UNCRYSTALLISED FUNDS PENSION LUMP SUM (UFPLS) – WITHDRAWAL OF ENTIRE FUND

What is it?

You can withdraw a single lump sum from your pension without the need to move the funds into a drawdown plan first. 25% of the fund may be taken tax free within defined limits with the balance taxed at your marginal rate(s) of income tax.

Eligibility

In order to take advantage of UFPLS there are a number of conditions that need to be met:

- You must be aged 55, this will be 57 from 2028, or over, or, if younger, meet ill-health conditions.
- The payment must be payable from your uncrystallised rights held in a money purchase pension.
- There's no maximum age to take an UFPLS and there's no need to have any lump sum allowance or lump sum and death benefit allowance available in order to take an UFPLS but the amount of the tax free element of the UFPLS payment is determined by the amount of available allowances (and can't be more than 25% of the UFPLS payment)
- An UFPLS can't be taken if primary or enhanced protection with protected tax free cash is in place, if a person has a lifetime allowance enhancement factor but the lump sum allowance is less than 25%, if a person has enhanced protection and has taken a serious ill-health lump sum and an UFPLS can't be paid from a disqualifying pension credit
- Where scheme specific lump sum protection exists, the right to the higher TFC would have to be given up in order to use UFPLS.

Main features of UFPLS

Changes from 6 April 2024	If you have accessed a pension plan of any type before 6 April 2024 and might benefit from increasing your tax free lump sum entitlement through obtaining a Transitional Tax-Free Amount Certificate (TTFAC), then if you take a Pension Commencement Lump Sum (PCLS or tax free cash sum) or Uncrystallised Funds Pension Lump Sum (UFPLS) on or after 6 April 2024 before obtaining a TTFAC you will have lost the chance to do so. This may mean a lower entitlement to tax free lump sums during your lifetime or for your beneficiaries if you should die before age 75 than might have been the case if you had obtained a TTFAC.
Age and health	You can choose how much you want to withdraw without reference to any rates or limits other than the size of your pension fund. If you or your spouse is relatively young, a secured pension (lifetime annuity or scheme pension) would be less attractive due to the lower mortality factor.
Investment risk	The value of any uncrystallised segments may go down as well as up and investment returns may be less than those shown in the illustrations. This could result in a lower income if / when an annuity is eventually purchased.
Other risks	Annuity rates may be at a lower level when annuity purchase takes place and there is no guarantee that your income will be as high as that offered under the other options referred to earlier. There is no guarantee that annuity rates will improve in the future. They could be lower if / when you decide to purchase an annuity than they are currently. Your pension may be lower than if you bought a lifetime annuity now.
Flexibility	You can take all of your pension fund as a lump sum or take your fund in stages over a number of years. An annuity or drawdown pension can be purchased with any of the funds you withdraw (or you can utilise the funds in any way you see fit). You can elect to take any uncrystallised pension funds in other formats such as annuity purchase or flexi-access drawdown. Your uncrystallised pension funds continue to be invested, thus providing you with the possibility of higher future income. This depends largely on how much you take out of the pension fund and future investment returns achieved on the residual fund. You will be able to change the shape of your retirement income to reflect your personal circumstances in the future. Should your health deteriorate, it may be possible to achieve a better annuity rate (i.e. higher income) in future. It is also possible to postpone the choice of whether to include any survivor's pensions until a lifetime annuity is purchased – this could be valuable for someone whose spouse is in poor health.
Taxation	25% of the UFPLS payment may be taken tax free within available lump sum allowance and lump sum and death benefit allowance limits, with the balance taxed as pension income at your marginal rate(s) of income tax. From 2024/25 it is possible to take an UFPLS payment even if over 75 and whether or not the UFPLS has a tax free element, i.e. an UFPLS can still be taken if all allowances have been fully used up but all of the payment would then be subject to income tax.The provider of your pension plan will make your payment through the PAYE system and you should be aware that if they do not hold your correct tax code, an emergency code will be used and you may need to reclaim or pay additional tax through your self-assessment tax return or by way of a separate claim. You can structure your income to mitigate liability to personal income tax. By reducing your withdrawal in some years you may be able to avoid a higher rate tax liability. All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.
Transfers & withdrawals	Benefits may commence at any time from the age of 55 (57 from 2028).
Availability	Some products will not be able to support UFPLS and you may need to transfer your pension fund before being able to withdraw your funds.
Long term care	If you have withdrawn all of your pension fund and it is in a bank account or other savings vehicle it may be taken into account.
Treatment after death	Any pension funds that are still uncrystallised on your death (i.e. remain in your pension plan untouched) can be paid to your beneficiaries as a lump sum, used to provide an annuity income or moved into drawdown to be drawn on as and when required. Funds withdrawn as a lump sum or as annuity or drawdown income will be tax free if you died before age 75 (in the case of lump sums, as long as they are within your available Lump Sum and Death Benefit Allowance. On death after age 75, both lump sum and income payments (annuity or drawdown) are taxed on the recipients at their marginal tax rate(s). If you take the UFPLS and do not spend it, it will be included in your estate and be assessable for inheritance tax.
Type of charges	There may be ongoing charges for any uncrystallised segments.
Future planning issues	If your health / circumstances change, you can move any uncrystallised segments into drawdown and or / purchase an annuity. Further tax-relievable pension contributions may be made before age 75. Where an UFPLS payment has been taken, tax efficient contributions to money purchase pensions will be limited to the £10,000 money purchase annual allowance rather than the standard annual allowance of £60,000. When you first flexibly access your pension, the scheme administrator has to provide a statement to you within 31 days. You must then notify any other schemes that you are an active member of (i.e. where contributions are being paid to a money purchase scheme or you are accruing benefits under a cash balance or hybrid scheme) within 91 days of receiving their statement, so that they're also aware that the £10,000 money purchase annual allowance will apply.