Adviser Q&A for tax-efficient regular income options for the Collective Retirement Account*

** The tax treatment and efficiency of these options will depend on the individual circumstances of each customer. Tax rules and their application may change in the future.*

Q1 What are they?

A: A range of tax efficient regular income options available under flexi-access drawdown rules which allow a client to use their tax-free lump sum to provide regular income to deliver part, or all, their current retirement income needs, instead of taking a large tax-free lump sum payment from their savings up front.

The main advantages to clients of using these solutions are:

- to only use the minimum amount of existing pension savings to meet current needs
- to be able to manage the amount of income tax they pay in doing so
- to provide an initial instruction from the client that will allow automation of future regular withdrawals without the need to provide individual instructions for each crystallisation
- to allow uncrystallised assets to grow with the hope of generating further tax-free lump sums
- to preserve assets in the pension in order to strengthen the death benefit/legacy position.

Q2 What are the options available?

A: Clients have three options available to specify the gross amount they want to crystallise on a regular basis.

They are:

1. Regular payment is all tax-free.
We pay 25% of the gross amount as a regular tax-free lump sum. An amount of three times the tax-free lump sum payment is crystallised into a flexi-access drawdown sub account to be available to provide future taxable income withdrawals

Or

2. Regular payment is a 25/75% mix of tax-free and residual taxable amounts.
We pay 25% of the gross amount as a regular tax-free lump sum and the residual crystallised amount as a regular taxable income. There is no residual value to be applied to a flexi-access drawdown sub account.

Or

3. Regular payment is a mix of tax-free and specified taxable amounts.
We pay 25% of the gross amount as a regular tax-free lump sum and a specified part of the residual crystallised amount as taxable income. The balance of the crystallised amount will be applied as a flexi-access drawdown sub account to provide future taxable income withdrawals.

Q3 Can payments be made on any frequency other than monthly?

A: Yes, as well as monthly, there are options of quarterly, half-yearly and yearly. Clients will need to provide individual crystallisation instructions at the time of each new crystallisation, where they wish to receive withdrawals outside of these options.

Q4 What is the minimum monthly withdrawal?

A: The minimum monthly crystallisation amount is £125, allowing a minimum monthly withdrawal of £31.25, being the tax-free lump sum element of each crystallisation

Q5 Is there a charge for the client to use a tax-efficient regular income facility?

A: No. As with all other income withdrawal options available within the Collective Retirement Account there is no administration charge to use the facility.

Q6 How does income tax apply to these payments?

A: If the client chooses to receive a gross payment that is entirely comprised of a tax-free lump sum there is no income tax to pay.

If the client chooses to receive a gross payment that is comprised of a tax-free lump sum and taxable income, the taxable income element will be subject to income tax.

The amount of tax payable will depend on the individual's tax code, tax rates and payment frequency chosen. Further details are available in **A Guide to Income tax and your Pension,** available on our website.

Q7 Can everyone use these options?

A: The options are available for most clients with uncrystallised monies in an account. There are some client segments for whom the options will **not** be available. These are:

- any client who has a protected tax-free lump sum entitlement
- any client who doesn't have sufficient remaining Lifetime Allowance
- any client with primary protection with primary protected tax-free lump sum
- any client with a protected early retirement age
- any client with a disqualifying pension credit held in an account as a result of receipt of a pension sharing order
- any client who wishes to take benefits early under ill-health early retirement.

Q8 How do I calculate the amount of gross withdrawal if my client wants to take a combination of tax-free lump sum and taxable lump sum withdrawals?

A: It works the same way. If your client will be subject to basic rate income tax on the total taxable element of the regular withdrawal, simply gross up the net income required by a factor of 1.177 to arrive at the required net amount.

EXAMPLE

Client wants a net regular income of £1,000 after basic rate tax deduction. Crystallising a gross amount of £1,177 will provide:

- A tax-free lump sum of £294.25.
- And a net income payment from the balance of £882.75 of £706.20, making in total an income payment of £1,000.45.
- If the taxable element of the payment was subject to higher rate tax liability the grossing up factor would be 1.43.

Q9 Are these options available to clients using capped drawdown in the CRA?

A: Yes. A separate flexi-access drawdown sub account would be established.

Q10 Would these options trigger the Money Purchase Annual Allowance?

A: Taking the tax-free lump sum only option to deliver the regular income facility will not trigger the Money Purchase Annual Allowance of £10,000 (unless the client had already triggered the Money Purchase Annual Allowance elsewhere). Using either of the other options will trigger the reduced Money Purchase Annual Allowance of £10,000 a year from the date the first taxable income payment is made from the account.

Q11 Can the client specify which investment funds the withdrawals can be made from?

A: Yes. The withdrawals can be made by a proportionate encashment from all the investment funds held in the uncrystallised element of the account or from specified assets.

Q12 Can the client stop or amend the level of withdrawals in the future?

A: The client can stop, amend or re-start future income withdrawals and how much taxable income they wish to take by written confirmation to Quilter. Any change to a withdrawal will be implemented in the same month provided the instruction is received no later than 13 working days before the next payment date.

Q13 What are the circumstances where these types of payments may stop?

A: The most obvious is where we have received a client instruction for the payments to stop. There are a number of other situations that may arise where future payments using these options will stop. These are where:

- there are insufficient funds left in the uncrystallised pot to make further automated tax-free lump sum withdrawals
- the client has insufficient Lifetime Allowance remaining to cover the crystallisation value of future proposed withdrawals
- the client will reach age 75 before the next regular withdrawal is due to be made. This is to allow a Lifetime Allowance check to be completed in time for the client's 75th birthday. A new tax-efficient regular income instruction can be made following the client's 75th birthday.

Where these situations arise, or will be arising shortly in the future, we will write to clients to advise them that the payments will cease. We will contact you by telephone in this event to make you aware and a copy of that communication will be added to the client system record which you can access.

Q14 What other withdrawal options can tax-efficient regular income be linked to?

A: If a regular tax-efficient regular income option has been set up on an account it is also possible to for a client to apply to receive the following payments:

- ad hoc taxable lump sum withdrawals from the remaining uncrystallised element within the account. 25% of each such payment will be tax-free, with the remainder being subject to income tax
- regular or ad-hoc income payments from any crystallised drawdown funds held in the account. These payments will be subject to income tax deduction
- small pots payments from any remaining uncrystallised funds. 25% of any such payment will be tax-free with the balance being subject to income tax
- drawdown where client wishes to access a tax-free lump sum without taking additional regular income withdrawals.

Q15 Can I obtain an illustration for using these options?

A: Yes. You can obtain pre-sale illustrations or what if illustrations via our online system at that time.

Q16 How are future Lifetime Allowance tests applied to this facility?

A: Each withdrawal is tested against the client's available Lifetime Allowance. On a quarterly basis we will confirm to the client how much of their Lifetime Allowance has been used up by the account, taking consideration of all withdrawals made on the account to that date. At that time we will ask them to tell us of any other crystallisation events that have taken place with other registered pension schemes.

This information is vital to enable us to monitor whether a client has exceeded or is likely to exceed their Lifetime Allowance in the near future, meaning regular payments will need to stop.

Unless we are advised otherwise we will monitor the available Lifetime Allowance based on the data provided at the time of the initial application, and the value of ongoing crystallisation events within the account.

Q17 Will these payments be disclosed to the client?

A: Yes. In addition to the quarterly statements we will send the client a statement annually that shows the value of their uncrystallised and crystallised drawdown sub accounts (where applicable).

Q18 Are critical yields available for these options?

A: Yes. However, given the completely different approach to providing retirement income using these options, there is no guidance from the FCA as to how any critical yield can be derived.

The approach we have taken is that we will calculate the critical yield as the growth rate the crystallised fund requires in order for it to provide withdrawals equal to the target amount, and to then provide an annuity at the specified ages equal to that target amount.

Within this calculation, the crystallised fund is subject to all the charges that are included in the main illustration. The critical yield is not a standalone calculation that only considers the crystallised fund. For this reason, the crystallised fund is reduced not just by the withdrawals assumed, but also by the product, fund and adviser charges that the crystallised fund is subject to and, in addition, the product and adviser charges relating to the uncrystallised fund that are redirected to the crystallised sub-account.

This is explained in the illustration PDF at the bottom of 'The product charge' section and in the 'Your final adviser fees' section, where you'll see this wording: "We will deduct the charges for your uncrystallised sub account from the largest valued crystallised sub account held in your account. Where there are no crystallised sub accounts or insufficient value in the crystallised sub account to meet the value, we will deduct from the uncrystallised sub account."

Your client's investment may fall or rise in value and they may not get back what they put in.

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