SCOTTISH WIDOWS

Scottish Widows Platform

Adviser Guide to Drip-feed Drawdown

For Professional Advisers only

Contents

Introduction

Our platform provides access to state-of-the-art technology, which we continually develop to make your life easier, increase your firm's productivity, and help deliver better client outcomes.

As part of this, our platform offers automated Drip-feed Drawdown functionality. The following guide provides details on what this is, how it works, and why you might want to use this functionality for the benefit of your clients.

1

What is Drip-feed Drawdown?

Drip-feed Drawdown (DFD) is an automated option to help your clients take regular income from their pension. They can choose to take only tax-free cash or a mix of tax-free cash and taxable income, helping them to be more tax efficient in retirement.

What are the key benefits of Drip-feed Drawdown?

- **Helps your clients to be tax efficient:**

  By taking income out gradually, client's tax affairs can be managed more efficiently. This can help in reducing the tax burden compared to taking out large lump sums.

- **Automated but flexible:**

  Drip-feed Drawdown enables you to set up automated regular payments helping save time. These can be adjusted or stopped as required, giving you the future flexibility to better match client's income needs with their lifestyle.

- **Potential for growth:**

  Since your client's retirement pot remains invested for a longer period, it has more potential to grow and the opportunity for further tax-free cash to be accumulated.

What options does Drip-feed Drawdown offer?

You can select from the following options for your clients:

- **Tax-free cash only**
- **Tax-free cash and part taxable income**
- **Tax-free cash and all taxable income available**

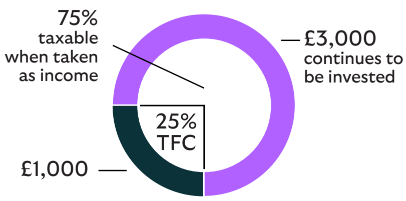
Payments can be set up on a monthly, quarterly, half-yearly, or annual basis. The value of the first payment amount can be set up differently from any subsequent regular payments.

Example

Drip-feed Drawdown gives you and your client flexibility regarding how much tax-free cash (up to 25%) and income is taken in each regular payment. If your client wanted to take £1,000 out of their pension, here are three ways to do this with Drip-feed (examples 2 and 3 include taxable income).

Example 1

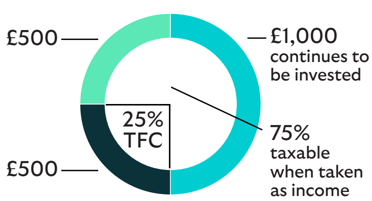
Tax-free cash only



£4,000
Crystallised

Example 2

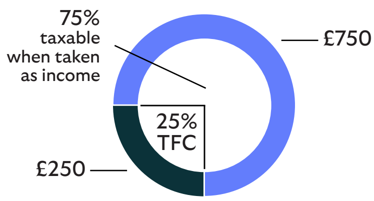
Tax-free cash and part taxable income (£500 taxable income in this example)



£2,000
Crystallised

Example 3

Tax-free cash and fully taxable income (75/25)



£1,000
Crystallised

Remember, if your client takes taxable income, the Money Purchase Annual Allowance will apply, limiting future pension contributions.

2

Why use Drip-feed Drawdown?

If your clients don't need to access their full tax-free cash entitlement, you can use Drip-feed Drawdown withdrawals to help them better manage their tax position in retirement.

When clients decide to retire or draw benefits some will need to access their full tax-free cash entitlement as a lump sum, but it means that any money taken as income after the tax-free cash has been taken will be subject to tax.

If there is no requirement to access the full tax-free cash, you can help clients to manage their tax position by taking their tax-free cash in regular instalments and using it to provide some or all of their income in retirement.

Any further taxable income withdrawals can then be minimised, and for some people, this can mean their taxable income is below the personal allowance so no tax is due, or for larger amounts, that only basic rate tax is due, rather than the higher rate or additional rate.

This also means –

- Money stays invested where it can potentially give a greater monetary entitlement to tax-free cash when they do eventually crystalise.
- If a client only takes the tax-free cash and they haven't used flexible access elsewhere, it doesn't trigger the Money Purchase Annual Allowance contribution restriction.

Example 1:

Michael has a personal allowance of £12,570 so any income he takes in excess of that will be taxed.

He has no other taxable income, so by using Drip-feed Drawdown he would be able to withdraw the £12,570 plus any associated tax-free cash before tax would be paid.

So he can withdraw £16,760 before any tax would be payable (£12,570 plus £4,190 tax-free cash).

It is not just clients on the threshold of basic rate tax that Drip-feed Drawdown can appeal to. This facility may be useful for those on the threshold of higher or additional rate tax.

Example 2:

Debbie is a senior manager aged 60 and wants to partially retire, but continue to work 4 days a week. She has been earning £60,000 per annum, and wants to maintain her standard of living. As her new salary will be £48,000 she has a £12,000 shortfall. She has a Pension on the Scottish Widows Platform of £600,000.

The £12,000 income Debbie previously received, and now wants to replace, gave rise to £4,346 in tax (£2,270 taxed @ 20% and £9,730 taxed @ 40%) and generated a net income payment to her of £7,654.

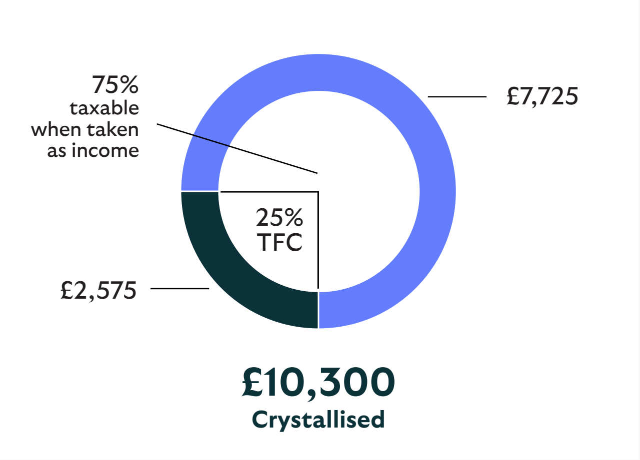
Option A:

Withdrawing the minimum amount from the Pension Account on the Scottish Widows Platform to replace income shortfall of £7,654 net.

By setting up Drip-feed Drawdown for £10,300 per annum, she can withdraw £2,575 as tax-free cash and an associated income of £7,725.

The tax on the £7,725 will be £2,636 (£2,270 will be taxed @ 20% = £454 tax and £5,455 @ 40% = £2,182).

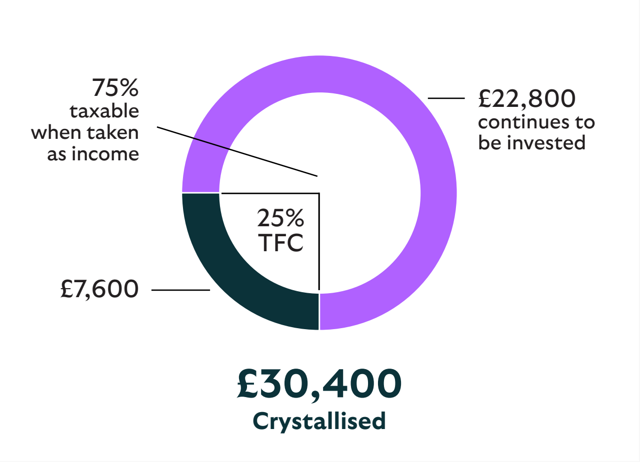
With the tax-free cash the income payments will give Debbie a net annual payment of £7,664 which all but covers her income requirement.



Option B:

Using tax-free cash only to replace income shortfall of £7,600 net.

She could set up Drip-feed Drawdown to crystallise £30,400 per annum. She can withdraw £7,600 as tax-free cash and take no other income so no tax would be payable. The remaining crystallised money would be invested on the Platform until she needs to take further taxable income.



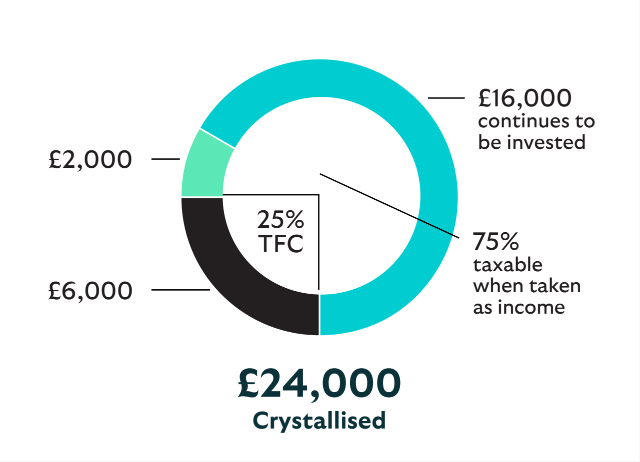
Option C:

Maximising tax-free cash withdrawal to avoid paying higher rate tax on any Drip-feed Drawdown income payments.

Debbie may decide to take just enough tax-free cash from her pension savings to minimise her tax bill and ensure none of her income payment falls into the higher rate tax band.

She could decide to crystallise £24,000 per year via Drip-feed Drawdown, this will generate £6,000 of tax-free cash and then she can draw £2,000 as income which will be taxed at 20% (£2,000 @ 20% = £400), giving rise to a total net payment of £7,600.

This would leave Debbie with the same amount of income but would reduce the amount of tax that she would have to pay.



Option to replace Salary	Salary	Tax payable on Salary	Drip Feed Crystallisation	Annual DFD TFC Amount	Annual DFD Income Amount	Tax Payable on DFD	Total Tax	Total Net Income
Current Salary	£60,000	£11,432	£0	£0	£0	£0	£11,432	£48,568
A	£48,000	£7,086	£10,300	£2,575	£7,725	£2,636	£9,722	£48,578
B	£48,000	£7,086	£30,400	£7,600	£0	£0	£0	£48,514
C	£48,000	£7,086	£24,000	£6,000	£2,000	£400	£7,486	£48,514

Who can take advantage of Drip-feed Drawdown?

- Clients aged 55 and over;
- Who do not require access to large amounts of tax-free cash in a single payment;
- Who require income from their pension account on platform;
- Who have sufficient Lump Sum Allowance and Lump Sum and Death Benefit Allowance to receive the tax-free cash payments;

It may also be appropriate for new clients who meet this criteria and who have started their plan with a single or transfer payment.

Who can't take advantage of Drip-feed Drawdown?

- Clients who have scheme specific protection in relation to a previous bulk transfer (i.e. Protected Retirement Age), or Primary Protection with protected tax free cash;
- Who have insufficient Lump Sum Allowance and/or Lump Sum and Death Benefit Allowance.

Lump Sum Allowance (LSA) And Lump Sum And Death Benefit Allowance (LSDBA)

When applying for Drip-feed Drawdown we will ask for a Tax Free Allowance Declaration to cover the tax-free cash payments requested.

If your client exceeds the LSA and/or LSDBA regular payments will continue, but the Pension Commencement Lump Sum (PCLS) will be restricted accordingly. Where this is restricted to zero, the platform will generate an adviser alert.

Please note that tax rules can change and that the value of the tax advantages of a Pension Account will depend on your client's circumstances. Your client's circumstances and tax rules may change in the future.

3

Charges and Illustrations

Account Charges

Current Personal Pension charges apply – there is no additional charge for using Drip-feed Drawdown functionality.

Adviser Charging

Normal options apply.

Illustrations

Our illustrations assume that any amount being designated will be disinvested proportionately across all investments.

Where the full amount being designated is not all being paid out, the remaining money will be part of the Income payment Strategy Payments to client.

4

Some Common Questions

Here are some common questions in relation to Drip-feed Drawdown functionality.

What are the options for Drip-feed Drawdown?

- **Pension Commencement Lump Sum (PCLS) only** - the balance will be held in drawdown.
- **PCLS and partial income** – the rest of their balance will be held in drawdown.
- **PCLS and full income**.

When you set up Drip-feed Drawdown the first payment amount can be different from the subsequent regular payments.

What's the frequency of the payments?

- Monthly
- Quarterly
- Half yearly
- Yearly

How far ahead do I need to set up a payment?

Any payment dates need to be set up a minimum of 12 working days in the future. Our system will carry out a number of automatic checks and validations during this period to ensure the payment proceeds successfully.

How will a payment appear to my client?

PCLS and any income will appear as separate payments. However they will both be paid into your client's bank account on the same day.

What happens if my client already has crystallised funds on the platform?

They can take income from these funds too. The frequency and date of payment will need to be the same for both payments. These will also need to be paid into the same destination account.

How do I ensure there is enough cash to pay my clients income?

When setting up Drip-feed drawdown you will be asked to confirm the income payment strategy. You can choose to sell assets proportionally or select specific assets.

Is there a charge for Drip-feed Drawdown?

No, there's no specific charge for Drip-feed drawdown. Your normal pension account charges will apply.

Are there any minimum requirements?

- Due to regulation, Drip-feed drawdown is not available to clients who have scheme specific protection (i.e. protected retirement age), or primary protection with protected tax free cash).
- All other requirements remain the same as any other crystallisation.

Once Drip-feed Drawdown is set up, can I change or stop the income?

Yes, you can. Any changes can be made in the Edit Pension withdrawals Journey within the platform.

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SCOTTISH WIDOWS

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