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 you take money out of your pension pot and it is subject to tax, the first payment will usually 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 pay too much or too little tax. We’ll confirm the details of the payment so you can reclaim any overpaid tax from HMRC, or pay any additional amounts that may be due.

If you want more information on how to reclaim any overpaid tax, please visit HMRC’s website: [gov.uk/claim-tax-refund](http://gov.uk/claim-tax-refund)

Please see the ‘How your pension pot is taxed’ section starting on page 5 for more information on tax.

If you’re taking a cash lump sum under the small pension pot rules, please see ‘What are the small pension pot rules, and are there any restrictions?’ on page 4.
4. What is the Annual Allowance?

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 2019/2020 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 2019/2020 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: 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 2019/2020 is £1.055 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: gov.uk/contact-pension-service, your local tax office, or get guidance from Pension Wise.

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

If the value of your pension pot is £10,000 or less, you may be able to take it all as a ‘small pension pot’. This is not the same as taking an uncrystallised funds pension lump sum (UFPLS), which is described in the Accessing your Pension Pot brochure.

You can take up to three small pension pots as cash from money purchase (defined contribution) schemes in your lifetime and this will not affect your Annual Allowance. Please see ‘What is the Annual Allowance?’ on page 3 for more information.

The first 25% of a small pension pot will normally be tax free and we will deduct the basic rate of income tax from the rest. 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: 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 and have not exceeded the maximum income allowed, 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: pensionwise.gov.uk This service also offers guidance over the phone or face to face. You can call Pension Wise on 0800 138 3944.

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 is enclosed in this pack and can be found on their website moneyadviseservice.org.uk or you can call them on 0800 138 7777.

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 at unbiased.co.uk or by calling 0800 023 6868.

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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 on earnings that fall into each band. The rates and allowances differ depending on whether you are resident in Scotland or the rest of the UK. HMRC will contact you if they think you are a Scottish taxpayer.

The table below illustrates this:

| PERSONAL ALLOWANCE | The basic Personal Allowance is £12,500 for the tax year 2019/2020; 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 £125,000. |
| RATES OF INCOME TAX | 2019/2020 rates of income tax: |
| Income Tax rate | Scottish rate | Rest of UK rate |
| Nil income tax | 0% (for most people, £0 to £12,500) | 0% (for most people, £0 to £12,500) |
| Starter rate | 19% (for most people, £12,501 to £14,549) | N/A |
| Basic rate | 20% (for most people, £14,550 to £24,944) | 20% (for most people, £12,501 to £50,000) |
| Intermediate rate | 21% (for most people, £24,945 to £43,430) | N/A |
| Higher rate | 41% (for most people, £43,431 to £150,000) | 40% (for most people, £50,001 to £150,000) |
| Top/additional rate | 46% (over £150,000) | 45% (over £150,000) |
| OTHER INCOME | This example does not include income earned from other sources such as savings or dividend income. |
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 ‘rest of the UK’ 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%.

<table>
<thead>
<tr>
<th>TAXABLE INCOME</th>
<th>£30,000 - £12,500</th>
<th>£17,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>INCOME TAX DUE</td>
<td>£17,500 x 20%</td>
<td>£3,500</td>
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</table>

**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 = £3,500

**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.

<table>
<thead>
<tr>
<th>TOTAL EARNINGS</th>
<th>£30,000 salary + £10,000 lump sum = £40,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAXABLE INCOME</td>
<td>£40,000 - £12,500 = £27,500</td>
</tr>
<tr>
<td>INCOME TAX DUE</td>
<td>£27,500 x 20% = £5,500</td>
</tr>
</tbody>
</table>

Remaining pension pot = £27,500

Total tax due has increased from £3,500 to £5,500
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. The first £37,500 (£50,000 minus £12,500) of their taxable income will be subject to the basic rate of income tax of 20%, and the remaining £10,000 (£47,500 minus £37,500) will 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 - £12,500 | = £47,500 |
| INCOME TAX DUE | £37,500 x 20% | £7,500 |
| | £10,000 x 40% | £4,000 |
| TOTAL | | £11,500 |

Remaining pension pot = £7,500
Total tax due has increased from £5,500 to £11,500

SUMMARY

So, this customer has received £12,500 tax free
Total income = £60,000
Total tax paid = £11,500
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: gov.uk/tax-on-pension
If you’re a Scottish taxpayer, more information is available at: gov.uk/scottish-income-tax
If you think you could be paying too much tax on your pension income, there is guidance on HMRC’s website at: 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.
Please call us on 03450 260003 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.

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Q51109B  04/19 194382