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# Cashing out

Pension changes brought a whole new range of options to consider

Unadvised retirees who are now able to dip into their pension are having to return to work to cope with juggling their finances, according to a new report<sup>[1]</sup>.

Pension freedoms have given individuals control over how to spend their retirement savings, but a number of unintended consequences have emerged. Since rules governing how pensions can be taken were dramatically relaxed in 2015, more than a million over-55s have gone on a freedom-fuelled spending spree.

## NEW OPTIONS TO CONSIDER

The pension changes brought a whole new range of options to consider. Individuals now have to think about whether they want an annuity, drawdown, cash or a combination of options; when to access their pension; if it is better to use savings first before drawing their pension; and so on.

However, it seems many don't really understand the consequences of these options. As a result, more than £23 billion has been 'cashed out' from the nation's pension pots via more than 5 million individual payments. The findings show the increase in retirees returning to the workforce since the introduction of pension freedoms four years ago is due to the number of options available and the lack of professional financial advice.

## FACING FINANCIAL PRESSURE

A quarter of retirees who have returned to work since April 2015 say they were faced with financial pressure. Figures from HM Revenue and Customs show around one million over 55s withdrew a 25% tax-free lump sum from their pension in the last year, up 23% points from the 12 months prior.

There is a lot to think about when you're planning for retirement, and your circumstances will change over time, which is why it is important to obtain professional financial advice. There's no

doubt the pension freedoms have been hugely popular, but for some retirees they have come at a high price. People now face more complicated decisions in retirement, and it's clear not everyone is getting it right.

## SCALE OF THE PROBLEM

The figures also show other reasons for returning to work that include reigniting a sense of purpose and boosting social relationships. A report from the Pensions Policy Institute shows women particularly are continuing to struggle with pensions savings. The average pension for a woman is currently £100,000 lower than for men. Women's pension savings have historically been impacted by a combination of the gender pay gap, part-time working and the increased burden of childcare costs, but this figure lays bare the scale of the problem. ■

## TIME TO CONVERT YOUR PENSION POT INTO RETIREMENT INCOME?

When you're coming up to retirement, you have lots of decisions to make, not least how to convert your pension pot into retirement income. With more freedom comes more choice, and it's important to obtain professional financial advice to help you decide what to do with your pension pot. To review your options, please contact us – we look forward to hearing from you.

## Source data:

*[1] All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,028 adults, who have accessed their DC pension since 1 April 2015. Fieldwork was undertaken between 18 and 29 April 2019. The survey was carried out online for Zurich.*

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