CURTIS BANKS

CASE STUDY

UFPLS BEFORE AND AFTER AGE 75

APPROVED FOR ADVISER USE ONLY | APRIL 2020

Two clients in similar situations want to take the same type of payment from their pensions. However, the difference in their ages makes a big difference to their options.

The Challenges

Pat's clients, Victor and Orla, are brother and sister. Both want to take an uncrystallised funds pension lump sum (UFPLS).

Victor is 68 years old. He used up 90% of his lifetime allowance during the 2017/18 tax year by taking a £225,000 pension commencement lump sum (PCLS) and putting £675,000 into flexi-access drawdown. He has further uncrystallised pension benefits worth £153,000 in another pension which does not offer drawdown. He would now like to exhaust this pension using a UFPLS.

Orla is 77. She had used 95% of her lifetime allowance by the time she reached the final lifetime allowance tests at age 75 in February 2018. At that time, she still had remaining uncrystallised pension benefits worth £40,000, which used up 4% of the £1m lifetime allowance at the time. The uncrystallised funds are now worth £60,000 and Orla would like to withdraw them using a UFPLS. She has worked out the exact net amount it will provide an already has plans for the money.

Pat is aware that the UFPLS rules are a little tricky when people have reached the lifetime allowance and that there are differences in their treatment before and after age 75. He speaks to a colleague who has more experience with this type of payment before the meeting he has planned with Victor and Orla to go over their plans in more detail.

The Actions

Pat meets with Victor and Orla and goes through Victor's situation first. He explains that Victor will not be able to withdraw the full £153,000 as a UFPLS. This is because the rules state that for someone below age 75, a UFPLS payment has to be entirely within his or her remaining lifetime allowance. This is to stop people from receiving a higher tax free amount from a UFPLS than they would be entitled to receive as PCLS if they were using another method of taking pension benefits. Victor has 10% of his lifetime allowance available. During the 2020/21 tax year this equates to £107,310.

Victor asks how he will be able to access the remaining £50,000 if the scheme does not offer drawdown and the rules won't allow it to be a UFPLS. Pat confirms that the £50,000 can be paid as a lifetime allowance excess lump sum, which would be subject to a 55% charge. Pat also confirms that Victor should be able to request the UFPLS and the lifetime allowance excess lump sum at the same time and the provider should be able to process them together.

Orla asks if this means that she can't take her planned UFPLS either. Pat explains that Orla will be able to withdraw her UFPLS, but it won't be taxed in the way she is expecting it to be.

Because Orla is over 75, the rules state that she only needs to have some of her lifetime allowance available when the UFPLS is paid.

For this purpose, the amount used up by tests at age 75 is ignored.

However, rules also state that the tax free portion of the UFPLS is restricted to 25% or Orla's remaining lifetime allowance. Similar to the lifetime allowance condition for under-75s, this also makes sure that people can't get a higher tax free amount through a UFPLS than they could receive as PCLS.

Orla had 5% of her lifetime allowance remaining before her tests at age 75. This now equates to £53,655. Therefore £13,413.75 of Orla's UFPLS will be paid tax free, and £40,241.25 will be subject to income tax.

The Results

Pat confirms that Victor and Orla both want to proceed with the payments they have discussed.

Orla will receive slightly less from her UFPLS than she was expecting but it isn't too much of a problem. She will reconsider her plans, and if necessary will simply take a small income payment from her pension in addition to the UFPLS to make up the difference.

Pat will instruct Victor's pension provider to pay the maximum UFPLS available and to process the remaining pension benefits as a lifetime allowance excess lump sum.

Contact Details

If you'd like to speak to us about anything in this case study, please contact us on:

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We may record and monitor calls. Call charges will vary.

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Please remember not to send any personal, financial or banking information via email as it is not a secure method of communication.