

7IM SIPP: A guide to your retirement options

This document contains important information and you should read it carefully and keep it safe for future reference.

Important notice

This guide is designed to explain the retirement benefit options that are available within your 7IM SIPP and some of the key things you need to consider. It should be read in conjunction with the Money Helper booklet entitled 'Your pension: your choices' as this contains a more detailed explanation of all of your options, including some not available with the 7IM SIPP.

In this document, certain terms have a particular meaning and are capitalised. You can find a list of these terms and an explanation of what they mean in the 7IM SIPP Glossary on our website www.7im.co.uk.

7IM SIPP A GUIDE TO YOUR RETIREMENT OPTIONS

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Introduction

Should I take advice before accessing benefits?

We strongly recommend that you seek advice from a regulated financial adviser before deciding to take any of your pension benefits. They will be able to discuss your financial needs and recommend the option most suitable for you. You will have to pay for this advice.

Is there any other guidance available?

Pension Wise is a service from MoneyHelper, backed by the UK Government, which offers free and impartial guidance to help you in deciding what retirement options are right for you.

Pension Wise has been created to ensure that appropriate guidance is made available to you and is accessible on the internet, telephone or face to face. It will give you:

- personalised guidance on how you can make the best use of your pension savings
- the opportunity to make an appointment with a pension expert to explain what options you have

- information about the tax implications of different options
- tips on shopping around for the best deal.

Further information about this free service can be found at www.moneyhelper.org.uk/en/pensions-and-retirement/pension-wise or by calling 0800 138 3944.

Do I have to take my pension benefits all at once?

No. You can take benefits in stages by notionally splitting the fund into a number of smaller arrangements. You can then crystallise (take benefits from) each of those arrangements over a number of years. This is known as “phased retirement” and may be useful if you want to gradually cut down the hours you work in the run up to stopping work altogether, as it allows you to gradually replace employment income with pension income. Each time you decide to take a further portion of your pension benefits, you will have the full range of options available to you in respect of that portion.

What retirement benefit options are available to me?

1 Leave your pension untouched

You don't have to take your pension benefits at the time you may have originally planned and it is even possible to defer taking benefits indefinitely. You will still be able to change your mind and take your pension at any time in the future, as long as you are over age 55. Your pot will continue to be invested and benefit from tax relief on the investment growth.

Advantages	Disadvantages/Risks
Your pension pot can continue to grow in a tax-free environment	The value of the fund could also go down if investment performance is poor
You can continue to contribute in a tax efficient way, up to age 75	

2 Transfer your pension to another provider

You don't have to take your benefits from the pension scheme that you have saved into. Other pension providers may offer additional features, such as flexible annuities, that are not available with the 7IM SIPP and you can transfer to another provider if you want to use these features. This is known as 'the open market option'.

Please note that not all pension providers will offer the full range of retirement options and different providers can offer different options. Further information about the importance of shopping around can be found in the Money Helper guide entitled "Your pension: your choices".

Advantages	Disadvantages/Risks
You may be able to access additional benefit options	Ongoing charges may be higher in the new scheme
Charges may be cheaper in the new scheme	The new scheme may not offer all available benefit options

3 Purchase an annuity

An annuity is a pension product where you exchange your pension pot in return for a guaranteed income for the remainder of your life. This is usually paid monthly and is taxable income.

You can also take up 25% of your pension pot tax-free as your tax-free lump sum, with the remainder of your pension pot can be used to buy an annuity.

When buying an annuity, you have the option to include:

- annual increases to help offset the effect of inflation
- a continuing pension for your spouse/civil partner when you die
- a guaranteed payment period (normally not exceeding 10 years), to allow payments to continue even if you die shortly after buying an annuity.

Including any of these additional features will reduce the initial level of income payable. If you do not purchase a spouse's/civil partner's pension or a guarantee period at the outset, the income will cease on your death.

Impaired life annuities are also available which may pay a higher level of income if you have certain medical conditions or for other lifestyle reasons (for example, if you are a smoker).

It is also possible to buy investment linked annuities where the income may increase in line with investment performance, although income may also be reduced if the underlying value of the investments falls.

You should shop around for the best rates as annuity rates will differ between providers and the options you choose. 7IM does not offer an annuity but has partnered with Just to offer the Secure Lifetime Income (SLI).

Advantages

Disadvantages/Risks

Can provide a guaranteed income for life

Once purchased, an annuity can't be changed or cancelled (outside of the 30 day cancellation period)

The ability to provide a guaranteed income for your dependants following your death

Inflation may outstrip the value of the income, even if increases in payments are included

Can be increased to help offset the effects of inflation

No ability to control your level of income

Enhanced rates for health/lifestyle issues

Investment linked annuities may reduce payments if markets fall

Investment linked annuities may increase payments in line with investment performance

Payments cease when the annuity holder dies, unless a dependant's pension or guarantees are purchased at outset



4 Take a one-off tax-free lump sum only

You can take up 25% of your pension pot tax-free as your tax-free lump sum. Note that the tax-free lump sum may be limited by the Lump Sum Allowance imposed by HMRC. If you chose not to take income straight away, your pot will continue to be invested for the future. You can take further lump sums or start receiving an income at any time and you will pay income tax on these. You can also use the remaining pension pot to buy an annuity at any time.

Advantages	Disadvantages/Risks
You can access a considerable amount of your pension pot tax-free	Once taken, the lump sum will form part of your estate for inheritance tax purposes
An immediate lump sum to invest or use as you wish	Money you withdraw as a lump sum will reduce the amount available to provide you with an income
Remaining funds continue to be invested in a tax-free environment	Taking a lump sum may make you ineligible to receive certain means-tested state benefits
Can be taken as a series of smaller lump sums	
You will not be subject to the Money Purchase Annual Allowance for contributions until you start to draw an income	
Can be used to repay debts (e.g. a mortgage)	

5 Uncrystallised Funds Pension Lump Sum (UFPLS)

You can take up 25% of your pension pot tax-free as your tax-free lump sum. Note that the tax-free lump sum may be limited by the Lump Sum Allowance imposed by HMRC. The remainder of the amount crystallised is taxable as income at your marginal rate of income tax. You can withdraw any amount (up to 100% of the fund value) in this way, although taking large payments may put you into a higher tax bracket, increasing the rate of tax you pay.

There is a charge of £135 (+VAT) per annum for taking income using UFPLS.

Advantages	Disadvantages/Risks
25% of the lump sum is tax-free	Once taken, the lump sum will form part of your estate for inheritance tax purposes
An immediate lump sum to invest or use as you wish	Money you withdraw as a lump sum will reduce the amount available to provide you with an income
Can be taken as a series of smaller lump sums to manage income tax liability	Large withdrawals may increase your rate of income tax payable
Can be used to repay debts (e.g. a mortgage)	You will become subject to the Money Purchase Annual Allowance for contributions
	Taking a lump sum may make you ineligible to receive certain means-tested benefits

6 One-off tax-free lump sum plus a regular income

You can take up 25% of your pension pot tax-free as your tax-free lump sum. Note that the tax-free lump sum may be limited by the Lump Sum Allowance imposed by HMRC. The remainder of your pension pot remains invested and you can draw an income from it using Flexi-access Drawdown. You can vary the amount of income you draw each year as there is no maximum or minimum income – you can even withdraw the whole of the remaining crystallised funds in one go.

If you are taking a regular income from your SIPP, you may wish to guarantee an element of this. This can be achieved by using some of your crystallised funds to purchase a Secure Lifetime Income (SLI) product.

SLI is a plan bought by the trustees of the SIPP on your behalf, which pays the trustees a guaranteed income for your lifetime, based on your individual circumstances. This guaranteed income can either be retained within your SIPP or used to provide some of the income which is paid to you by the trustees.

If you would like more information on SLI or an illustration then please speak to your financial adviser.

If you die whilst in drawdown, any residual drawdown funds in your 7IM SIPP can be passed to your nominated beneficiaries, either as a lump sum or as a pension to provide them income. The payment of any lump sums or income to beneficiaries will be tax-free if you die before age 75. If you are over 75 when you die, any payments of lump sum or income will be taxed as income of the recipients.

There is a charge of £135(+VAT) p.a. for taking income using Flexi-access Drawdown.

Advantages	Disadvantages/Risks
The lump sum is tax-free	Once taken, the lump sum and income will form part of your estate for inheritance tax purposes
An immediate lump sum to invest or use as you wish	Funds remain invested and could fall or rise in value
You retain control of the investment options within your 7IM SIPP	The level of income you select may not be sustainable in the long term
Income payments can be varied to manage your income tax liability	Income levels are not guaranteed
On death, residual funds pass to your nominated beneficiaries	You will become subject to the Money Purchase Annual Allowance for contributions
	Taking a lump sum and/or income may make you ineligible to receive certain means-tested benefits

7 Tailored Drawdown – regular crystallisation with payments of tax-free lump sum and option to take taxable income

You can give us a standing instruction to crystallise a set amount at a regular frequency, such as monthly or annually. This can either be for a set period of time, if you specify an end date for the instruction, or set to continue indefinitely (or until all funds have been exhausted).

You will also need to tell us whether you want the tax-free lump sum only paid to you from the crystallised funds or whether you would like the tax-free lump sum plus some or all of the remainder of the crystallised funds as a taxable income.

For example, you could instruct us to crystallise £2,000 per month and pay you 25% of the crystallised amount (£500) tax-free per month only. In this scenario, the remaining £1,500 remains invested as a drawdown fund, from which you can draw a taxable income in the future.

Alternatively, you could instruct us to pay you the whole amount crystallised each month. In that case, you would receive the first 25% (£500) tax-free, and the remaining £1,500 would be paid to you after deducting income tax at your marginal rate.

The following tables give examples, assuming that you are a UK tax payer, have no other income and the standard, personal tax allowance of £12,570 (for tax year 2023/24):

Table 1 : basic rate tax player

Monthly amount crystallised	Tax free lump sum taken	Taxable income taken	Less tax payable	Net payment to member	Left in drawdown fund for future use
£2,000	£500	£0	£0	£500	£1,500
£2,000	£500	£500	£0	£1,000	£1,000
£2,000	£500	£1,000	£0	£1,500	£500
£2,000	£500	£1,500	£91	£1,909	£0

Table 2 : higher rate tax payable

Monthly amount crystallised	Tax-free lump sum taken	Taxable income taken	Less tax payable	Net payment to member	Left in drawdown fund for future use
£6,000	£1,500	£0	£0	£1,500	£4,500
£6,000	£1,500	£1,000	£0	£2,500	£3,500
£6,000	£1,500	£2,000	£191 ¹	£3,309	£2,500
£6,000	£1,500	£4,000	£591 ¹	£4,909	£500
£6,000	£1,500	£4,500	£752 ²	£5,248	£0

Notes:

¹First £1,047.50 tax-free (personal allowance), balance taxed at 20% (basic rate)

²First £1,047.50 tax-free (personal allowance), next £3,141.66 taxed at 20%, balance taxed at 40% (higher rate)

The tax figures quoted are based on our current understanding of UK tax law and are subject to change. You should talk to your accountant or financial adviser regarding your personal circumstances.

Once all of your funds have been crystallised, no further tax free lump sums would be payable. The tax-free lump sum may also be limited by the Lump Sum Allowance. Please see page 15.

An annual charge of £135 (+VAT) is also payable if you are taking any taxable income under this facility.

Advantages	Disadvantages/Risks
You do not have to take all of your tax-free lump sum at once – the remainder stays invested within the SIPP and outside of your estate for inheritance tax purposes	Funds remain invested and could fall or rise in value. The remaining tax-free cash available to you could also fall or rise in line with fund performance
You retain control of the investment options within your 7IM SIPP	The level of income you select may not be sustainable in the long term and could lead to your funds being depleted
A proportion (usually at least 25%) of your monthly income is tax-free	If you take any taxable income under this option, you will be subject to the Money Purchase Annual Allowance for contributions
Payments can be set at a level to manage your income tax liability	Taking a lump sum and/or income may make you ineligible to receive certain means-tested benefits
On death, residual funds pass to your nominated beneficiaries	

Can I use Capped Drawdown?

If you already have a Capped Drawdown arrangement you may continue to receive a regular taxable income as a Capped Drawdown pension or you can switch to Flexi-access Drawdown, as above. You should speak to your financial adviser about whether this is right for you.

The maximum income that you can take under Capped Drawdown has to be reviewed every 3 years. Once you reach age 75, it has to be reviewed annually.

Is there a limit on the amount that I can take as a tax-free Lump Sum?

The Lump Sum Allowance (LSA) is a limit imposed by HMRC on the total amount that an individual can receive as tax-free lump sums from all of their pension schemes.

Each time you crystallise further benefits in your 7IM SIPP, a test is carried out against the Lump Sum Allowance.

Can I change my mind?

Once you have completed your application to receive a flexible income and/or a lump sum, we will normally pay the tax-free lump sum and arrange the first taxable income or lump sum payment. You will then be provided with the opportunity to change your mind and we will send you a form to complete and return within 30 days. If you change your mind, you will have to return any lump sum we have paid and it will be reinvested in your 7IM SIPP account. The value of your pot may be smaller or larger than before, as the price of units is likely to be higher or lower than they were when we paid the lump sum to you.

If you buy an annuity we will transfer your pension pot to the annuity provider, who will also write to you asking whether you wish to change your mind and will send you a form to complete and return within 30 days. If you change your mind they will return your pension pot to us and it will be reinvested in your 7IM SIPP account. The value of your pot may be smaller or larger than before, as the price of units is likely to be higher or lower than they were when we paid your pension pot to your annuity provider.

If I buy an annuity

a) Will my health or lifestyle affect how much income I may receive?

You should always shop around for the company that will provide you with the highest income. It's a good idea to provide each company with details of any medical conditions as this may increase how much income they will pay. You should also tell them about smoking or any other lifestyle habits that may also increase the income they will pay you.

b) Will the income continue to be paid to my spouse and/or dependants?

When you select an annuity you can choose from a range of options that will continue to pay some income or a lump sum to your spouse or dependants when you die.

Income payments can be guaranteed for a minimum period, and if you die within that period they will continue to be paid to your estate for the remaining time. It may be possible to pay these as a lump sum instead.

Income payments can continue to be paid to your spouse or dependants after you have died. These payments will continue until their death or your dependants complete their education or are independent. They can receive the same amount as you or it can be reduced.

Alternatively, your annuity does not need to include either of the above options, and can stop when you die and your spouse and dependants will not receive an income or lump sum.

c) Will the income rise with inflation?

When you select the type of annuity, you can choose for the income to be the same each year, for this to increase each year by a fixed percentage or to increase in line with inflation.

If you decide to receive an annuity that increases each year, the amount of income you will receive at first will be considerably lower than if you have a level income (i.e. one that does not increase over time).

d) Is the income guaranteed?

Yes, when you select an annuity the provider guarantees to pay that income until your death or that of your spouse or dependant if you have set it up that way. If the annuity provider were to become bankrupt, your annuity is protected and a replacement provider will be appointed who must pay 100% of the income.

e) How will my income be taxed?

You will pay income tax on your annuity income. The amount of tax you pay each year will depend on your own personal circumstances and your total taxable income.

The pension income will be added to the rest of your taxable income to decide how much tax you pay.

Normally your provider will ask you for your tax code before starting to pay you. Once they have received this, they will use it to deduct the correct amount of tax from each payment. HMRC will inform them automatically of any future changes to your tax code and they will apply it.

If you pay too little tax, once you have completed a self assessment tax return HMRC will ask you to pay the extra tax that is due to them. If you have had too much tax deducted, you can claim a refund by calling HMRC. They will send you the appropriate forms to complete to get a tax refund.

Visit www.gov.uk for more information about tax.



If I take an income from my pot by drawdown

a) **Where is my pension pot invested and is it guaranteed?**

Your pension pot will continue to be invested in your existing 7IM SIPP, although you will need to tell us which assets you want us to sell in order to meet the payments requested by you. You will need to review your investments on a regular basis to ensure that they are appropriate to the level of risk you are prepared to take and your capacity to cope with a loss in the value of your pension pot. The value of any investments within your pension pot may go up as well as down. The value of your pension pot is not guaranteed.

We would recommend that you seek advice from a regulated financial adviser in relation to the investment of your funds.

However, should you decide that you don't want advice then we need to make you aware of "Investment Pathways".

From 1 February 2021, the Financial Conduct Authority (FCA) has introduced "Investment Pathways" for customers who wish to go into drawdown without taking financial advice, to help them pick investment options that may suit their specific objectives.

When using investment pathways, the investment of your fund will depend on your overall objective and to help you in this respect, the FCA have set out four scenarios:

1. I have no plans to touch my money in the next five years
2. I plan to use my money to set up a guaranteed income (annuity) within the next five years
3. I plan to start taking my money as a long-term income within the next five years
4. I plan to take out all my money within the next five years

7IM does not offer tailor-made investment pathways, although these are available from other providers. This would therefore mean transferring away from 7IM if you wish to use these pathways.

If using investment pathways, it is important that you shop around to find a suitable provider for whichever option you require. To assist you, you may wish to refer to the drawdown comparator tool available on the Money and Pensions Service (MaPS) website, which can be found **here**.



Cash warning

Where a significant proportion (typically more than half) of your drawdown funds are invested in cash or cash-like investments, you need to be aware that the value of your drawdown funds runs the risk of being eroded by the effects of inflation.

For example, assuming that inflation remains constant at 2% and that you earn 0% interest on cash, a drawdown fund of £10,000 would be worth £9,039 in real terms after 5 years. Other charges, including scheme charges may further erode this value.

You therefore need to carefully consider whether keeping a large proportion of your fund invested in cash is likely to meet your long term drawdown objectives and requirement for income.

Please note that this warning does not constitute advice, nor a substitute for advice and we would recommend that, if you are in doubt, you should speak to a financial adviser.

Whilst remaining invested in cash runs the risk of your fund being eroded as mentioned above, we should also point out that other types of investment carry their own risks and that the value of any investment (for example, equity based investments) can fall as well as rise.

b) Is my income sustainable?

There is no guarantee that the income you decide to take can be maintained in future. It will depend upon the performance of the investments that are held and how much you withdraw from your pot each time. If you withdraw a large amount from your pot it is more likely to run out than if you take smaller amounts. If your investments fall heavily in value in the early years after you have started to take benefits, your income will be less sustainable than if losses are incurred later on.

You may be able to guarantee an element of your income by purchasing a Secure Lifetime Income product (SLI) within your SIPP.

c) What happens if I cash it all in?

You can withdraw all of your remaining pension pot as a lump sum at any time. This cash withdrawal will be treated as taxable income and you will pay income tax at your highest marginal rate. If it is a large sum or where a combination of your current taxable income and this amount exceed the higher rate or additional rate tax thresholds, you could pay 40% or 45% income tax on some or all of the amount that is withdrawn. You may also lose all or part of your personal tax allowance.

If you have some pension pots from which benefits have not yet been taken, normally a quarter of the pot will be paid tax-free and income tax will be deducted from the remainder. We will also check these against the Lifetime Allowance.

d) Do I need to review my pension pot in future?

It is important that you regularly review your pension pot especially as you may be relying upon it to provide you with an income for many years. If your circumstances change, such as needing a different level of pension income or there is a change to your family or dependants, you may need to take financial advice. If there are significant changes to investment markets, such as a large fall in the stock market, you may also need to consider the continued suitability of your overall financial plans.

e) I am receiving means-tested benefits – how are these affected?

If you are in receipt of any means-tested benefits then receiving a lump sum and/or an income from your pension may reduce the level of benefits that you are entitled to. You are responsible for advising the appropriate agency about any increase in your savings and/or income. If you are unsure of the impact that taking your pension benefits will have on your state benefits you should seek advice. The Citizens Advice Bureau and Age UK are just two of the organisations who may be able to provide you with specific advice.

f) How will my income be taxed?

You may pay income tax on your pension income. The amount of tax you pay each year will depend on your own personal circumstances and your total taxable income.

The pension income will be added to the rest of your taxable income to determine how much tax you will be liable to pay. This could mean that you will pay tax at a higher rate than you have previously.

Normally, when we make your first payment we use an emergency tax code to calculate the amount of tax to deduct from your pension. You may therefore pay more tax up front than you need to, especially if you normally pay tax at the basic rate (20%) or are a non-tax payer.

If you have had too much tax deducted, you can claim a refund by contacting HMRC. They will send you the appropriate forms to complete to get a tax refund.

If you pay too little tax, once you have completed a self assessment tax return HMRC will ask you to pay the extra tax that is due to them.

Once we have received your actual tax code, we will use this to deduct the correct amount of tax from each payment. HMRC will inform us automatically of any future changes to your tax code and we will apply it.

Visit www.gov.uk for more information about tax or login to your personal tax account.



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Registered address: 1 Angel Court, London EC2R 7HJ. Registered in England and Wales number 10902511.

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