Your options at retirement

You've reached that age; it's time to access your pension.

If your career is drawing to an end, the chances are your thoughts will be drifting towards accessing your pension.

After all, your retirement savings will shape the lifestyle you're able to lead once you stop work and it's only right to start thinking about your options.

Pension freedoms introduced by the government in 2015 offer savers much greater flexibility over how to access their retirement savings.

However, people's circumstances vary when it comes to their retirement. It is therefore wise to take your time to fully understand your options and seek professional advice when necessary.

When can I take my pension?

In most cases you must have reached minimum pension age before you can access your pension pot – currently 55.

This is often a false start line for retirement as many people are not in a position to fully retire at 55, so it's likely you will still have a regular income from employment when you become eligible.

It's important to note you are not compelled to do anything at this age.

If you are in poor health and have stopped working as a result, you may not have to wait until you're 55 to access your pension.

Depending on your pension provider, you may be able to take your entire pension pot as a tax-free lump sum if:

- you have less than a year to live
- your savings don't exceed the lifetime allowance (£1 million in 2017/18).

It's possible for you to access your pension before you reach 55 if you joined your pension scheme before April 2006.

The pension freedoms enable you to mix and match your options.

Not all pension providers offer the following, while it would be wise to weigh up the various risks, benefits and tax implications associated with each option before you decide how to proceed.

Leave it as it is

If your income is enough to live on when you reach your normal pension age, the obvious option is to defer taking your pension and allow your pot to continue growing.

You will continue to get tax relief at your marginal rate of income tax on contributions of up to £40,000 each year until the age of 75.

In theory the longer you delay your retirement, the bigger your potential pot becomes. However, you should review (usually annually) where your pension is invested as you may want to move your savings to less risky funds the nearer you get to retirement.

Statistics from HMRC showed more than 200,000 savers took flexible payments from their pension pots worth a combined £1.86 million in the three months to June 2017.

Further research from Scottish Widows claimed 62% of those who withdrew their pensions in this period were aged 55 to 60 years old.

Despite this being the largest quarterly withdrawal since the pension freedoms were introduced and various societal factors influencing that, you're under no obligation to begin accessing your pension when you turn 55. You also won't be taxed while the money stays in your pension pot.

Your options at retirement

If certain debts, such as loans or mortgage repayments, are fully paid off you may have enough disposable income, savings or investments to rely on.

It is possible to withdraw a percentage of your pension pot and then defer the rest until a later date, although care is required when doing this if you want to avoid triggering the significantly reduced money purchase annual allowance.

Cash lump sums

You have the option to access all or part of your pension as a cash lump sum.

As a rule of thumb, the first 25% you take on all withdrawals will be tax-free with the remaining 75% treated as income and taxed accordingly.

Be aware, taking lump sums runs the risk of nudging you into a higher tax band.

Pension scheme providers can charge exit fees on single or multiple withdrawals, making this an important thing to consider before you go down this route.

You should also be aware that taking your pension as a lump sum may result in a cash shortage later in life.

Annuities

Annuities have fallen out of favour in since the pension freedoms were introduced in 2015 and rates fell to an all-time low following the vote to leave the EU in June 2016.

Despite this, buying an annuity guarantees you a fixed income for the rest of your life. In addition, a joint life annuity can continue to provide an income to a second person after your death.

You could take 25% of your pension pot as a tax-free cash lump sum and use the rest (75%) to buy an annuity.

Income drawdown

Another option to consider would be opting to use the 25% tax-free allowance to withdraw a cash lump sum and reinvest the remaining 75% into funds to provide you with a regular taxable income.

One option would be to open a self-invested personal pension with drawdown facilities where you can choose investments yourself or take advice on investments to hold or strategies to adopt.

The income can fluctuate depending on the performance of your investments and does not provide income for life in the same way as annuities. Therefore, it is important to monitor the performance of your funds on a regular basis.

Lifetime protection

You usually have to pay tax if your total pension savings are above the lifetime allowance of £1 million.

The allowance was lowered from £1.25 million to £1 million per person in April 2016, meaning individuals with savings above £1 million may potentially face an unexpected tax charge.

However, you may be able to protect your pension from reductions to the lifetime allowance. You can apply for either individual or fixed protection.

Individual protection shields your lifetime allowance at whichever is lower – the value of your pension pot on 5 April 2016 or £1.25 million. You must pay tax on any money accessed from your pot that exceeds your protected lifetime allowance.

Fixed protection keeps your lifetime allowance at £1.25 million. You cannot boost your pension pot except in certain circumstances.

To do this, you require an account with HMRC online services and will need to pass certain criteria.

Beware of scams

Pension liberation

Pension liberation scams claim to be able release cash from your pension pot before you are 55.

Fraudsters make contact through online adverts, over email, phone and text message trying to dupe you into transferring your savings to a bogus arrangement.

The scammers take a commission fee, leaving you to cope with tax bills of 55% or astronomical fees for accessing your pension early.

'Free pension review'

Cold callers are also targeting over-55s, claiming to be acting on behalf of the government – they're not.

Hang up on anyone who offers you a 'free pension review'. The fraudsters will offer you unrealistic returns by placing your savings in unregulated, high-risk investments.

If your money is lost you will not be protected by the Financial Services Compensation Scheme or the financial ombudsman.

Contact us to discuss accessing your pension.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to change in the future.

Pension eligibility depends on personal circumstances. You cannot normally access pension benefits until age 55.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation.

You should not make any investment decisions based on its content. The value of pensions can fall as well as rise and you may not get back the amount you originally invested.

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