



Stacy Lunnon <stacyl@pensionpractitioner.com>

Re: POTENTIAL PENSION WITHDRAWAL

Tony McCarthy <tonym@pensionpractitioner.com>

14 June 2017 at 15:23

To: geoff@werrington.me.uk, Stacy Lunnon <stacyl@pensionpractitioner.com>

Geoff

Apologies for the slight delay in getting back to you.

You are correct in that you can draw up to 25% of the fund value as a tax-free lump sum; however, this is capped by your Lifetime Allowance - currently £1 million, but can be protected up to £1.25 million (with restrictions). What this means in practice is that, assuming your Lifetime Allowance is £1 million, the amount of tax-free cash available is 25% of your fund value up to this 'hard' limit of £250,000.

To overly-simplify, what happens to enable a tax-free lump sum to be withdrawn is that an amount of your fund is 'crystallised', meaning that it has been designated as being able to be drawn upon, and it is from this amount that the tax-free lump sum is taken. In your example, if you wish to withdraw £50,000, then a total £200,000 would be crystallised. You can then withdraw the £50,000 as a tax-free lump sum, while the remaining £150,000 is left in the scheme for you to draw on (and be taxed) as income as and when you require it. This £150,000 can still be invested/left alone in the scheme - there is no requirement for you to have to draw on it if you don't need to. This would mean that your remaining available Lifetime Allowance is reduced by £200,000, the 'uncrystallised' part of your fund would then be £1,300,000 (from which any further requests to take a tax-free lump sum would come from), and any subsequent growth in the fund will have to be attributed to the crystallised and uncrystallised funds separately.

If you wish to draw a tax-free lump sum, then the fund will have to be valued prior to this (simply to ensure that your fund covers the amount you wish to draw). A 'benefit crystallisation event' will then occur, crystallising the amount of your fund needed to enable the requested tax-free amount, and testing this against your available Lifetime Allowance, so prior notification is required to ensure that the correct documentation is put into place.

I hope that this answers your queries, but please don't hesitate to email me for further details or clarification on this subject.

Regards,

Tony McCartney

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