Teachers Financial Planning

Accessing your pension

A guide to choosing how to access your pension savings.

Your pension can often seem like an abstract concept among the early morning commutes, home purchases, new jobs and other events that make up the average person's working life. However, when you begin to reach the end of employment, the abstract suddenly becomes very real.

Is your retirement priority to attain a steady level of income to help you see out your days in comfort, or do you have other designs for your pension savings?

Either way, you will have to decide how you are going to access your pension. The variety of different options open to you will have wide-reaching effects on the rest of your life.

When can I start accessing my pension?

The vast majority of people in defined benefit or defined contribution pension schemes will become eligible to access their pot at the age of 55.

This is often earlier than the actual date of retirement, so you may still have a regular source of income from employment once you start taking your pension savings.

Some schemes joined before 6 April 2006 will permit the accessing of funds before the age of 55. You may also work in a profession where it is commonplace to retire before 55.

Otherwise it is only if the individual is stopping working due to ill health, although this is provider-specific.

You may be able to take your entire pot in a tax-free lump sum if you have a life expectancy of less than a year due to serious illness, don't have savings that exceed the lifetime allowance (currently £1 million) and are under the age of 75. Some providers will keep a portion of your pot for use by your spouse or civil partner after your death.

Talk to a member of our team about accessing your pension.

Pension options

Once you reach the age of 55, a number of potential options for what to do with your pension pot open themselves up to you. Your next move depends on what you want your retirement to be like, and how best your pot can be used as a tool to facilitate that vision.

Do you want to make sure that you always have a regular income or do you want to immediately take control of your entire pot?

Cash lump sums

Under the rules regarding pension flexibility (commonly referred to as 'pension freedoms') introduced in April 2015, an individual can now take all or part of their pot as a cash lump sum.

Small lump sums

The general rule regarding taking lump sums from your pot is that the first 25% is tax-free. The remaining 75% will be treated as income and taxed at your marginal rate.

You may also be charged by your pension provider each time you make a cash withdrawal or there may be a finite number of withdrawals that can be made each year.

While taking a chunk of your pot could be an advantage to some, the risk is that with the pot diminishing with each withdrawal there could be issues with your income level in the future. A reduced pot may also affect an individual's entitlement to certain benefits.

With 75% of your lump sum being counted as income, it is important to factor in whether or not this will push you into a higher tax band. Your provider will pay you the cash through a payslip and deduct tax through PAYE.

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Another important factor to consider is the effect on the tax relief you will receive on any future pension contributions. Once you take a lump sum or income from your pot, the amount of defined contribution pension savings you get tax relief on reduces from the £40,000 annual allowance to the £10,000 money purchase annual allowance (MPAA).

Taking your entire pot

The same rules apply when taking out your whole pot as one cash lump sum, although the scale of the withdrawal can have a bigger impact on your tax position.

With such a potentially large injection of income, the chances of going up a tax band are much higher.

You may also face further tax charges if your pot exceeds the lifetime allowance, currently £1 million. You may also reduce your future tax relief on pension savings you make after the withdrawal.

Annuities

Using your pension pot to purchase a lifetime annuity guarantees you a steady level of regular income until your death. There are level income and increasing income annuities where the level of income escalation is set at the start.

There are a variety of annuity products available, all with unique options and features. It is important to have a clear idea of what you need for the kind of retirement you want before you look at the options open to you.

You can take up to 25% of your pot as a tax-free lump sum and use the remaining 75% to purchase an annuity.

There are 3 main kinds of lifetime annuity:

- **basic** - the level of income is set in advance
- **investment-linked** - the level of income is dictated by investment performance
- **impaired life** - provide higher levels of income for people with lower life expectancies due to medical conditions or certain lifestyle criteria.

For basic lifetime annuities, there are a number of choices to make:

- do you want an income for yourself (single life) or also for another person after you die (joint life)?
- how long would you want the payments to continue to this person if you were to die suddenly (called the guarantee period)?

Our team can advise you on annuities.

Flexi-access drawdown

Flexi-access drawdown gives greater freedom over your retirement income.

You can take your 25% lump sum and reinvest the remainder of your pot in a way that suits your goals. While you may choose to invest for a steady, regular income, you could also invest to try and maximise your pot.

The important part is that you choose how to invest the remainder of your pot. This will add a level of complexity and risk to proceedings that would not otherwise be there if you were to buy an annuity.

It is possible to employ a strategy that mixes these 3 main options, and flexi-access drawdowns are designed to let people create pension access strategies that are suited to their own goals.

For more information, call us today.

Deferring your pension

Another option is to do nothing. You are under no obligation to begin using your pension when you reach 55, and it may suit your goals to let it sit and grow for a few more years.

You can continue to get tax relief on pension savings of up to £40,000 each year (for the 2016/17 tax year) until you are 75.

There are however, some details to consider:

- some schemes may have restrictions or charges for changing your retirement date
- deferring may mean that you lose some income guarantees
- depending on the performance of your investments there is the possibility that the value of your pot may fall as well as rise
- the higher your retirement income the higher your future tax liability may be.

Whatever ways you decide to access your pension, they must be the ones that best work towards the life you want to live in retirement.

Our expert team can help you work out what you want and how you are going to use your resources to achieve it.

Contact us today about funding your ideal retirement.