

# A Guide to Income Drawdown

How to turn your pension savings into the retirement income you need, with the flexibility to enjoy life on your terms.

This guide contains 14 pages and will take approximately 15 minutes to read



# Inside this guide

Income drawdown gives you the freedom to take your pension savings when you need them, while keeping your money invested for potential growth. This guide explains how it works, what to watch out for, and how we can help.

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# What is Income Drawdown?

Income drawdown is a way of withdrawing money from your superannuation account to supplement your income. It allows you to access your superannuation funds when you need them, without having to take a lump sum. This can be a useful option for people who are retired or approaching retirement and need to cover their living expenses.

There are several advantages to income drawdown, including the fact that you can withdraw as much or as little as you need, and you can stop withdrawing at any time. Additionally, the funds remain invested in your superannuation account, which may provide a return on investment. However, there are also some disadvantages, such as the fact that you will have to pay income tax on the withdrawals.

- You can withdraw up to 10% of your superannuation balance each year.
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# Income Drawdown at a Glance

Drawdown has become the most popular way for people to access their pension savings. Here are the numbers you need to know.

**350,000**

People entered drawdown in 2024/25

**£70.9bn**

Total withdrawn from pensions in 2024/25

**78%**

Growth in drawdown use since 2019/20

### Your Key Figures for 2025/26

Maximum tax-free lump sum	<b>£268,275</b>
Annual allowance	<b>£60,000</b>
Money purchase annual allowance	<b>£10,000</b>

**Important:** Taking taxable income from drawdown triggers the money purchase annual allowance, reducing your annual allowance to £10,000.

## What This Means for You

Drawdown offers people more flexibility and control over their pension savings. It's important to understand the implications of taking your money out, particularly regarding the money purchase annual allowance.

# Drawdown vs Annuity

The two main options for turning your pension into income are drawdown and annuity. You do not have to choose; in fact, many people use a combination of both.

### Income Drawdown

- Flexible income you control
- Income stops if you stop to work
- You have a cash pot
- Things you don't want to sell
- No investment choice
- Investment risk remains with you

**Best for:** Those wanting flexibility and control over their retirement income

### Annuity

- Guaranteed income for life
- No investment decisions to make
- Protection against living longer than expected
- Can't change your purchase
- Fixed, usually lower, income
- No choice in investment growth

**Best for:** Those wanting certainty and a secure, predictable income

**The hybrid approach**  
 You can use drawdown for flexibility early in retirement, then purchase an annuity later to secure a guaranteed income. We can help you find the right solution.

# How Tax Works in Drawdown

Understanding how your drawdown income is taxed helps you plan withdrawals efficiently and avoid paying more tax than necessary.

## Your Tax-Free Lump Sum

You can take up to 25% of your pension pot as a tax-free lump sum. This is known as the Pension Commencement Lump Sum (PCLS). The maximum you can take tax-free as a % of your pension is £26,000.

## How Withdrawals Are Taxed

Any income you take beyond your tax-free lump sum is added to your other income for the tax year and taxed at your marginal rate. If you have no other income, the first 25,000 is added to your personal allowance and is tax-free. After that, you pay 20% basic rate on income up to £37,700, 40% higher rate up to £150,000, and 45% additional rate above that.

### Did you know?

Taking your 25% tax-free lump sum does not trigger the money purchase annual allowance. Your annual allowance stays at £10,000 and you can make further tax-free withdrawals later.

# Making Your Money Last

The biggest challenge in retirement is making your money last. This is because you no longer have a steady stream of income from your employer. You need to make your money last for the rest of your life, which can be a long time. There are several ways to do this, including budgeting, investing, and using annuities.

The good news is that there are many ways to make your money last. You can budget your expenses, invest in stocks and bonds, and use annuities to provide a steady stream of income. You can also consider other options like part-time work or a reverse mortgage.

## Key Considerations

- How much money do you need to live on?
- How long do you expect to live?
- How long do you expect to live in retirement?
- How much money do you have to live on?



# Withdrawal Strategies That Work

The best approach depends on your circumstances, goals, and how long you will live.

## The Bucket Strategy

Divide your portfolio into three buckets. A short-term bucket of cash covers income for one to two years. A medium-term bucket holds bonds for years three to seven. A long-term bucket stays invested for growth beyond your needs.

## Managing Sequencing Risk

A market downturn early in retirement can significantly reduce your funds if you are withdrawing at the same time. Moving out to the start of a year with high returns can help reduce the risk of the downturn.

### The Right Approach

The best approach depends on your circumstances, goals, and how long you will live.

## Key Figures


**3.9%**

**£230.25**

**2 years**

# Case Study: Margaret and Peter

How Margaret and Peter used a drawdown to supplement their retirement



**Margaret and Peter, both 63**  
Former NHS manager and self-employed electrician, mortgage-free

**GOALS**

- Provide for their family in retirement
- Retire on their own terms

**FINANCES**

- £315,000 in savings
- £23,940 in State Pension

### Margaret and Peter's annual income

State Pension (both)	£23,940
Drawdown income (3.9% of £315,000)	£12,285
<b>Total annual income</b>	<b>= £36,225</b>

### WHAT THIS MEANS FOR MARGARET AND PETER

By using a drawdown, Margaret and Peter can supplement their State Pension to provide for their family in retirement. This allows them to retire on their own terms and provides a steady income stream.

# Drawdown and Your Estate

*Key advantages of drawdowns for your retirement income can be passed to your beneficiaries. Important changes are coming from April 2027.*

Feature	Before April 2027	From April 2027
Pension included in estate for IHT?	No	Yes
Death before 75: beneficiary tax	Tax-free lump sum or income	Income tax at beneficiary's rate, plus potential IHT
Death after 75: beneficiary tax	Income tax at beneficiary's rate	Income tax at beneficiary's rate, plus potential IHT
Spousal exemption	Yes	Yes, if long-term UK resident
Charity exemption	Yes	Yes

**Planning ahead matters**  
 From April 2027, pension drawdowns will be subject to income tax at the beneficiary's rate. If you have a pension, it's worth considering how you might want to draw down your pension.

# Protecting Your Plan

Protecting your plan is a critical step in ensuring your financial future. This section provides a comprehensive overview of the strategies and tools available to safeguard your investments and income.

<b>1</b> Understand your plan's terms and conditions.	<b>2</b> Review your plan's investment options.
<b>3</b> Consider the impact of taxes on your plan.	<b>4</b> Evaluate your plan's performance regularly.
<b>5</b> Explore options for loan or withdrawal.	<b>6</b> Check for any plan changes or updates.
<b>7</b> Consult with a financial advisor for guidance.	<b>8</b> Keep your plan documents up to date.

# Your Next Steps

Having completed your retirement plan, you now have a clear path forward. Here's how to get started.

## Gather your pension statements

30 mins

Collect your pension statements from all employers and personal pensions. Check if you have government savings and if they should be included.

## Check your State Pension

10 mins

Check you are to receive your State Pension forecast. This tells you how much government income you will receive each week.

## Think about your retirement goals

20 mins

Consider what you want to do in retirement. What will you need to live on? How much will you need to spend each month to cover your needs?

## Book a review with us

5 mins

Contact us to arrange a complimentary pension review. We will assess your options, make different scenarios, and help to plan ahead for your life.





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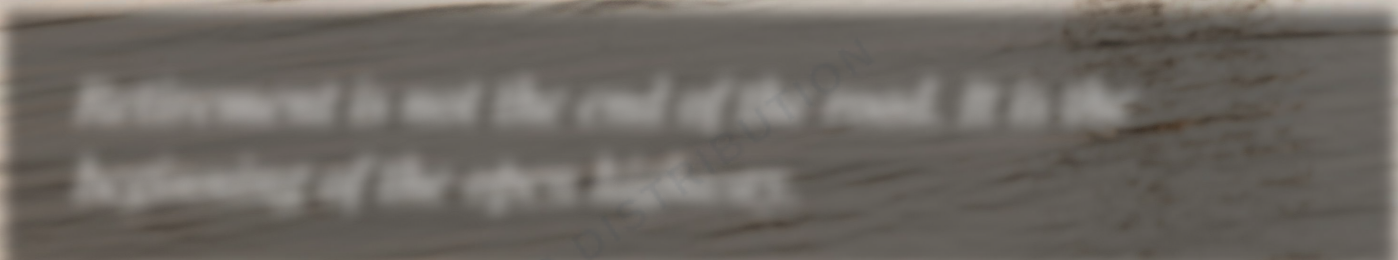
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Your Financial Adviser

# Your retirement deserves expert guidance

Income drawdown is one of the most important financial decisions you will make. The right strategy can mean the difference between a retirement spent worrying about money and one spent enjoying the life you have worked for. We are here to help you get it right.

## Ready to take the next step?

Call us on 0800 XXX XXXX or email [advice@example.com](mailto:advice@example.com) to book your free initial consultation.

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