What can I do with my pension?

Deciding how you want to start taking money

T: 01228 587588

E: info@trulyonline.co.uk W: www.trulyifa.co.uk



Due to the changes introduced by the government in April 2015, when you reach the age of 55 (subject to change) you now have more flexibility than ever when it comes to taking money from your pension pot.

But before you do anything with your hard-earned cash, it's important to take the time to understand your options, as the decisions you make will affect your income in retirement. Before you take money from your pension plan, it's important to ask yourself if you really need it right away.

When and how you take your money can make a big difference to how much tax you might pay and how long your money will last.

Most pensions will set an age from which you can start taking money from your pension. They will also have rules for when you can take your pension earlier than normal, for example, if you become seriously ill or unable to work.

When the time comes to start taking money from your pension, you'll need to decide how you want to do this. If you've got a personal pension or a defined contribution pension, you can take up to 25% of its value as a tax-free lump sum.

The remainder of your pension fund will be taxable and may either be taken as cash, used to buy an annuity (a guaranteed income for a specific period or for the rest of your life), or you may leave the money invested and take withdrawals on a regular basis or as and when you need.

With a defined benefits pension, you may be able to take some of its value as a tax-free lump sum, but this will depend on the rules of your scheme. The rest of the money will be paid to you as a guaranteed income for the rest of your life.

Different levels of risk and security and potentially different tax implications

The different ways of taking your money have different levels of risk and security, and potentially different tax implications too. As with all

retirement decisions, it's important to take professional financial advice on what's best for you.

Everybody's situation is different, so how you combine the options is up to you.

Annuities – guaranteed income for life

Annuities enable you to exchange your pension pot for a guaranteed income for life. They were once the most common pension option to fund retirement. But changes to the pension freedom rules have given savers increased flexibility. The amount you will receive depends on a number of factors, for example, how long the insurance company expects you to live and other benefits the annuity provides, such as a guaranteed payment period or payments to a spouse or dependent.

Annuities can also be for a specific period, not just for life. This can be useful if someone wants a guaranteed income for part of their retirement, say before the State Pension is payable.

Flexible retirement income – pension drawdown

When it comes to assessing pension options, flexibility is the main attraction offered by income drawdown, which allows you to access your money while leaving it invested, meaning your funds can continue to grow.

Pension drawdown normally allows you to draw 25% of your pension fund as a tax-free lump-sum, or series of smaller sums. This 'tax-free cash' is known as the Pension Commencement Lump Sum, or PCLS. The rest of the fund remains invested and is used to provide you with a taxable income, via withdrawals on a regular basis or as and when you need.

You set the income you want, though this might be adjusted periodically depending on the performance of your investments. You need to manage your investments carefully because, unlike a lifetime annuity, your income isn't guaranteed for life.

Uncrystallised Funds Pension Lump Sum (UFPLS)

You do not have to draw your pensions commencement lump sum at the outset. Instead you may use your pension fund to take cash as and when you need it and leave the rest untouched where it can continue to grow tax-free.

For each withdrawal, the first 25% (quarter) is tax-free and the rest counts as taxable income. There might be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year.

Combination – mix and match

It may suit you better to use a combination of the options outlined above. You might want to use some of your savings to buy an annuity to cover the essentials (rent, mortgage or household bills), with the rest placed in an income drawdown scheme that allows you to decide how much you wish, and can afford, to withdraw and when.

Alternatively, you might want more flexibility in the early years of retirement, and more security in the later years. If that is the case, this may be a good reason to delay buying an annuity until later.



Speak to an IFA

When it comes to your pension you should always seek advice from a professional financial adviser

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