GUIDE

How to Use Your Pension Pot

This document contains important information and you should read it carefully and keep it safe for future reference.

Contents

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IMPORTANT INFORMATION

The contents featured in this publication is for your general information and use only and is not intended to address your particular requirements. Articles should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles.

Investments carry risk. The value of your investments (and income from them) can go down as well as up, and you may get back less than you invested. Past performance is not a reliable indicator of future results. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

Introduction

Planning for retirement involves not only accumulating savings but also strategically using those savings to provide income throughout your retirement years.

For those who have been contributing to a workplace or personal pension, deciding how to access and utilise these funds effectively can be a complex and pivotal decision. Understanding the various options available, assessing your financial needs and goals, and navigating the tax implications are all essential steps in creating a retirement income strategy that meets your needs and aspirations.

Assess your retirement goals

Before you decide on how to withdraw your pension, you need to start by determining what your retirement goals and priorities are. You should consider factors such as when you want to retire, the lifestyle you envision, any specific financial objectives you have and any legacy goals you wish to achieve.

Understanding your pension withdrawal options

It is important to familiarise yourself with the different pension options available to you. Depending on your pension scheme and personal circumstances, you may have several options for accessing your pension savings, including:

Annuities

Annuities provide a guaranteed income for life or a set period in exchange for a lump-sum payment. They offer security and predictability, making them a popular choice for retirees seeking stable retirement income. However, annuities may not keep pace with inflation and once purchased, they cannot be changed or adjusted.

There are a number of different types of annuities such as a level annuity, which pays the same income each year and an escalating annuity, where your income will rise each year at a fixed rate. It is important to fully understand the different types of annuities to explore which is right for you and your needs, therefore, it is strongly recommended that you consult a financial adviser before purchasing one.

Lump sums & cash withdrawals

If your provider offers it, you can withdraw your entire pension pot as a lump sum in cash, or make multiple cash withdrawals. This may not be the most cost-efficient option as only the first 25% of the lump sum is tax free, subject to a maximum of £268,275. The remaining 75% is subject to tax and thus may push you into a higher tax bracket.

Income drawdown schemes

Drawdowns allow you to keep your pension invested while drawing an income. With careful planning, you can manage withdrawals to minimise tax liabilities. It is important to consult with a Financial Adviser who are the best people to talk you through the most efficient withdrawal strategies for your specific circumstances.

Deciding how to use your pension pot can be one of the hardest decisions you will ever make. You need to ensure that you have enough income to sustain your desired retirement lifestyle and a financial adviser can support you to make the right decision for your specific goals and income.

Other factors to consider

Sadly, it is not a simple case of choosing how to take your pension and then being able to not think about it again. There are a number of factors that you need to consider such as:

Tax implications

Being tax-efficient in retirement can help you to maximise your income and minimise unnecessary tax liabilities. For example, withdrawals from pension pots are subject to income tax, but you can take advantage of tax-free allowances and spread withdrawals strategically over different tax years to minimise your overall tax bill. There are a number of tax-efficient investment vehicles such as ISAs which your financial adviser will be able to explain to you in more detail.

Evaluate your income needs

Before withdrawing your retirement income, you need to have assessed your anticipated income needs and have determined how much income you'll require to cover your living expenses and achieve your retirement goals.

Seek professional advice

An adviser can help you to navigate your pension options, assess the tax implications and develop a personalised retirement income strategy tailored to your individual circumstances and goals.

Remember, financial advisers are the experts. They have the knowledge of market conditions and future predictions of how the economy could perform. Seeking the support of an adviser could result in you being able to make your money go even further.

Review and adjust regularly

Regularly review your retirement income strategy and adjust as needed based on changes in your circumstances. You never know what is around the corner and your income needs could change overnight. Therefore, it is important to stay on top of how much you have in your retirement fund and adjust accordingly.

It is essential to review your retirement plan regularly and make adjustments as needed to ensure it remains aligned with your evolving needs and circumstances. With careful planning with the support of a financial adviser, you can make informed decisions in order to enjoy a comfortable and fulfilling retirement.

Get in touch today to find out more.

The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation which are subject to change in the future. The Financial Conduct Authority does not regulate Tax advice.

A pension is a long-term investment not normally accessible until 55 (57 from April 2028). Your capital is at risk. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected the interest rates at the time you take your benefits.

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