CURTIS BANKS

CASE STUDY

REGULAR UFPLS

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A client has recently stepped away from their job but isn't ready to retire. He wants to take income from his SIPP and approaches his financial adviser to establish a tax efficient way of doing this.

The Challenges

Steve Jones has just turned 61. He recently stepped away from his role managing a sports equipment rental firm, but doesn't quite feel ready to fully retire. He plans to spend some time staying in Canada over the next couple of years, exploring opportunities to launch a similar business there. If the right opportunity arose, he may move to Canada permanently.

As Steve is not currently working, he plans to access his pension for income. He has a SIPP worth approximately £1.7m and holds fixed protection 2012. Steve's gross salary before he stopped working was around £83,000 a year, and he thinks his expenditure will remain broadly similar. Steve's not sure at the moment when he'll be in the UK and when he'll be in Canada, or how easy it will be for him to liaise with his provider while he's abroad. He thinks it might be easier to simply withdraw three or four years' worth of money now as PCLS (tax free cash) and keep it in an easily accessible account; that way he doesn't have to worry about keeping regular contact with his provider but also won't pay income tax on several years' worth of income at once.

Steve contacts his wealth manager Isla to discuss disinvesting enough pension investments to provide the required cash.

The Actions

Isla is not convinced by Steve's plan. She explains that withdrawing pension money before it is actually required is rarely the best course of action, as the excess funds lose the tax advantages of the pension wrapper unnecessarily. Steve would be better leaving the funds in an environment where they will hopefully enjoy a few more years of tax free investment growth and will be outside his estate for inheritance tax purposes should the worst happen.

Isla also confirms that taking a large portion of PCLS with no taxable income is not usually the most tax efficient way of accessing a pension, especially considering that Steve has no other sources of income at the moment. He also doesn't need to worry about taking taxable income and triggering the money purchase annual allowance (MPAA), as his fixed protection means that he has already stopped contributing to his pension.

CONTINUED

Isla points out that Steve can achieve broadly the same net income as he had from his salary by withdrawing £66,000 from his pension:

Figures for 2024/25 tax year	Previous salary £83,000	Pension income £66,000
PCLS	N/A	£16,500
Personal allowance	£12,570	£12,570
Taxable income	£70,430	£36,930
Income tax	£20,632	£7,386
NICs	£3,671	N/A
Total take home pay	£58,697	£58,614

This method leaves more of Steve's funds uncrystallised and gives him greater scope for using PCLS and his personal allowance to minimise his tax liability in future years too. Isla adds that by leaving more funds uncrystallised, Steve increases the potential for the value of those funds to grow in future years, which can further increase his PCLS entitlement. Any PCLS or (the tax free element of any) UFPLS is subject to the Lump Sum Allowance (LSA) and Lump Sum and Death Benefit Allowance (LSDBA).

As Steve is under age 75, in order to take UFPLS he must have enough LSA and LSDBA to cover the whole of the tax free element.

Steve's still concerned about needing to keep on top of the arrangements for the income and his investments while he's living between the UK and Canada, but Isla tells him not to worry. Along with drawdown, his provider also offers uncrystallised funds pension lump sums (UFPLS), and has an option to set up regular UFPLS payments for periods of a year. Steve has already confirmed to Isla that he will at least be home every December to spend the festive period with his brother's family, so they will be able to make the arrangements for the following year each December. Steve won't need to worry about the payments in between, and will have the flexibility to make changes each year if required.

Isla also reassures Steve that she can put in place an investment solution which will meet his needs. She will arrange for six months' worth of UFPLS payments to be held in the SIPP cash account ready to be paid, with a further six months' worth of funds to be held in fixed term bank accounts (FTBAs) to achieve a better rate of return before being made available for payment. Isla will then split the remaining pension equally between a smoothed investment solution and a discretionary fund manager (DFM). The DFM will risk-profile Steve and invest his money accordingly for the long term. She plans for the returns from the smoothed investment to provide the income for the following years, knowing that if there is a shortfall this can be met by disinvesting some of the portfolio with the DFM.

The Results

With Isla's help, Steve sets up his first year of UFPLS payments. He will receive a monthly UFPLS of £5,500; £1,375 of which will be tax free and the remainder of which will be taxable.

Steve's confident that he's now making the best use of his PCLS and personal allowance and that this method will give him more flexibility in the future.

Important points to consider

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55, although this is due to increase to 57 in 2028.

This information is based on our understanding of current legislation, including (but not limited to) FCA, PRA and HMRC regulation. It does not constitute any form of advice.

Contact details

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