financial services
moneyminder

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More over-55s forced to dip into pension pots

Understanding the different ways you can use your pension money

The UK has seen a rise in the number of people accessing their pension pots or enquiring about doing so. People accessing their pension as a flexible income has increased by 56%[1] according to research since the first lockdown last year. The increase is due to people withdrawing after holding off when stock markets were volatile.

An increasing number of pension savers have started to withdraw funds after many pressed pause at the start of the coronavirus (COVID-19) pandemic. The number of people taking only a tax-free lump sum has increased by 55%. Worryingly, the number of people withdrawing all of their pension in one lump sum increased by 94%.

COMPLEX TAX RULES AROUND PENSION WITHDRAWALS

Once you reach age 55 you can now access your pension pot. You can take some or all of it, to use as you need, or leave it so that it has the potential to continue to grow. In September last year the Government confirmed it would legislate to enact proposals to increase the minimum access age from 55 to 57 in 2028[2].

Due to COVID-19, many people's incomes have been significantly reduced and so taking money out of their pension pot seemed like a quick cash-flow solution. But there are complex tax rules around pension withdrawals so people should be aware of the potential consequences.

NEEDING MONEY AFTER A CHANGE IN CIRCUMSTANCES

While a tax-free lump sum can be withdrawn from a pension without incurring any tax liability, any balance withdrawn is subject to income tax. The number of people buying a guaranteed income for life (annuity) increased by 41%.

The increase in withdrawals is due to a combination of factors, including some people returning to withdraw after pausing earlier last year due to stock market volatility and some people needing the money after a change in circumstances.

FACTORS WEIGHING ON PENSION SAVERS' MINDS

Data from August and September last year showed withdrawal levels got closer to levels seen in 2019 but many pension savers still resisted the urge to access their pension pots in the face of continued financial uncertainty. When you take your pension, some will be tax-free but the rest will be taxed. You need to be aware that tax depends on your circumstances, which can change in the future.

Stock market volatility, coronavirus (COVID-19) and employment prospects are just some of the factors weighing on pension savers' minds when considering taking money out of their pension pot. Everyone is different and it is important to find the right solution for your circumstances.

TOP 5 THINGS TO CONSIDER BEFORE WITHDRAWING MONEY FROM YOUR PENSION

- **1. Pensions freedoms:** Familiarise yourself with the pensions freedoms so you are aware of your options. You can now do a lot more with your pension pot than previously. Everyone is different and it is important to find the right solution for your circumstances. What risks are you willing to take?

- **2. Saving requirements:** Consider the amount of money you will need each month to maintain your lifestyle. Ask yourself: How much might I need? How much might I get? Do I still have a mortgage to pay off? What other sources of income do I have, and do I need my pension to keep up with inflation? Could I consider working for longer? Do I want to have annual holidays?

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- **3. Costs later in retirement:** Think about costs later in your retirement. What will your living costs be in the future? Care needs are not a subject we are comfortable thinking about but it is important to have conversations about it with your family, as well as Powers of Attorney, Wills and inheritance.

- **4. Health and life expectancy:** We often vastly underestimate this, but evidence shows we are mostly living longer, with a growing variation in healthy life expectancy. If you have a partner, do you need to provide for them financially after you die, or are you relying on them?

- **5. Time to talk to us?** Few of us may expect to give up work altogether in our 50s. But a growing number of us are dipping into our pension before retirement age. Before we get into the different ways you could withdraw money, there's some more general things to think about first. Try asking yourself the following questions: How long will I need my money to last? How long do I want to keep working? How much tax might I pay? Could my health and lifestyle affect what I get? How much do I want to leave behind? ■

GUIDANCE TO ENABLE YOU TO MAKE AN INFORMED DECISION

Whether you have plans to retire completely or want to scale down your work hours, there are now more options than ever to choose from when thinking about making your savings work for you. If you are considering accessing your pension it is essential that you receive professional financial guidance to enable you to make an informed decision. If you get it wrong you could end up with a large tax bill. To discuss your situation – we're here to help you.

Source data:

[1] https://www.abi.org.uk/news/news-articles/2020/11/big-jump-in-pension-savers-accessing-pots-after-pressing-pause-in-the-first-lockdown/

[2] https://questions-statements.parliament.uk/written-questions/detail/2020-08-28/81494