

A man with grey hair, wearing a grey long-sleeved shirt, is lying on his back on a wooden deck. He is propped up on a blue cushion and is reading an open book. The background shows a green lawn, trees, and a blue sky.

Impact of taking an Uncrystallised Funds Pension
Lump Sum payment from your retirement fund

Effect of taking money from your retirement savings



This booklet is designed to help you understand any tax you might have to pay and the impact on your retirement income, if you take an Uncrystallised Funds Pension Lump Sum (UFPLS) payment today. This is important as once you've taken money from your retirement savings; you can't change your mind.

This booklet will

- help you estimate how much tax you will pay on your UFPLS payment page 3
- help you understand how much we will actually pay to you page 3
- help you estimate the reduction in your future retirement income page 4
- provide an example of what you should consider page 5

Important things to consider

Before you decide to take money from your retirement savings check if there are any guaranteed benefits you might be giving up. These will depend on your plan terms and conditions.

The important things to look out for include:

- life cover
- guaranteed annuity rates
- guaranteed mortality rates

You should also consider if there are any exit charges or other reductions.

The more of your retirement savings you take as a lump sum and spend, the less you'll have left to support you later in retirement.

The amount of UFPLS you take may affect any means tested state benefits you are entitled to.

Estimating how much tax you will pay on your UFPLS payment(s)

The table below gives you an idea of the total additional tax you might have to pay when all UFPLS payments are added to your existing income for the tax year 2017/18.

If you take money out as an UFPLS payment, 25% of the amount will be tax free and the remaining 75% will be added to your yearly income for tax purposes. For example, someone with an existing income of £30,000 who takes out £20,000 could pay additional tax of £3,000 for the tax year 2017/18 (see below).

Indication of additional tax you may pay in respect of UFPLS payment										
		Your taxable income before you take an UFPLS payment								
		5,000	10,000	20,000	30,000	40,000	50,000	70,000	100,000	120,000
Gross value of UFPLS payment	Additional taxable income due to UFPLS payment (Gross value minus 25% tax free.)									
5,000	3,750	0	450	750	750	750	1,500	1,500	2,250	2,100
10,000	7,500	200	1,200	1,500	1,500	2,000	3,000	3,000	4,500	3,600
20,000	15,000	1,700	2,700	3,000	3,000	5,000	6,000	6,000	9,000	6,600
30,000	22,500	3,200	4,200	4,500	6,000	8,000	9,000	9,000	13,500	9,600
40,000	30,000	4,700	5,700	7,000	9,000	11,000	12,000	12,000	16,600	12,600
50,000	37,500	6,200	7,700	10,000	12,000	14,000	15,000	16,500	19,600	15,975
100,000	75,000	20,700	22,700	25,000	28,000	32,000	34,600	34,600	35,850	32,850

Important notes

- This table assumes you're taking benefits in tax year 2017/18
- You are entitled to a yearly tax free personal allowance of £11,500 (2017/18) and it reduces by £1 for each £2 of income above £100,000
- The first £33,500 of taxable income (above the personal allowance) is taxed at 20%
- Taxable income from £33,501 to £150,000 is taxed at 40%
- Income above £150,000 is taxed at 45%
- If you're a Scottish taxpayer, taxable income from £31,501 to £150,000 is taxed at 40%. This means the shaded figures will be higher for you.

How much will we actually pay to you?

The amount of tax we have to deduct from your first payment may be more or less than shown on the table above. This is because we usually have to apply emergency tax (month 1 tax rates) on your first payment as required by Her Majesty's Revenue and Customs (HMRC). If you are taking a subsequent payment, the tax we deduct will normally depend on your personal circumstances (for example, your tax code when the payment is made). Depending on your circumstances, you may need to claim any overpaid tax, or you may need to pay additional tax. We will confirm how to do this when we send you your payment. You can get an idea of how much we could deduct from your payment(s) by using HMRC's online calculator at <http://payecalculator.hmrc.gov.uk/>.

This information only applies if you are a UK resident. If you are a non UK resident, please see the 'Your guide to taking a lump sum' flyer for more details.

Please see pages 6 and 7 for information about using the HMRC calculator.

Estimating the impact of taking an UFPLS payment from your retirement fund on your future income

As well as estimating the additional tax you could pay, you should also estimate the impact on your future income. This table helps you estimate how much your gross yearly pension might be reduced by for each £10,000 lump sum payment you take from your retirement savings today.

For example, someone who takes out £10,000 with five years to go to their selected retirement age of 65, might have to give up £318 a year from age 65 (see below). You can estimate the reduction in your income by using the following calculation. Amount you want to take/10,000 x answer in the table.

*If you have already reached your retirement age, please refer to the “Your Pension, it’s time to choose” guide to find out who you should contact to get details of the amount of pension income you could receive from your fund.

Indication of the amount of yearly pension that you might have to give up																					
	Retirement age																				
	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75
Years to your retirement age																					
0*																					
1		193	202	211	221	231	242	254	266	280	294	309	326	344	364	385	408	434	461	492	525
2			206	215	225	235	247	259	271	285	300	316	333	351	371	392	416	441	469	500	534
3				219	229	240	252	264	277	291	306	322	339	358	378	400	423	449	478	509	543
4					234	245	256	269	282	297	312	328	346	365	385	408	432	458	487	518	552
5						250	262	274	288	302	318	335	353	372	393	416	440	467	496	527	562
6							267	280	293	308	324	341	360	380	401	424	449	476	505	537	573
7								285	299	314	331	348	367	387	409	432	458	485	515	547	583
8									305	321	337	355	374	395	417	441	467	495	525	558	594
9										327	344	362	381	402	425	449	476	504	535	569	606
10											350	369	389	410	433	458	485	514	546	580	617
11												376	396	418	441	467	494	524	556	591	629
12													404	426	450	476	504	534	567	603	642
13														434	458	485	513	544	578	614	654
14															467	494	523	554	589	626	666
15																504	533	565	600	637	678
16																	543	576	611	649	691
17																		587	622	661	704
18																			634	674	717
19																				686	730
20																					744

If you have a guaranteed annuity or mortality rate, you and your adviser should not rely on the table estimating how much pension you may be giving up as the amount could be much higher. If you would like details of the guarantees that apply in your circumstances, please let us know.

The estimated reduction in income is in today's prices and takes into account inflation between now and your retirement age. The actual amount could be more or less than this.

What assumptions have we used?

- Your retirement fund will grow at 2.5% after inflation each year
- Future inflation will be 2.5% each year
- Your pension will be paid at the start of each month for your lifetime only and will increase in line with the Retail Prices Index (RPI) each year. It will continue to be paid for 5 years from when you retire even if you die
- No allowance has been made for charges. For details of your charges, please see your plan literature

The actual amount depends on a number of factors including how your retirement fund grows, the actual charges taken, interest and annuity rates at the time you retire, the type of annuity you take. Please do not base any decision on this table alone.

An example to show what you should consider if you took an UFPLS payment from your retirement fund

Let's go through Peter's example to help you understand what you should consider.

Peter

Peter has a salary of £30,000 a year. He is 5 years from his retirement age of 65, and is considering taking £20,000 from his retirement savings to pay off his mortgage of £15,000. Peter has decided to take an UFPLS payment as he is not eligible for small lump sum payments. He also has available Lifetime Allowance and meets other HMRC conditions to take an UFPLS payment. He knows that once he has taken money as an UFPLS payment he can't change his mind.

If he takes £20,000 from his retirement savings, £5,000 will be tax free and £15,000 will be added to his income for tax purposes. This would take Peter's income to £45,000. He realises any income over £45,000 will be taxed at a higher rate of 40%.

What is the additional estimated tax Peter will pay?

The estimated additional tax that will apply by taking the payment for the tax year 2017/18 is **£3,000 as shown on page 3**.

What tax amount will actually apply on his first UFPLS?

As the payment will be taxed on an emergency basis, the actual tax initially deducted will be approximately **£5,135 (see pages 6 and 7 which show you how to use the HMRC calculator)**.

How much will Peter receive?

The initial payment Peter will receive is **£14,865** (£20,000 – £5,135).

This would not be enough to pay off his mortgage of £15,000.

However, he should be able to reclaim the difference of **£2,135** (£5,135 – £3,000) from HMRC.

How much future income might Peter give up?

By using the table on page 4, Peter can see that the estimated gross pension he might give up is $£20,000/10,000 \times £318 =$ **£636 a year (see table on page 4)**.

In this example, if Peter was a Scottish taxpayer, any income above £43,000 is taxed at the higher rate of 40%. This means the additional tax he'll ultimately have to pay will be £3,400.

These figures are for example purposes only and assume the first payment is taken in the tax year 2017/18.

How to use the HMRC online calculator

– if using the emergency tax rate (normally for first payments)

PAYE Tax Calculator
Mandatory fields are marked with an asterisk
Please complete the following:

Employee Tax Code*

Is the period of pay* ☒ Weekly ☐ Two Weekly
☒ Monthly ☐ Four Weekly

Is the period of pay on a week 1 or month 1 basis?* ☒ Yes ☐ No

Gross pay for the week or month* £

Previous total gross pay to date £

Previous total tax due to date £

Previous tax not deducted due to regulatory limit £

Payment date DD/MM/YYYY

**HM Revenue & Customs cannot be held liable for incorrect output from this Calculator.
Correct information can only result from this Calculator if correct details are entered.**

[Start again](#) [Next >](#)

Key in 1150L here to use the emergency tax code.
This code is correct for tax year 2017/18. For later tax years, please contact HMRC or visit www.gov.uk for the correct emergency tax code.

Select monthly.

Select 'Yes'.

Enter the amount you are taking from your retirement account, less the 25% tax free part. For example, if you were Peter you would key in £15,000 here.

If you are taking a subsequent payment, the tax we deduct will normally depend on your personal circumstances (for example, your tax code when the payment is made).

HMRC calculator results page

– if using the emergency tax rate (normally for first payments)

PAYE Tax Calculator[Glossary](#)

Values Entered

Employee tax code:XXXXX

Period of pay:XXXXX

Is it on a month 1 basis:XXXXX

Pay this month:000.00

Previous total gross pay to date:000.00

Previous total tax due to date:000.00

Previous tax not deducted due to regulatory limit:XXXXX

Date of calculation:XXXXX

Results

Month Number:000.00

Pay adjustment:000.00

Total taxable pay:000.00

Total tax due this period:000.00

Regulatory limit:000.00

Tax due at end of current period:000.00

Tax not deducted due to regulatory limit:000.00

**HM Revenue & Customs cannot be held liable for incorrect output from this Calculator.
Correct information can only result from this Calculator if correct details are entered.**

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This shows the tax code.

In Peter's example this would be 1150L.

This code is correct for tax year 2017/18. For later tax years, please contact HMRC or visit www.gov.uk for the correct emergency tax code.

This shows the amount you are taking from your retirement account, excluding the 25% that will be paid tax free.

In Peter's example this would be £15,000.

This shows the amount of tax that will be deducted.

In Peter's example this would be approximately £5,135.

Depending on your circumstances (e.g. income from other sources) you may need to pay more tax than the amount shown above or you may be able to get a tax refund from HMRC.

If you are taking a subsequent payment, the tax we deduct will depend on your personal circumstances (for example, your tax code when the payment is made).

You can find more information about this on the HMRC website.

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