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Pension drawdown

Greater flexibility in accessing your pension funds

Pension drawdown is a flexible way of taking income from your pension, introduced after the pension freedom rules in April 2015. Before that, the government limited how much income you could take from your pension unless you had other sources of income, and annuities were commonly used to provide a guaranteed income for life.

Nowadays, you have more flexibility in accessing your pension funds, allowing you to take as much or as little as you want. However, you must be aware of potential tax consequences if you withdraw the entire amount at once. Some individuals prefer to invest their pension funds for potentially higher growth rates rather than opting for annuities or a combination of both options.

SPECIFIC TAX IMPLICATIONS TO CONSIDER

It's essential to seek professional advice well before retirement to ensure that you have a clear understanding of your income requirements and how much you need to have invested to meet these needs. Doing so allows you to access your money in a way that suits your financial goals. Waiting until the last minute can make the process more challenging.

When accessing your pension, there are specific tax implications to consider. Once you reach the age of 55, you can take up to 25% of your pension completely tax-free. You don't have to take the full 25% in one go; many people choose to drip their tax-free cash out slowly. This allows them to benefit from continued growth in the remaining pension while regularly accessing a portion of their tax-free cash for tax efficiency.

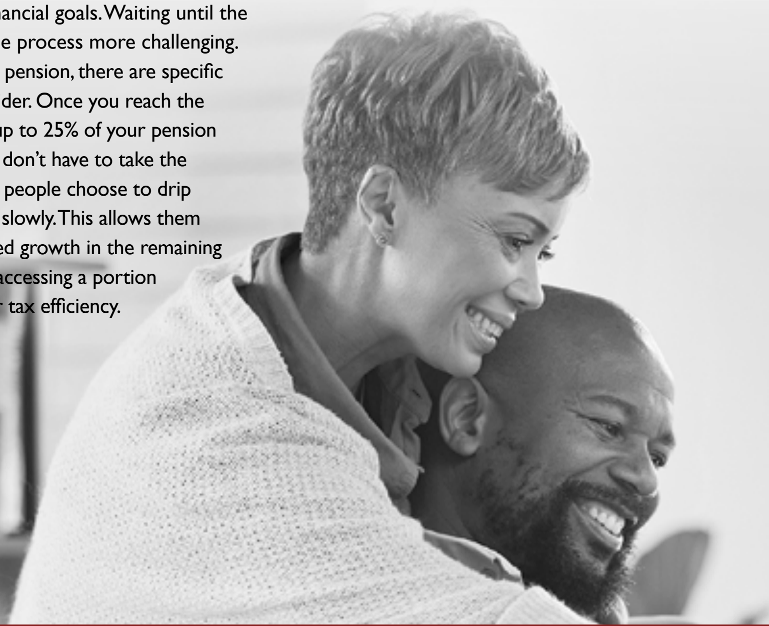
WITHDRAWALS FROM YOUR PENSION

Uncrystallised pension lump sum rules apply to achieve this, and only 25% of each withdrawal is paid tax-free. It's important to note that any withdrawals from your pension, excluding the tax-free cash, are taxed at your marginal Income Tax rate. Therefore, caution is required before taking a lump sum from your pension. You could easily be pushed into a higher tax band if you withdraw a significant amount in a single tax year.

Obtaining professional financial advice will enable you to build assets within multiple tax vehicles alongside your pension to reduce your tax burden. By diversifying your income sources, you can effectively manage your tax obligations. ■

READY TO DISCUSS YOUR RETIREMENT GOALS?

Pension drawdown allows you to access your money as and when needed within specific tax rules. You also need to ensure that your pension scheme supports flexi-access drawdown; if it doesn't, you may need to transfer your funds. To find out more, please contact us to tell us about your retirement goals and how we can help you.



A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

YOUR OWN PERSONAL CIRCUMSTANCES, INCLUDING WHERE YOU LIVE IN THE UK, WILL HAVE AN IMPACT ON THE TAX YOU PAY. LAWS AND TAX RULES MAY CHANGE IN THE FUTURE.