi-access drawdown they cannot revert to capped drawdown.

## Further Pension Contributions

Individuals in flexi-access drawdown may continue to make contributions, however, if they take any taxable income they will be subject to a reduced annual allowance – the Money Purchase Annual Allowance (MPAA).

The MPAA, which was increased to £10,000 from 6 April 2023, will apply only to money purchase contributions. The individual may in addition accrue benefits in a defined benefit scheme up to the value of £60,000, less any money purchase contributions within the MPAA, before an annual allowance charge applies.

Carry forward is not available in conjunction with the MPAA.

## Key Point Summary

There are no restrictions on how money can be withdrawn from flexi-access drawdown arrangements, although no more than 25% (normally) can be taken tax-free.

Flexi-access drawdown allows individuals to access their entire money purchase pension arrangement giving them greater flexibility.

If an individual wants to access funds through flexi-access drawdown, they will trigger the MPAA as soon as they draw an income. Anyone who needs to contribute more than this annually will have limited options, thereby compromising their long-term savings plans and restricting future access to long-term income.

**This represents Zurich's understanding of HMRC regulations governing flexi-access drawdown. This is subject to change and Zurich does not accept responsibility for any action taken or refrained from, by any person relying on this information.**

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