

# Making a withdrawal from your pension

All you need to know about taking money from your pension

RETIREMENT PLANNING

If you are thinking about taking money from your pension, it is important to understand how the withdrawal process works.

There are four ways you can take money out of your pension. Picking the right one for your needs could help you save tax and make the most of your savings.

## Is taking money from your pension right for you?

Withdrawals from a pension product/SIPP will not normally be possible until you reach age 55 (57 from 2028). From this age, you're usually free to take money out of your pension – as much as you want, whenever you want. You don't even have to retire first. Of course, you can also choose not to take any money out. If you have no immediate plans to use the money, you can leave it invested.

Normally, you can take a tax-free lump sum worth up to 25% of the value of each of your pensions, and anything else you take will then be taxed alongside the rest of your income.

This money can be used for anything you like. However, you do need to remember that your pension is there to give you an income for the rest of your life, so if you take too much too soon, you may not have enough left for what could be several decades of retirement.

## Do you want to continue contributing?

This may sound like an odd question, particularly if you're ready to retire, but it's important to consider your plans for future contributions before you withdraw money from your pension.

If you think you'll want to put more than £10,000 a year in your pension in the future, or you just want to retain the flexibility to do so, take a look at options 1 and 2 on the next page. They mean you'll still get tax relief on your full contributions (up to the annual allowance of £60,000 or 100% of your earnings if lower).

With options 3 and 4, when you take taxable money from your pension, your annual allowance for future contributions

drops from £60,000 to £10,000, which is called the money purchase annual allowance (MPAA).

The MPAA only applies to money purchase pensions and not to defined benefit pensions (sometimes called final salary or career average) such as the NHS or other public service schemes. It also does not apply if you buy a guaranteed income for life from an annuity.

### Important Information:

Please remember that the value of investments and the income from them can go down as well as up, so you may not get back as much as you invest. Tax treatment depends on individual circumstances and all tax rules may change in the future. Withdrawals from a pension product/SIPP will not normally be possible until you reach age 55 (57 from 2028). This information is not a personal recommendation for any particular product, service or course of action. Pension and retirement planning can be complex. If you are unsure about your options please speak to your adviser.

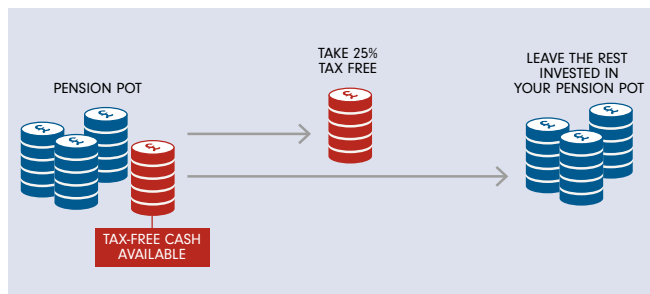






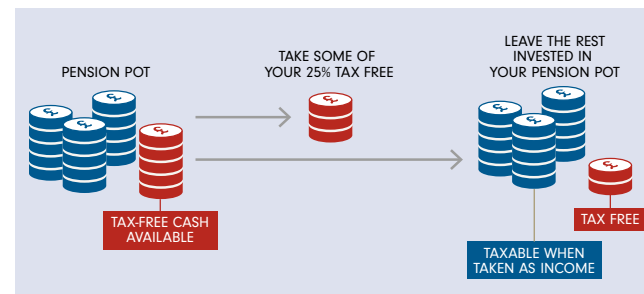
## Your income options

### 1. Take all your tax-free cash in one go



It's as simple as that. Just take out the tax-free cash (typically a maximum of 25%) and leave the rest in your pension. You won't be able to take any more tax-free cash in the future, but the rest can be withdrawn in the same way as your other earnings.

### 2. Take some tax-free cash now and some later

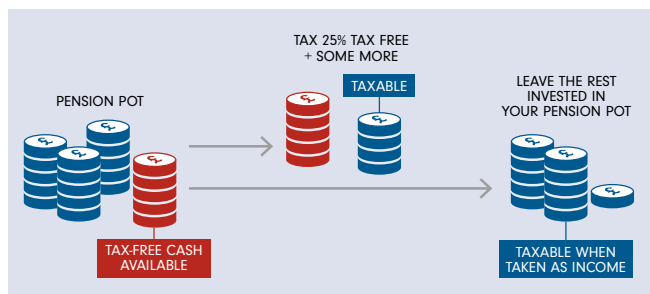


Instead of taking all your tax-free cash in one go, you can withdraw some now, or set up regular withdrawals for the amount you need and leave the rest for later. You might wish to do this if you need a specific sum now, for example to pay off a loan or mortgage balance. This is known as partial drawdown.

You'll also be leaving more of your money invested, so it has the potential to continue growing. This could mean that the amount of tax-free cash available at a later date will increase.

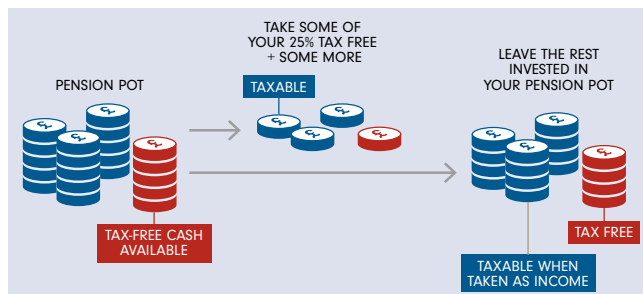


### 3. Take more than just your tax-free cash



You can withdraw as much as you want from your pension. The first 25% of the total value of the pension (not the value of the withdrawal) will be tax free and the rest will be taxed like any other earnings. Anything left can be taken later and income tax will be calculated and paid in the year you withdraw it. This is known as drawdown.

### 4. Take out a combination of tax-free cash and taxed income



Under this option, you take lump sums and 25% of each withdrawal is tax free and 75% is taxed in the same way as earnings. It's called an Uncrystallised Funds Pension Lump Sum (UFPLS). You might do this if your pension scheme doesn't offer drawdown or if there are specific tax benefits to taking your tax-free cash in stages.

It also means that when you're ready to retire or simply want to take another lump sum, you still have the same four options available to you that we've highlighted in this short guide.

## Your income options

Some pension providers don't give you all four options for taking money out of your retirement savings. We're happy to say our Pension offers the full set. If you'd like to find out about moving your pensions into our pension, so you can access these options, please speak to your adviser.

The Government's Pension Wise service offers free, impartial guidance to help you understand your options at retirement. You can access the guidance online at [moneyhelper.org.uk/pensionwise](https://moneyhelper.org.uk/pensionwise) or call them on **0800 011 3797**.







## How to take money from our Pension

**Before you take money from your pension, it's a good idea to make sure you have enough cash in your pension. If not, we will need to sell some of your investments and this can take a number of days.**

When you have enough cash in your pension or if you would rather start the process anyway, speak to your adviser, who will talk you through your options, answer any questions you have and explain all the risks. They will then contact us to arrange for your money to be paid into your bank account. It should arrive in five to ten working days. This could be longer if we need to sell some of your investments to raise the money.

Once you have made your withdrawal, it's a good idea to review your remaining investments, so you can make sure they are still right for you and, if applicable, provide any income you need.

Please note, with options 1, 2 and 3, you will also be moving your pension fund into drawdown. If you have £50,000 or more and would like to know more about what this means for your savings, please speak to your adviser.

### **A quick word about tax**

If you withdraw more than your 25% tax-free allowance, the money above this level will be taxable like any other earnings you receive (which includes the State Pension). If you take large sums, it might even move you into a higher tax band. (To check the current bands, visit [gov.uk/income-tax-rates](https://gov.uk/income-tax-rates)).

With a bit of forward planning, you could potentially reduce your tax bill simply by taking your withdrawal slightly differently. Here's an example of how it could work:

Mr Browne is still working. He earns £35,000 a year, has no other income and is a basic-rate (20%) taxpayer. He could save thousands in tax simply from the way he takes money out of his pension.

- Scenario one: Mr Browne decides to withdraw cash of £30,000 from his pension pot on his 60th birthday. Only £7,500 (25%) of the withdrawal will be tax free. The other £22,500 (75%) of the withdrawal will be added to his earnings for that year. This makes him a higher-rate taxpayer, so he pays 40% tax (approx. £3,000) on some of this money.
- Scenario two: Mr Browne decides to take half the amount he needs from his pension pot on his 60th birthday (£15,000) and the other half a year later. Each year, 25% of the withdrawal (£3,750) is tax free and 75% (£11,250) of the withdrawal is added to his earnings. As a result, he remains a basic-rate taxpayer in both years and could save himself as much as £3,000 in tax overall. This is based on the tax rates and allowances in the 2023/2024 tax year for UK residents and assuming the same tax rates and allowances are used in both years. Tax rates for Scottish residents differ from the rest of the UK.

Certain options may restrict your ability to continue to contribute to a pension, for further details please visit [retirement.fidelity.co.uk/allowances](https://retirement.fidelity.co.uk/allowances)

# We're here to help

If you're thinking about withdrawing all or part of your retirement savings, it's important to make sure your choices are right for you. Your adviser can give you a helping hand by providing both guidance and advice.



**Guidance from  
the government:  
Pension Wise**

The Government offers a free and impartial guidance service to help you understand your options at retirement. This is available via the web, telephone or face-to-face through the Pension Wise service which is now part of MoneyHelper; the easy way to get free help for all your pension and money choices. You can find out more by going to [moneyhelper.org.uk](https://moneyhelper.org.uk) or call them on **0800 011 3797**.

