

PCLS VS UFPLS WHICH ONE IS BEST FOR YOU?

PCLS vs UFPLS

The pension freedoms introduced in April 2015 provided the opportunity for anyone to take their entire pension fund out in one go. Previously, only 25% of the fund could usually be taken as a lump sum and this amount was tax-free. The new rules still allow anyone to take 25% of their fund as a tax-free cash sum but also provide the option to withdraw the rest as a lump sum too.

What is an UFPLS and a PCLS?

When you come to draw the benefits from your Self-Invested Personal Pension (SIPP) you will have the opportunity to take up to 25% of the fund value as a tax-free cash sum, otherwise known as the 'Pension Commencement Lump Sum' (PCLS). You have a number of options available to you with the remaining 75% and here we will summarise the PCLS and the popular Uncrystallised Fund Pension Lump Sum (UFPLS).

UFPLS - Key points

- UFPLS is a way to take pension funds as a lump sum (or a series of lump sums).
- Normally 25% of the lump sum is tax-free with the balance subject to income tax.
- Emergency tax codes will normally apply resulting in an initial over-payment of tax.
- UFPLS will trigger the £10,000 money purchase annual allowance (PCLS alone does not).
- If you're under 75, you must have sufficient life-time allowance (LTA) to cover the UFPLS.
- If you're over 75, you only need to have some LTA left to take your UFPLS.
- Not available before age 55 (57 from 2028) unless you are in poor health.
- If you have primary or enhanced protection which includes tax free cash protection, you can't take a UFPLS.

What is a PCLS?

A PCLS is a tax-free payment, normally limited to 25% of the value of your pension fund.

PCLS - Key points

- Usually 25% of the fund value, or 25% of the remaining life-time allowance if lower.
- You must have sufficient lifetime allowance remaining to receive the cash sum.
- You can take out the full 25% in one go or a series of payments.
- For someone in normal health the payment cannot be made before age 55 (57 from 2028).
- People with Enhanced or Primary Protection were also able to register their tax-free cash.