Taking benefits from your pension – Lump Sum Options

The options available to you depend on the type of pension you have. A defined contribution pension is one where you build up a pot using your personal contributions and those from your employer, plus tax relief and investment growth. A defined benefit pension is one where you receive a guaranteed income based on such factors as your salary and the length of service with your employer.

In this fact sheet we focus on defined contribution plans. The options available to members of defined contribution pensions are:

- Tax free lump sum. This is formally known as a Pension Commencement Lump Sum (PCLS).
- Uncrystallised Funds Pension Lump Sum (UFPLS).
- Small-pot lump sum.

Taking a PCLS
If you have a defined contribution pension, you can normally take up to 25% of the plan value as a tax free lump sum known as a PCLS.

You have the option to take all of your PCLS at once, or in stages. Each time you access an element of your pension fund (known as crystallising), you can receive 25% of the crystallised amount as a PCLS, with the remaining 75% used to provide you with an income through either a one-off taxable lump sum, income drawdown or a lifetime annuity.

There is a limit on the total amount of PCLS you can receive. In normal circumstances, each time you crystallise some benefits the limit is the lower of:

- 25% of the value of the pension benefits being crystallised, and
- 25% of your available lifetime allowance.

Uncrystallised Funds Pension Lump Sum (UFPLS)
Taking an UFPLS gives you the opportunity to withdraw a one-off, or series of, lump sums from your defined contribution pension without the need to move funds into a drawdown plan. You can control the frequency and amount of any UFPLS that you take, providing you with the flexibility to meet changing income or lump sum requirements.

An UFPLS can only be paid from uncrystallised pension funds, that is those that you have not already accessed.

As the option to take an UFPLS was only introduced in 2015, not all pension plans offer the flexibility for you to take one. Where this is the case, it would be necessary to transfer your pension to an alternative plan.

What are the tax consequences of taking an UFPLS?
25% of each UFPLS payment may be taken tax-free, with the balance taxable at your marginal rate of income tax.

If you are under 75, you must also have available lifetime allowance at least equal to the amount of UFPLS you require.

Once you have taken an UFPLS from any pension arrangement you will have a reduced maximum annual allowance of £4,000 in respect of your (and your employer's if applicable) future contributions to money purchase pensions, this is known as the money purchase annual allowance.

What is a small pot lump sum?
A small pot lump sum is a simple way to fully encash your lower value pension plans, as the rules only apply to plans (defined benefit or defined contribution) with a fund value of £10,000 or less. The criteria for taking a small pots lump sum is:

- The value of the specific pension plan must be £10,000 or less.
- The payment must eliminate your pension rights under that specific scheme or plan.

One of the key benefits of taking a small pot lump sum is that the payment is not tested against the lifetime allowance.

There is a limit on the amount of small pots you can take from personal pensions and other non-occupational pensions.

A maximum of three personal pension plans can be taken as a small pot lump sum, but there is no limit on the amount of occupational pensions you can take.

25% of your small pot pension plan may be taken tax free, with the balance taxable at your marginal rate of income tax if taken from an uncrystallised fund.

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Taking benefits from your pension – Drawdown Plans

- If it is paid from crystallised funds, the full amount is taxable.

Important Information

Our advice has been prepared based on our company's understanding of the current law and HM Revenue and Customs' practice. Whilst we believe the interpretation is correct we cannot guarantee it. Tax treatment may change in the future.

The levels of taxation and annual exemptions from taxation are subject to change and their value will depend upon your individual circumstances.

PLEASE REFER TO OUR SEPARATE DOCUMENT 'GENERAL AND INVESTMENT RISK WARNINGS' FOR ADDITIONAL INFORMATION RELATING TO THE RISKS OF INVESTING.