YOUR QUESTIONS ANSWERED.

We’ve put together some information to help you understand the options available if you’re thinking about accessing your pension pot.

This booklet should be read with the accompanying Accessing your Pension Pot brochure. Please read all the items in this pack carefully and keep these for future reference.
The pension freedoms only apply to ‘defined contribution’ pensions where you build up a pot of money you can usually access from age 55. You might also hear these called ‘money purchase’ schemes. The size of your pension pot will depend on how much has been paid in, how your investments perform and the effect of charges.

The pension freedoms do not apply to ‘final salary’ or ‘defined benefit’ pension schemes. Such schemes pay guaranteed benefits based typically on your salary and years of service since joining the scheme.

This will depend on the options available under your pension plan. The Accessing your Pension Pot brochure explains what you are able to do in your plan. Other options may be available if you transfer your pension pot to a different pension product or provider.

If the cash lump sum is subject to tax, the first payment will be taxed using an emergency tax code. It ensures that you receive the basic personal allowance and it also assumes you’re entitled to 1/12th of this allowance each month, but doesn’t take into account any other allowances or reliefs you may be entitled to. We’ll keep using the emergency tax code until HM Revenue & Customs (HMRC) tells us (and you) what your correct tax code should be.

This means you may have paid too much or too little tax. We’ll confirm the details of this payment so you can reclaim any overpaid tax from HMRC, or pay any additional amounts that may be due.

If you think we’ve paid too much or not enough tax, you should contact HMRC.

Please see ‘How your pension pot is taxed’ on page 5.

If you’re taking a cash lump sum as part of the small pension pot rules, please see ‘What are the small pension pot rules, and are there any restrictions?’ on page 4.
There’s no limit on how much you can pay into your pension pot, however, there is a limit on the tax relief available. You can get tax relief on 100% of the gross earnings you contribute (or £3,600 if greater) up to the Annual Allowance.

The Annual Allowance for the 2017/2018 tax year is £40,000. If the total gross contributions paid by you, your employer or a third party, into any UK Registered Pension Scheme you’ve taken out are over the Annual Allowance, you’ll be subject to a tax charge. If you’re also in a final salary pension scheme (defined benefit), your gross contributions for that scheme will be based on the increase in the value of your benefits during the tax year.

In some circumstances a reduced Annual Allowance may apply:

- A Money Purchase Annual Allowance (£4,000 gross for the 2017/2018 tax year) will apply each tax year once you take money directly out of any money purchase (defined contribution) pension pot you have, unless you:
  - only take your tax-free cash lump sum, or
  - take all of it under the small pension pot rules, or
  - continue taking Capped Income Drawdown.

  Not all of these options will be available from every pension pot.

- Your Annual Allowance may also be reduced if your income (including the value of any pension contributions) is over £150,000 and your income (excluding the value of any pension contributions) is over £110,000.

The Annual Allowance will not apply in the tax year in which you die or if you access your pension pot because of serious ill health.

More information is available at: www.gov.uk.

You should contact your adviser if:

- You expect your total gross contributions into all pension schemes to exceed the Annual Allowance in any tax year, as unused allowances may be available from previous tax years;
- You have any additional questions, including whether your Annual Allowance will be reduced.

5. What is the Lifetime Allowance?

There are no restrictions on the value of the total benefits payable from all your Registered Pension Schemes. However, anything over a certain level, called the Lifetime Allowance, will be subject to a tax charge of up to 55% on the excess.

For most people their Lifetime Allowance will be the standard Lifetime Allowance. The standard Lifetime Allowance for the tax year 2017/2018 is £1 million. Certain circumstances may mean you have a different personal Lifetime Allowance - for example, if you’ve registered with HMRC for protection. Depending on the type of protection you have, any contribution to a plan may mean that you lose your protection.
6. If I decide to access my pension pot, will my State benefits or housing benefit be affected?

Accessing your pension pot may affect any State or housing benefits that you receive. You should check first by contacting the Pension Service: www.gov.uk/contact-pension-service; your local tax office; or seek guidance from Pension Wise.

7. What are the small pension pot rules, and are there any restrictions?

If your pension pot is £10,000 or less, it may be classed as a ‘small pension pot’. You can take the full amount as cash and this will not affect your Annual Allowance. You can take up to three small pension pots in your lifetime.

The first 25% will be tax free and we will deduct the basic rate of income tax from the remaining 75%. If you pay a different rate of tax, you’ll need to contact HMRC.

8. I currently live overseas, how will I be affected?

There is guidance on pensions and living abroad on: www.pensionwise.gov.uk/living-abroad. If having read this and taken the pension guidance you still need some help, you may wish to speak to a financial adviser for specialist advice.

9. What about Capped Income Drawdown?

Since 6 April 2015, it is no longer possible to start Capped Income Drawdown. If you used your pension pot for Capped Income Drawdown before this date, you can continue with it.

Unlike Flexi-Access Drawdown, taking an income under the Capped Income Drawdown rules will not affect your Annual Allowance.

You can change your existing Capped Income Drawdown into Flexi-Access Drawdown at any time but once you’ve done this you can’t go back to Capped Income Drawdown.

10. Who can I contact to help me decide what’s best for me?

If you’re deciding whether to access your pension pot, we recommend you use the free and impartial Pension Wise guidance service. You’ll be able to find out more on their dedicated website: www.pensionwise.gov.uk. This service offers guidance over the phone or face to face.

The Money Advice Service can provide you with detailed information about the pension freedoms and options in their brochure – ‘Your pension: it’s time to choose’, which can be found on their website: www.moneyadviceservice.org.uk

We recommend you speak to a financial adviser before you make any decisions. If you don’t have a financial adviser, you can find one in your local area by visiting: www.unbiased.co.uk
### HOW YOUR PENSION POT IS TAXED

During the tax year when you take a payment from your pension pot, the amount you take (after your tax-free cash lump sum) is added to any other taxable income during the same tax year and is taxed in the same way as earned income.

Income tax is split into bands and you pay different rates (20%, 40% and 45%) on earnings that fall into each band. The table below illustrates this:

<table>
<thead>
<tr>
<th>TAXABLE INCOME</th>
<th>This is the amount of earnings a person will pay income tax on: Taxable income = total earnings – Personal Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERSONAL ALLOWANCE</td>
<td>The basic Personal Allowance is £11,500 for the tax year 2017/2018; this is the amount of income that can be earned during a tax year before paying income tax. The Personal Allowance reduces by £1 for every £2 of income above £100,000, and is therefore zero if income is above £123,000.</td>
</tr>
<tr>
<td>RATES OF INCOME TAX</td>
<td>2017/2018 rates of income tax:</td>
</tr>
<tr>
<td>Nil income tax (For most, £0 to £11,500)</td>
<td>0%</td>
</tr>
<tr>
<td>Basic rate (For most, £11,501 to £45,000)</td>
<td>20%</td>
</tr>
<tr>
<td>Higher rate (For most, £45,001 to £150,000)</td>
<td>40%</td>
</tr>
<tr>
<td>Additional rate (Over £150,000)</td>
<td>45%</td>
</tr>
<tr>
<td>INCOME TAX THRESHOLD</td>
<td>Taxable income above which the higher rate applies</td>
</tr>
<tr>
<td></td>
<td>£33,500</td>
</tr>
<tr>
<td></td>
<td>Taxable income above which the additional rate applies</td>
</tr>
<tr>
<td></td>
<td>£150,000 (No Personal Allowance – see above)</td>
</tr>
<tr>
<td>SAVINGS</td>
<td>This example does not include income earned from savings above the personal savings allowance.</td>
</tr>
</tbody>
</table>

Please note: If you’re a Scottish taxpayer, the rates of income tax will differ. More information is available at: www.gov.uk/scottish-rate-income-tax.
Generally, the money you take out of your pension pot will be taxed in the same way as your salary. The amount of tax you pay will be determined by your tax code (also known as your PAYE code) and will normally be deducted ‘at source’, directly by the pension provider, under the Pay As You Earn arrangement. Your PAYE code will be adjusted to take account of any other income you receive, including the State pension.

**EXAMPLE** (for illustrative purposes only - figures are based on the rates of income tax shown in the table on page 5)

A customer aged 56 with a personal pension pot of £50,000, and a salary of £30,000 and no other benefits or income. Irrespective of the size of their pension pot, they would be subject to the basic rate of income tax which is 20%.

| TAXABLE INCOME | £30,000 - £11,500 | £18,500 |
| INCOME TAX DUE | £18,500 x 20% | £3,700 |

**STEP 1 – TAKING A TAX-FREE CASH LUMP SUM ONLY FROM THEIR PENSION POT**

If this customer takes 25% of their pension pot as a tax-free cash lump sum, this *would not* affect any income tax due.

25% of £50,000 = £12,500 (tax free)

Remaining pension pot = £37,500

Total tax due = £3,700

**STEP 2 – TAKING AN ADDITIONAL PARTIAL LUMP SUM**

This customer decides to take an *additional* £10,000 out of their pension pot in the same tax year. This will be subject to the basic rate of income tax and will be added to their income taking their total income to £40,000 this year.

| TOTAL EARNINGS | £30,000 salary + £10,000 lump sum = £40,000 |
| TAXABLE INCOME | £40,000 - £11,500 = £28,500 |
| INCOME TAX DUE | £28,500 x 20% = £5,700 |

Remaining pension pot = £27,500

Total tax due has increased from £3,700 to **£5,700**
STEP 3 – TAKING A SECOND ADDITIONAL PARTIAL LUMP SUM

This customer decides to take a further £20,000 out of their pension pot in the same tax year. This will be added to their income taking their total income to £60,000 this year, and a portion of their income would now be subject to the higher rate of income tax of 40%.

**TOTAL EARNINGS**

| £30,000 salary + £10,000 + £20,000 lump sums | = £60,000 |

**TAXABLE INCOME**

| £60,000 - £11,500 | = £48,500 |

**INCOME TAX DUE**

| £33,500 x 20% | £6,700 |
| £15,000 x 40% | £6,000 |

**TOTAL**

| £12,700 |

Remaining pension pot = £7,500

Total tax due has increased from £5,700 to £12,700

**SUMMARY**

So, this customer has received £12,500 tax free

Total income = £60,000

Total tax paid = £12,700

Amount of remaining pension pot = £7,500 (reduced from £50,000)

**FURTHER INFORMATION ABOUT TAXATION**

There is general guidance on the taxation of pensions on HMRC’s website: [www.gov.uk/tax-on-pension](http://www.gov.uk/tax-on-pension)

If you think you could be paying too much tax on your pension income, there is guidance on HMRC’s website at: [www.gov.uk/tax-on-pension/how-your-tax-is-paid](http://www.gov.uk/tax-on-pension/how-your-tax-is-paid)

If you have any queries relating to your tax situation, we recommend that you contact your financial adviser.

These details are based on our understanding of tax law and HM Revenue & Customs’ practice. The law and tax rates may change in the future. The amount of tax you pay depends on individual circumstances and may be subject to change.
CONTACT US.

Please call us on 0370 060 0784 if you have any questions about the options and how they impact your pension plan.

Open Monday to Friday, 9am to 5pm. Call charges will vary. We may record and monitor calls.

www.legalandgeneral.com

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