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Pension options

Planning your financial future, and how to get there

One thing retirement is not, is an age. Not any more anyway. Gone are the days of being told to stop working one day and pick up your State Pension the next. Today you have new pension freedoms to decide when and how you retire.

Pension freedoms in 2015 fundamentally changed the rules for cashing in your pensions. Current rules allow you far more freedom and flexibility over how to take your pension than in previous generations.

If you've saved into a defined contribution pension scheme during your working life, you'll eventually need to decide what to do with the money you've saved towards your pension when you retire, or at age 55, whichever is sooner.

LEAVING YOUR PENSION INVESTED

You may not be ready to take your pension at the age of 55. Leaving your pension invested and continuing to contribute can provide you with more retirement income once you are ready to take your pension. Obtaining professional financial advice will ensure that you have your pension invested effectively.

WITHDRAWING YOUR ENTIRE PENSION

At the other end of the scale, you have the option to withdraw all the savings in your pension at once. But this option has serious drawbacks, as clearly you won't be able to take an income from your pension if you've withdrawn all the money. You may also receive a significant tax bill to pay.

While the first 25% of your pension can be taken tax-free, you'll pay income tax on the rest at your highest marginal rate. It would be unwise to do this without obtaining expert professional financial advice.

WITHDRAWING A PORTION OF YOUR PENSION

You can withdraw a lump sum from your pension and leave the rest invested to continue growing. Up to 25% of the lump sum will be tax-free and the rest will be taxed as income. So, the amount of tax you'll pay will depend on your other sources of income.

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BUYING AN ANNUITY

An annuity is a guaranteed income for life (or for another set period). The income you'll receive depends on how much you have in pension savings with which to buy an annuity, as well as some other factors, such as your health. If you choose to buy an annuity, you can also take up to 25% as a tax-free lump sum when you start your retirement.

TAKING A FLEXIBLE INCOME FROM YOUR PENSION

Finally, you can take a regular income from your pension while it remains invested and has the opportunity to grow. You can take this income at whatever rate you want, but you are responsible for ensuring it lasts throughout your retirement years. Your professional financial adviser will help you establish a sustainable withdrawal rate and make sure that the rest of your pension is invested appropriately. ■

UNDERSTANDING YOUR OPTIONS

If you have a defined contribution pension, at some point you'll have to decide how you're going to take it. But if you're still working in your 50s or 60s, now's the perfect time to make sure your retirement savings are on track to provide you with the sort of lifestyle you want when you stop work. To find out more, please contact us.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL 55 (57 FROM APRIL 2028). THE VALUE OF YOUR INVESTMENT (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 THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION WHICH ARE SUBJECT TO CHANGE IN THE FUTURE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.