Getting cash from your pension

There is good news if you're approaching retirement – the law was changed to allow people retiring after 6 April 2015 full flexibility in how they take their pension savings.

Some people will be tempted to take their pension pot all in one go. But if you're considering this option, tread carefully. The new flexibility comes with a sting in its tail – take too much money, too quickly, from your pension and you could face an unexpected tax bill and you may run short later in life. Here we look at how you can get money out of your pension fund without falling into this tax trap.

When can I get money out of my pension?

The minimum age will increase from age 55 to age 57 by 2028 and is intended to be 10 years before State Pension age thereafter.

How much can I take out?

This is the key change. Once you're 55, you're free to take as much or as little as you want from your pension, when you want it.

Of course, accessing your pensions savings may be welcome, to perhaps pay off a mortgage or other debts. However, you do still need to plan for your future needs in retirement.

What is the catch?

If you are not careful, you could be hit with an unexpected tax bill. You can take at least 25% of your pension savings tax-free, but all additional withdrawals are subject to income tax.

This freedom makes it easier to withdraw larger lump sums, which could push you into a higher bracket. That means you could be paying as much as 40% or 45% tax on these withdrawals. Also, any money you withdraw earlier means lower income later in retirement.

While it is understandable to want access to the money you have saved in you pension fund, it is likely to be far more tax-efficient to take it in stages, over a number of years. Also, any money you withdraw earlier means lower income later in retirement.

For those drawing a pension whilst still working and wanting to save more into a pension then there's a further catch. Once you access your pension flexibly then the maximum you can pay into a pension is reduced significantly to £10,000 a year.

A working example

Take the example of a saver who earns £27,000 a year and is a basic-rate (20%) taxpayer. If he decides to cash in his £30,000 pension pot on his 60th birthday, only £7,500 (25% of the fund) will be tax-free. The remaining £22,500 will be added to his earnings for that year, making him a higher-rate taxpayer and therefore subject to 40% income tax on part of his earnings. However, if he took half his pension pot one year and half a year later, he would remain a basic-rate taxpayer, saving himself £1,300 in the process.

REMEMBER

You don't have to take your tax-free lump sum in one go. If you don't need the full amount straightaway, you can take your tax-free cash over a number of years.

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What should I do now?

Remember you can access your pension funds from age 55 at any time, as and when you need them. So before cashing in some, or all, of your pension, consider the following points:

- **How will this affect your retirement prospects?**
  The more money you take out today, the less there will be in your pension plan to produce an income for you when you are no longer working.
- **How much tax will you pay?**
  If you are withdrawing more than a quarter of your pension fund, you need to add the extra money to any other income you receive (such as salary and rents) to check how much tax you'll pay. A list of the current tax bands is available at **gov.uk/income-tax-rates**
- **If you are taking cash from a company pension, check the scheme rules.**
  There may be restrictions on how much cash you can take from a company pension, for example. Some schemes will only allow members to take their tax-free cash at retirement, and even then it may be in a single lump sum.

Pensions and tax are complicated. If you are unsure about your options, please speak to your financial adviser. Please note that the value of tax features depends on personal circumstances and tax rules may change in the future.

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?

If you would like to discuss this topic please speak to your financial adviser.

Alternatively Pension Wise is a free and impartial government service that helps you understand your pension options and is available online, over the phone or face to face. Find out more at **pensionwise.gov.uk**

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