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FACTSHEET

Pension freedoms

Retirees now have a whole host of new options

The pension freedoms, introduced on 6 April 2015, have given retirees a whole host of new options. There is no longer a compulsory requirement to purchase an annuity (a guaranteed income for life) when you retire. The introduction of pension freedoms brought about fundamental changes to the way we can access our pension savings.

There is now much greater flexibility around how you take your benefits from Money Purchase Pension (Defined Contribution) schemes, which include Self-Invested Personal Pensions (SIPPs).

HOW PENSIONS CAN BE TAKEN HAS BECOME DRAMATICALLY RELAXED

Since the rules governing how pensions can be taken have been dramatically relaxed, more people are using pension freedoms to access their retirement savings, but the amount they are individually withdrawing has continued to fall, according to the latest data from HM Revenue & Customs (HMRC).

Pension freedoms have given retirees considerable flexibility over how they draw an income or withdraw lump sums from their accumulated retirement savings. There is no doubt the pension freedoms have been hugely popular. Figures published on 30 October last year show that £30 billion[1] has been withdrawn by savers since the pension freedoms were introduced in 2015.

AVERAGE WITHDRAWALS HAVE BEEN FALLING STEADILY AND CONSISTENTLY

The quarterly numbers from HMRC cover money that has been withdrawn flexibly from pensions. Members of defined contribution pension schemes can access their pension savings early, provided they have reached the normal minimum pension age (currently 55). The figures for the third quarter last year show that £2.4 billion was withdrawn from pensions flexibly – a 21% increase from £2 billion in the third quarter of 2018.

The average amount withdrawn per individual in the third quarter of 2019 was £7,250, falling by 5% from £7,600 in the third quarter of 2018. The Government says that since reporting became mandatory in 2016, average withdrawals have been falling steadily and consistently, with peaks in the second quarter of each year.

WHAT ARE YOUR RETIREMENT OPTIONS TO CONSIDER?

LEAVE YOUR PENSION POT UNTOUCHED FOR NOW AND TAKE THE MONEY LATER

It's up to you when you take your money. You might have reached the normal retirement date under the scheme or received a pack from your pension provider, but that doesn't mean you have to take the money now. If you delay taking your pension until a later date, your pot continues to grow tax-free, potentially providing more income once you access it. If you do not take your money, we can check the investments and charges under the contract.

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CELEBRATING 25 YEARS

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RECEIVE A GUARANTEED INCOME (ANNUITY)

You can use your whole pension pot, or part of it, to buy an annuity. It typically gives you a regular and guaranteed income. You can normally withdraw up to a quarter (25%) of your pot as a one-off tax-free lump sum, then convert the rest into an annuity, providing a taxable income for life. Some older policies may allow you to take more than 25% as tax-free cash – we can review this with your pension provider. There are different lifetime annuity options and features to choose from that affect how much income you would get.

RECEIVE AN ADJUSTABLE INCOME (FLEXI-ACCESS DRAWDOWN)

With this option, you can normally take up to 25% (a quarter) of your pension pot, or the amount you allocate for drawdown, as a tax-free lump sum, then re-invest the rest into funds designed to provide you with a regular taxable income. You set the income you want, though this might be adjusted periodically depending on the performance of your investments. Unlike with a lifetime annuity, your income isn't guaranteed for life – so you need to manage your investments carefully.

TAKE CASH IN LUMP SUMS (DRAWDOWN)

How much of your money you take and when is up to you. You can use your existing pension pot to take cash as and when you need it and leave the rest untouched, where it can continue to grow tax-free. For each cash withdrawal, normally 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. There are also tax implications to consider that we can discuss with you.

CASH IN YOUR WHOLE POT IN ONE GO

You can do this, but there are important things you need to think about. There are clear tax implications if you withdraw all of your money from a pension. Taking your whole pot as cash could mean you end up with a large tax bill – for most people, it will be more tax-efficient to use one of the other options. Cashing in your pension pot will also not give you a secure retirement income.

MIX YOUR OPTIONS

You don't have to choose one option. Instead, you can mix them over time or over your total pot when deciding how to access your pension. You can mix and match as you like, and take cash and income at different times to suit your needs. You can also keep saving into a pension if you wish, and get tax relief up to age 75. ■

Source data:

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/841958/Pension_Flexibility_Statistics_Oct_2019.pdf

THINK CAREFULLY BEFORE MAKING ANY CHOICES

The pension flexibilities may have given retirees more options, but they're also very complicated, and it's important to think carefully before making any choices that you can't undo in the future. Withdrawing unsustainable sums from your pensions could also dramatically increase the risk of running out of money in your retirement. To discuss your options, talk to us at a time that suits you.

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