YOUR PENSION OPTIONS

Tax treatment depends on individual circumstances and all tax rules may change in the future.
You cannot normally access your pension until age 55.
Taking money from your pension pots could affect your benefits.

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YOUR PENSION OPTIONS

It's important to keep saving into your pension so you have enough money to fund the future you want. If you're approaching age 55 it may also be a good time to consider your options, and to think about how you'll access your money when the time comes. Some of the options are detailed below:

1 Leave your pension fund invested

There's no obligation to take any cash out or start drawing an income at 55.

You may not need the money yet, in which case you may consider leaving your pension pot invested – especially if you're still working. You can continue paying into your pension and making the most of the tax benefits.

If you have no earnings or earns less than £3,600 a year, you can still pay a total of £3,600 gross a year into a pension scheme and qualify to have tax relief added to contributions.

2 Take it all out

You can close you pension pot and take your fund as cash. It's worth noting that there will be no ongoing income from your pension and it's highly likely that there will be a large tax bill.

The first 25% will usually be tax-free. The remaining 75% will be taxed at your highest marginal tax rate - by adding it to the rest of your income. If you're withdrawing a significant amount or still earning at the same time you could also be pushed up a tax bracket.

3 Take a lump sum

Normally, the first 25% lump sum you withdraw will be tax-free. You'll need to do your research to decide what's best to do with the remainder.

If you don't need as much as 25% of your total fund, you could take out some cash tax-free – giving what's left more time to potentially benefit from investment growth.

Alternatively, you could take out more than 25% as a lump sum, but you'll need to pay tax on it.

4 Provide you with an income

In addition to providing a tax-free lump sum of 25% of the pension value, you could consider using your pension to provide an income.

A traditional annuity gives you the security of knowing how much you'll receive each year for the rest of your life.

Alternatively, a 'flexible income drawdown' lets you take an income when needed but allows you to keep the rest invested. As with any investment, there's a risk you could get back less than you started with.

If you're a member of a workplace pension scheme, you generally require the consent of the employer or ex-employer to take benefits early (from age 55 but before scheme's normal retirement age). In some instances, you may also need the consent of the pension scheme trustees.

If you have a private pension, you don't need the consent of an employer or the pension provider to take benefits early, if the terms and conditions of your contract allow you to do this.

Need some more guidance?
Whether you are considering one of the above, or a mix of the options, it's always a good idea to speak to a financial adviser before making any big decisions.

Pareto Financial Planning are here to help and advise you on the best course of action. Please contact your financial adviser directly or call 0161 819 1311 to arrange a free no-obligation initial consultation.

You can also visit PensionWise - a free, impartial guidance service offered by the government to help you understand your retirement options.