Pension drawdown

Pension drawdown can be an attractive option for investors seeking to generate an income in retirement. It can offer flexibility and could help to ensure your income keeps pace with inflation.

On the other hand, it doesn't provide you with a guaranteed income. This factsheet will outline some of the pros and cons you need to weigh up.

What is pension drawdown?

Pension drawdown is one of the ways you can take an income from your pension savings. It is usually available on the type of pension scheme where you save over the years, building up a 'pot', that you eventually use to generate an income. This could be a pension plan that you've set up yourself or a scheme operated by your employer.

The principle of pension drawdown is to keep your pension savings invested, with the aim of growing it further while you draw down an income. So, rather than eating away at a continually reducing pot, the idea is that the investment replenishes your money as you withdraw an income. Of course, there are no guarantees and if you're going to rely on pension drawdown to give you an income in retirement, you need to invest carefully.

How much can I take out?

With drawdown, you leave your pension savings invested so they have the potential to continue growing and simply withdraw as much or as little as you need, whenever you need it. Your withdrawals could be regular amounts or one-off lump sums. They could be made up of the income your investments produce – as interest or dividends – or they could also come from the capital you have built up so the size of your pot reduces over time.

Depending on how flexible your pension company is, you will be free to decide how much of your pension you draw down and when you take it. In theory, you could withdraw your whole pot in one go as soon as you retire, but you might prefer to make more regular withdrawals that will give you enough to live on throughout your retirement. With both options you should consider the tax implications, which is something your financial adviser will be able to help you with.

If you would like more information about pension drawdown or what options are available to help maximise income in retirement, please speak to your financial adviser.

Is the income taxable?

Pension drawdown payments are taxable. So, if you withdraw a relatively large sum from your pension in one go, it may push you into a higher tax bracket. On the other hand, even after you start taking an income from your pension, you can carry on saving into a pension – in this case, it is usually possible to earn tax relief on pension contributions of up to £10,000 a year, subject to you having relevant earnings to support this.

The 25% option

When you are deciding how to use your pension savings, you usually have the option of taking 25% of your pension savings as a tax-free lump sum. You can use this money as you like. Spend it, invest it, use it to pay off debts, dip into it for emergencies – the choice is yours.

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Pension drawdown - the advantages and disadvantages

Advantages

- Your pension savings stay invested, so they have the potential to carry on growing
- You have the flexibility to alter your income as your needs change
- You stay in control of your pension savings and will still have the option of buying an annuity at a time that suits you
- You can continue to add to your pension
- Your family can inherit any money that is left in your pension account when you die, though they may have to pay tax

Disadvantages

- There is a risk that your pension investments will fall in value, because investment performance is not guaranteed
- The returns on your investments will probably fluctuate
- Your income isn't guaranteed – so if you don't manage your money carefully, your savings may run out in years to come
- You will need to monitor your investments regularly to ensure they still match your needs. You may want to consider if you think you will be happy to do this as you get older

Important Information

This information is not investment advice or a recommendation for any particular product, service or course of action. Pension and retirement planning can be complex, so if you are unsure of the suitability of a pension investment, retirement service or any action you need to take, please speak to your financial adviser. The value of investments can go down as well as up and you may get back less than you invested. Eligibility to invest into a pension depends on personal circumstances and all tax rules may change. With pension products you will not be able to withdraw money until you reach age 55.

What to do if you need help?

This factsheet isn't intended to give you advice or to suggest you take a particular course of action. Retirement income is a complex issue, and if you would like to discuss your retirement options, please speak to your financial adviser.

Alternatively, there is a free and impartial government service called Pension Wise, which will help you understand your retirement options. For more information go to **pensionwise.gov.uk**

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