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FACTSHEET

Freedom to choose

Using your pension money

Have you considered all the potential costs of retiring? Some people find their expenses fall once their working life ends, but it's important not that assume that all your expenses will go down – some may increase, such as heating and leisure costs.

The constantly evolving landscape of legislative change provides both challenges and opportunities in the retirement planning process. The pension reforms that came into effect on 6 April 2015 were introduced to offer more choice and flexibility on what we can do with our pension savings if we're aged 55 or over.

There has always been the option to take 25% of your pension pot tax-free, but with the new pension changes you can now take your whole pension pot in one go.

You now have many options available to you:

- Leave your pension invested if you don't need to take money straight away
- Take the tax-free cash and leave the rest invested
- Take some or all of the money as a cash lump sum
- Buy an annuity to provide a lifetime's secure income
- Use a combination of the above

Taking your whole pension fund as a cash lump sum is the biggest change to come out of the 2015 pensions changes, so what does it all mean?

The pension changes mean you can access your pension fund as and when you like from the age of 55 (rising to age 57 in 2028). One option is to take the whole pension pot in one. However, it's important to remember that the first 25% of your pension pot is tax-free, and you will pay Income Tax on the remaining 75%.

INCOME TAX CHARGE

Taking your entire pension as cash could involve a high tax charge. There is a standard Personal Allowance (£11,000 for 2016/2017) on which no Income Tax is paid. Above this amount, tax is paid on your total income. Currently, the tax bands are 20%, 40% and 45% depending on your income. So, any cash you take out of your pension (except for your tax-free lump sum) is added to your income for the year and may well push you into a higher rate tax band.

There are added risks you need to consider, such as:

- Paying too much tax on pension withdrawals
- Buying unsuitable investments
- Using all of your funds too fast

MAKE AN INFORMED DECISION

Using your pension money now could help your finances but also affect your future. It's important to receive expert financial advice so that you make an informed decision. Whatever you choose to do, it's important to understand the tax implications and consider all your pension options to avoid any unnecessary tax bills. If you would like to review your options, please contact us.