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Elevate Regular Drawdown

Shaping income around a client's requirements

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Contents

Regular Drawdown – full flexibility

The pension market demands fresh thinking and a fresh approach to taking retirement income – otherwise clients may be paying more tax than is necessary, now and in the future.

Regular Drawdown offers all of the flexibility possible in a way that benefits you and your clients.

Pension freedoms – what this means

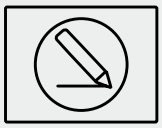
In retirement, usually from age 55, going up to 57 in April 2028, pension funds can be accessed completely flexibly (see Appendix 3 for more details):

- Take up to 25% tax-free cash (TFC)
- Take a taxable income.

Tax planning in retirement means making smart use of the allowances on offer each year, in order to minimize income tax and reduce the likelihood of future IHT.

Regular Drawdown has been designed to help you create tax efficient pension income withdrawals tailored to the needs of your clients in a streamlined and easy to manage way.

Tax and legislation may change and will depend on individual circumstances; the information here is based on our understanding as at April 2024.



Retirement options – a case study

These figures assume client is a UK Basic rate taxpayer. Different income tax rates and limits apply to Scottish taxpayers.

A client wants £20k net income per annum and has a pension fund of £400,000 to support this. They have a personal allowance of £12,570 (2024/25) and no other taxable income. There are a number of options:

Type of income	Tax-free cash paid	Taxable income	Personal allowance used	Income tax paid	Remaining pension fund	
Full Drawdown – full entitlement to TFC paid; taxable income set up with balance to generate the £20k pa net.	£100,000	£21,860	£12,570	£1,860*	£278,140	TFC needlessly paid out, income tax paid and less available for future income and IHT-free inheritance planning.
100% TFC – income made up purely of 25% TFC allowance.	£20,000	£0	£0	£0	£380,000	Personal Allowance isn't used and less TFC available to use in the future.
UFPLS – each payment made up of 25% TFC and 75% taxable income. In order to get £20k net, almost £21k is crystallised.	£5,148	£15,444	£12,570	£575**	£379,408	Income tax paid, reducing fund by more than is necessary.

*End of year tax position **Note: client also has £100,000 (TFC) – but now in estate for IHT purpose.

Regular Drawdown – what is it?

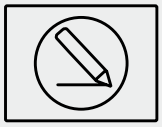
Regular Drawdown – automating full pension freedoms flexibility

Regular Drawdown is a way of gradually taking pension benefits to provide tax efficient withdrawals from the Elevate Pension Investment Account. It provides the flexibility to select the right combination of tax-free cash and taxable income used to provide each withdrawal. This could be:

- Tax-free cash (with the remainder being moved to the Drawdown fund)
- A full withdrawal of both tax-free cash and income from each crystallisation
- Tax-free cash and a specified amount of income.

Previously this could be done, but not automated, meaning advisers had to call Drawdown providers monthly (or whenever the income is due) and give individual instructions of tax-free cash and income. Regular Drawdown therefore removes the need for this onerous adviser step.

Once set-up, Elevate will look after each Regular Drawdown payment: selling the investments chosen for each withdrawal, carrying out the crystallisation and making the payment – all timed so the income arrives in the client's bank account on the requested payment date.



Regular Drawdown – a case study

These figures assume client is a UK Basic rate taxpayer. Different income tax rates and limits apply to Scottish taxpayers.

With Regular Drawdown the client can choose to receive any combination of tax-free cash and taxable income (within legislative limits). So in this example, they will receive £8,500 tax-free and £11,500 taxable and as this is within the personal allowance, no income tax is payable. This ensures that no tax is paid in the current year and the remainder of the fund stays invested.

Type of income	Tax-free cash paid	Taxable income	Personal allowance used	Income tax paid	Remaining pension fund
Full Drawdown	£100,000	£21,860	£12,570	£1,860	£278,140*
100% TFC	£20,000	£0	£0	£0	£380,000
UFPLS	£5,148	£15,444	£12,570	£575	£379,408
Regular Drawdown	**£8,500**	**£11,500**	**£11,500**	**£0**	**£380,000**

*Note: client also has £100,000 (TFC) – but now in estate for IHT purpose.

Regular Drawdown is the only one of these options that allows pension income to be completely shaped around a client's individual requirements. Should 100% TFC or UFPLS be required, then Regular Drawdown can also deliver these outcomes.

Benefits of Regular Drawdown

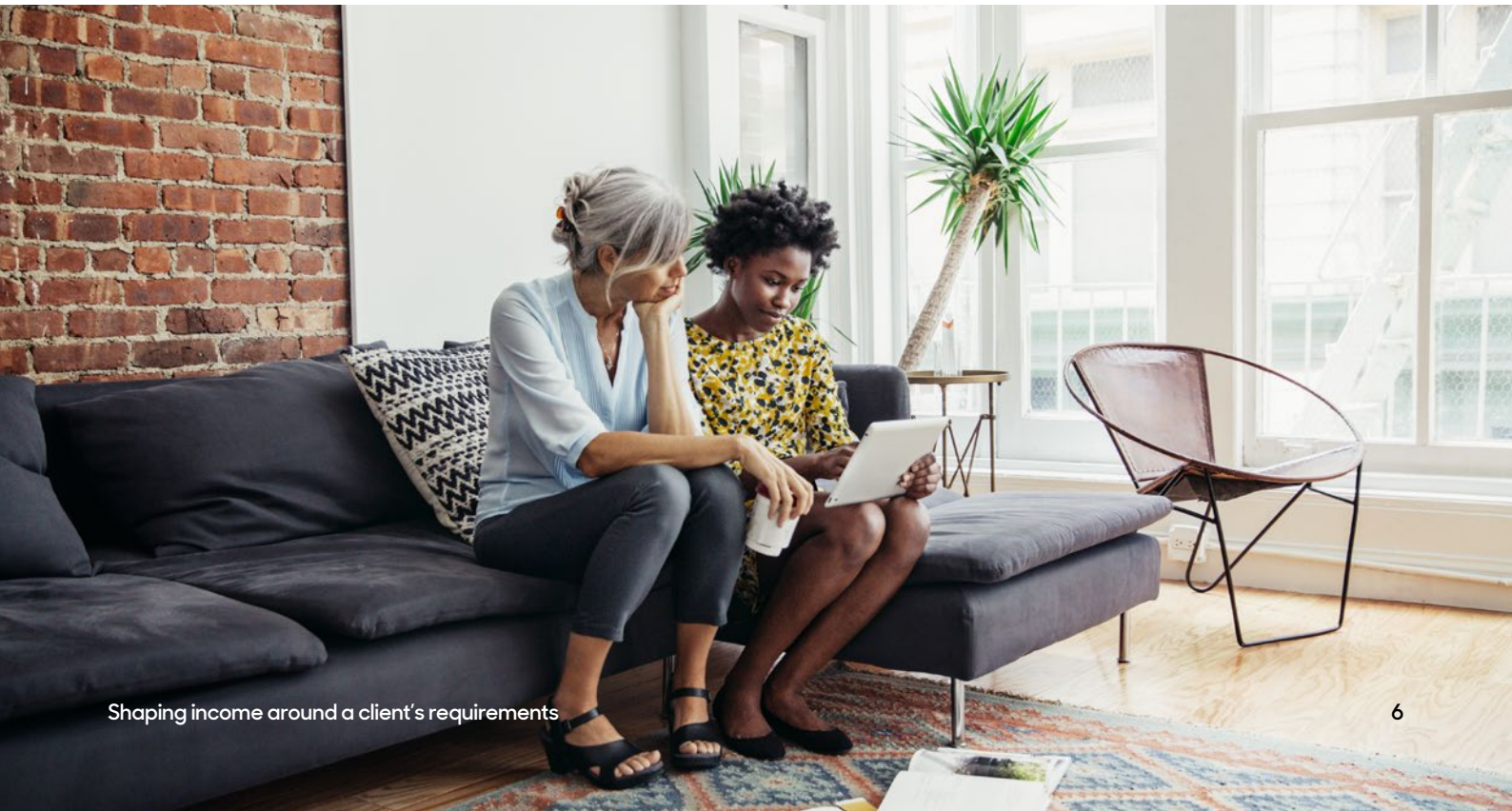
- Flexibility to choose the right level of income: just take tax-free cash or withdraw the full value of each regular crystallisation – or any level between the two
- Fully automated solution – Elevate will sell-down the investments needed to realise cash for each withdrawal, carry-out the crystallisation and make payment – all timed so the income arrives in the client's bank account on the requested payment date
- One consolidated payment to the client's bank account (or Elevate Cash) combining the tax-free cash and any taxable income they have chosen to take with each Regular Drawdown
- Complete control to manage the assets used for Regular Drawdown: Select which investments are used to generate the cash needed to pay tax-free cash and withdrawals; and separately select the investments to be moved to the Drawdown fund
- Select a different first Drawdown payment and regular withdrawal – great for clients who want a lump sum payment to start retirement and a lower regular income
- Set up multiple withdrawals from different Drawdown arrangements within the PIA, allowing clients with existing Drawdown to take additional withdrawals alongside a Regular Drawdown income
- Ability to edit and amend Regular Drawdown on the platform
- Online straight through process to update lump sum allowance and lump sum & death benefit allowance details and review an existing Regular Drawdown instruction.

Why it's good for advisers

- This evidences effective tax planning
- This is a simple concept for you to explain to clients
- Tax efficient Pensions pot
- Income instructions can be changed at any point
- This takes cost out of an adviser's business – no need for phone call for each phase of Drawdown.

Appendix 1: What you need to know

- There are no additional charges for Regular Drawdown
- The minimum Regular Drawdown instruction is £100
- Sufficient cash must be available in the Accumulation arrangement 10 working days before every Regular Drawdown payment date to meet the value of the tax-free cash and any taxable income to be paid as part of the crystallisation. Where sufficient cash is not available, the Regular Crystallisation Strategy will be triggered and investments sold automatically
- Clients can hold a 'buffer' of available cash in the Accumulation arrangement before setting up Regular Drawdown and an additional regular sale of investments in the Accumulation arrangement to complement Regular Drawdown
- The Regular Crystallisation Strategy will automatically sell the selected investments 10 working days before the payment date - but only once any available cash in the Accumulation arrangement has first been used to pay Regular Drawdown
- Any part of the regular Drawdown amount not paid as tax-free cash or taxable income is moved as cash or investments to the Flexi-Access Drawdown arrangement. Here it can be used to provide taxable income at a later date
- Regular Drawdown is available for clients over age 55 (rising to age 57 in 2028)
- Regular Drawdown is not available if the client has a right to take their pension benefits below the minimum retirement age or if they have a scheme specific pension commencement lump sum (PCLS) protection
- £10,000 Money Purchase Annual Allowance is triggered (if it does not already apply) once income is paid from the Regular Drawdown (or later from the Flexi-Access Drawdown arrangement). The normal Annual Allowance remains in place for clients taking a Regular Drawdown but who are only receiving tax-free cash payments from it
- An adviser charge cannot be selected for setting up Regular Drawdown. Where an adviser charge needs to be made this can be taken as an ad hoc payment, or a separate single Drawdown crystallisation can be submitted at the same time with an Initial Adviser Charge.



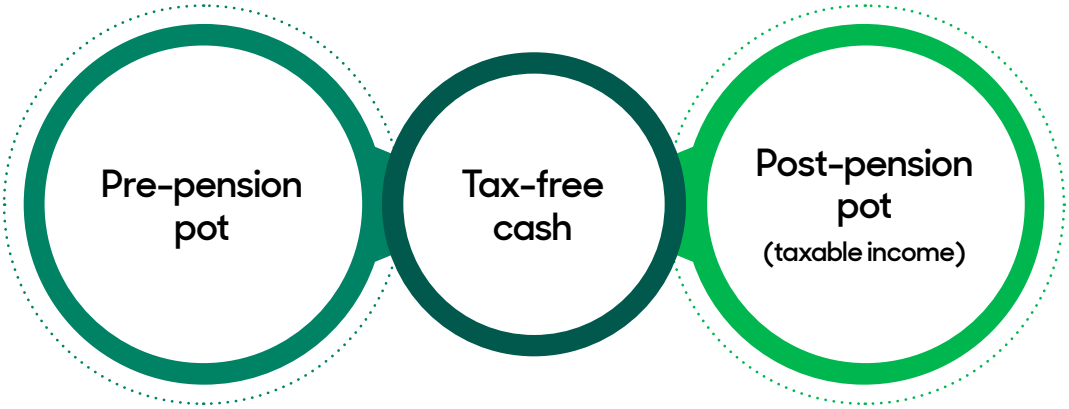
Appendix 2: How Regular Drawdown works

Drawdown allows pension income to be paid directly from a money purchase pension fund. Normally, 25% of these funds will be tax-free, with the balance taxed at the individual's marginal rate of income tax.

Tax-free cash can be paid out in instalments e.g. to provide monthly income. This is done by phasing (also known as crystallising) benefits in stages.

Each time tax-free cash is taken the balance is then available to be selected as taxable income at the same time, or remains invested for future income.

Regular Drawdown provides the ability to set up a tailored regular income using the tax-free cash entitlement (capped as a maximum of 25% of the pre-pension pot), and the taxable portion (limited as the maximum of the value of the post-pension pot).

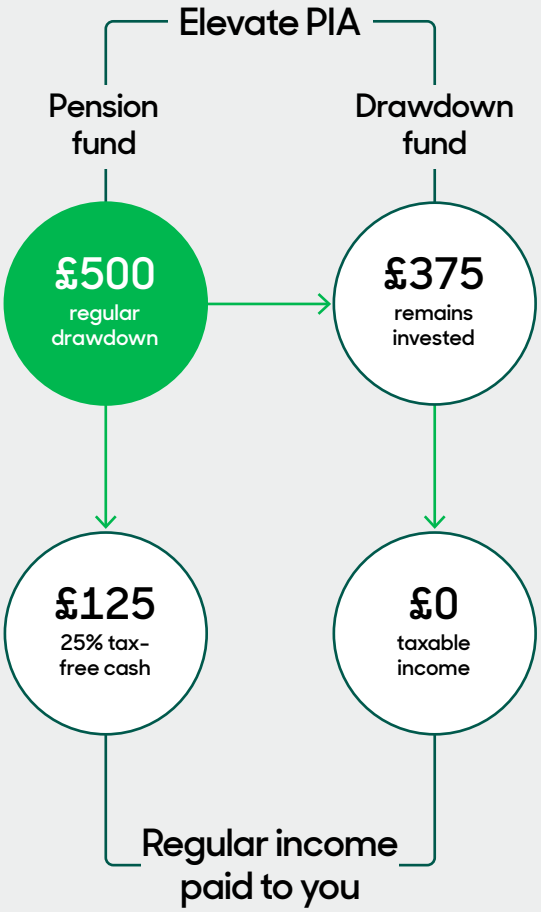


Appendix 3: Taking monthly payments

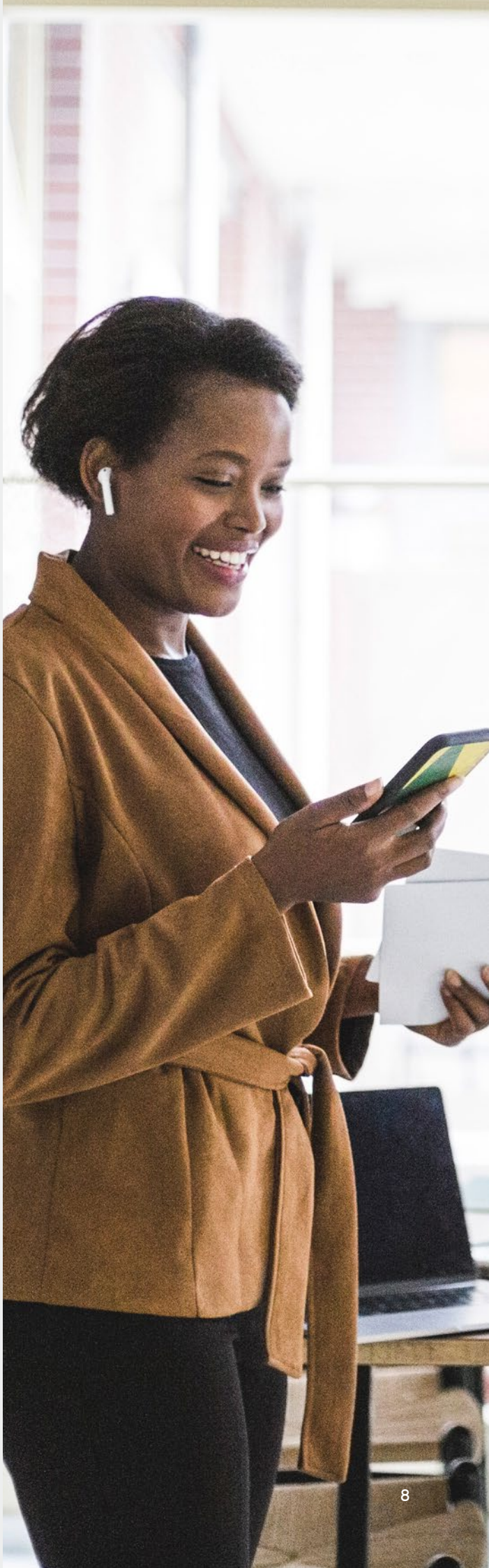
A Regular Drawdown amount of £500 every month could be used to make monthly payments to a client in the following ways:

Option 1: Take tax free cash

Take tax free cash from each regular drawdown and put the remaining proportion in the drawdown fund to take at a later date as taxable income.



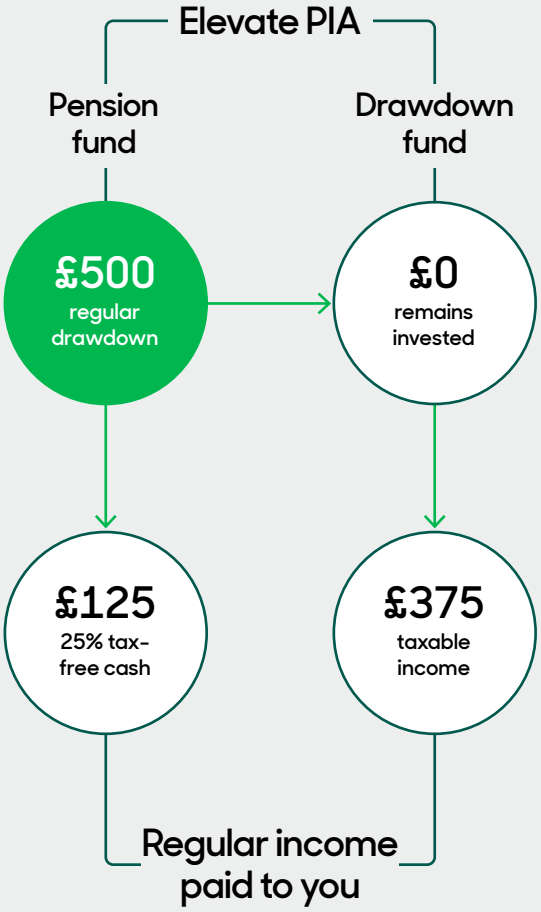
This example is for illustrative purposes only. The amount of Regular Drawdown available will depend on the value of the total Elevate PIA.



Appendix 3: Taking monthly payments

Option 2: Tax free cash and maximum taxable income

Take tax free cash and the rest of the regular drawdown amount as taxable income. The amount selected is paid without anything in the drawdown fund.

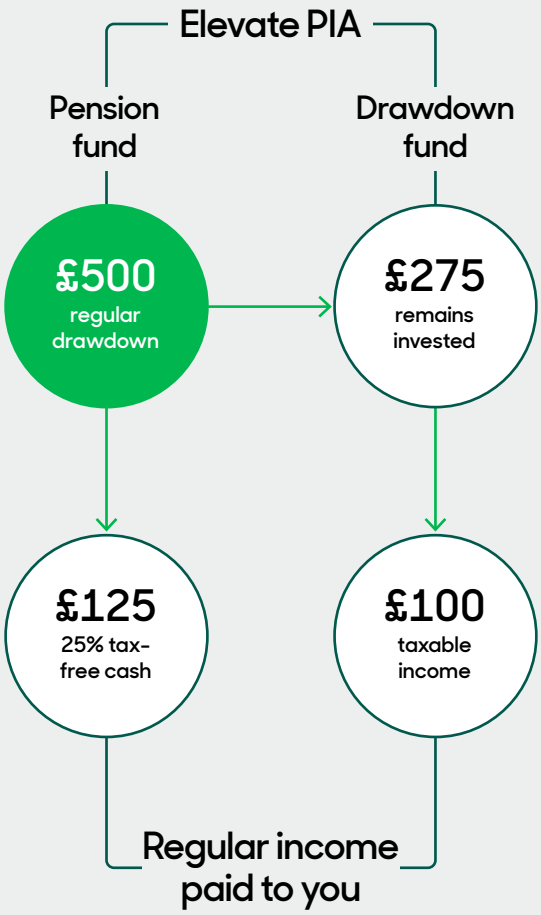


This example is for illustrative purposes only. The amount of Regular Drawdown available will depend on the value of the total Elevate PIA.

Appendix 3: Taking monthly payments

Option 3: Tax free cash and some taxable income

Take a mixture of tax free cash and taxable income from each regular drawdown, putting the remaining proportion in the drawdown fund to take at a later date as taxable income.



This example is for illustrative purposes only. The amount of Regular Drawdown available will depend on the value of the total Elevate PIA.

The information in this document should not be regarded as financial advice and any advice you give to your client is your responsibility.

The value of investments can go down as well as up and could be worth less than originally invested/paid in.

Laws and tax rules may change. The value of tax benefits depend upon individual circumstances and where you live in the UK.

The information in this presentation is accurate as at April 2024.

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