# Cash may not be king

## Deciding whether to withdraw cash from your pension pot

Choosing what to do with your pension is a big decision. If you've been saving into a defined contribution pension (sometimes called 'money purchase') during your working life, from age 55 (age 57 in 2028) you need to decide what to do with the money you've saved towards your pension when you eventually decide to retire.

However, making the wrong decision could cost you heavily in the form of an unwanted tax bill, eventually running out of money in retirement and even a tax credits and benefits overpayment.

So before you do anything, there are things you should consider. Note: this article doesn't cover pension schemes where the pension you'll be getting is worked out as a proportion of your pay.

### HOW MUCH MONEY DO YOU NEED TO RETIRE?

Before you take any cash out of your pension, you need to calculate how much money you actually need. Do you need a lump sum of cash all at once? If so, what are the tax implications? Or would you be better off with a regular income stream?

Remember that retirement could be 30 to 40 years, or more. As well as what you'll need to cover everyday living expenses, do you have any specific plans for your retirement, such as regular holidays or enjoying a hobby? Or are you thinking of any big one-off purchases or expenditure, like a new car or home improvements? Once you know how much money you need, you can start to look at your options.

### WHAT ARE THE TAX IMPLICATIONS?

Taking cash out of your pension can have tax implications if you withdraw more than your tax-free element (typically 25% of your pension). You can leave the rest invested until you decide to make more withdrawals or set up a regular income.

However, you need to make sure you understand those implications before you make any decisions. Otherwise, you could end up with a significant tax bill that you weren't expecting.

### WHAT ARE THE FEES?

When you retire and start taking money out of your pension, you may be charged fees by your pension provider. Some pension providers will charge a fee for each withdrawal you make, while others may charge a flat rate or percentage of your pension pot.

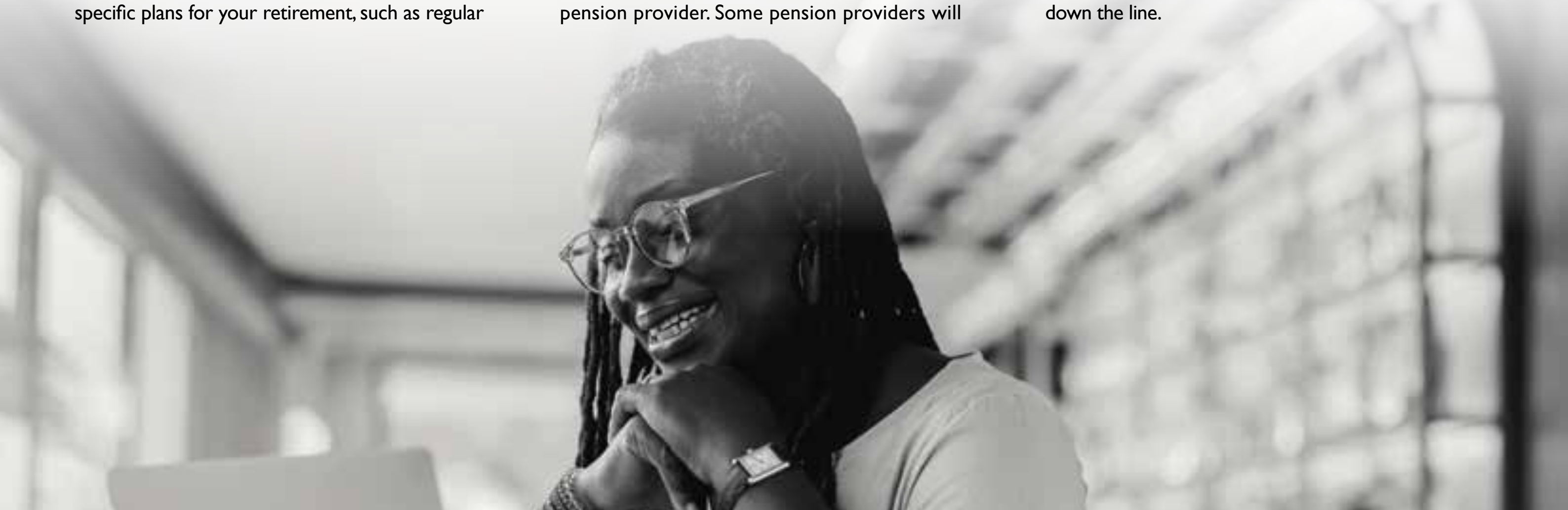
There may also be other charges, such as an administration fee. Taking money out of your pension will also reduce the amount of income you have in retirement, so it's important to think carefully before you decide to take any money out of your pension pot.

### HOW LONG WILL THE MONEY LAST?

Consider how long you'll need the money to last. If you take a lump sum of cash, it's likely that it won't last as long as if you take an income. This is something to keep in mind when you're making your decision.

### WHAT IF YOU NEED MORE MONEY LATER?

If you take cash out of your pension now, it may not be there if you need it later on in life. This is something to consider if you think you may need more money down the line.



Even if you've seen the value of your pensions fall that doesn't necessarily mean that you'll have to delay your retirement altogether.

Could you take less from your pension savings until their value recovers, and use other savings instead to bridge the gap? And could you put off any big purchases you'd planned?

## WHAT ARE THE RISKS?

Taking cash out of your pension comes with risks. There's the risk that you could outlive your money, or that the value of your pension could go down. You need to make sure that you understand all of these risks before you make a decision.

## OPTIONS FOR USING YOUR DEFINED CONTRIBUTION PENSION IN RETIREMENT

- Keep your pension savings where they are – and take them later.
- Use your pension pot to buy a guaranteed income for life or for a fixed term – also known as a 'lifetime' or 'fixed term annuity'. The income is taxable, but you can choose to take up to 25% (sometimes more with certain plans) of your pot as a one-off tax-free lump sum at the start.
- Use your pension pot to provide a flexible retirement income – also known as 'pension drawdown'. You can take the amount you're allowed to take as a tax-free lump sum (normally up to 25% of the pot), then use the rest to provide a regular taxable income.
- Take a number of lump sums – usually the first 25% of each lump sum withdrawal from your pot will be tax-free. The rest will be taxed as income.
- Take your pension pot in one go – usually the first 25% will be tax-free and the rest is taxable.
- Mix your options – choose any combination of the above, using different parts of your pot or separate pots.

## UNDERSTANDING THE DIFFERENT OPTIONS

This is a very complicated topic and choosing what to do with your pension is one of the most important decisions you'll ever make and will impact on your future standard of living in retirement.

Worryingly, over a third (35%) of pension holders do not know about the different options available to them for when the time comes to retire, according to research[1]. ■

## THINKING ABOUT ACCESSING YOUR PENSION POT?

These are just a few things to consider before taking cash from your pension pot. As you approach retirement, it's essential to understand what your options are and obtain professional advice, otherwise you could end up making a decision that you regret later on. For more information or to review your options, please contact us.

**Source data:**
*[1] Online omnibus conducted by Opinium in June 2021 for LV – 4,000 representative UK adults surveyed nationally.*

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

TAX TREATMENT VARIES ACCORDING TO INDIVIDUAL CIRCUMSTANCES AND IS SUBJECT TO CHANGE.