



# Pension unlocking

## Treasury enjoying a tax bonanza from pension withdrawals

Following changes introduced in April 2015, you now have more choice and flexibility than ever before over how and when you can take money from your pension pot.

You can use your pension pot(s) if you're 55 or over and have a pension based on how much has been paid into your pot (a 'defined contribution scheme'). Whether you plan to retire fully, to cut back your hours gradually or to carry on working for longer, you can now decide when and how you use your pension and when you stop saving into it to fit with your particular retirement journey.

### FLEXIBLE PAYMENTS

HM Revenue & Customs (HMRC) has published its update on flexible payments from pensions. This confirms that 585,000 withdrawals were made by 258,000 people in quarter 3 2018, with total withdrawals in this quarter of nearly £2 billion. In the three and a half years of pension freedoms, nearly 5 million withdrawals have been made by over 1.3 million people, totalling £21.6 billion (April 2015–October 2018).

You can use your existing pension pot to take cash as and when you need it and leave the rest untouched where it can continue to grow tax-free. For each cash withdrawal, normally the first 25% (quarter) is tax-free, and the rest counts as taxable income. There might be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year.

### SECURE RETIREMENT

Withdrawing money from pensions following the introduction of the freedoms shows no signs of abating. Quite the opposite, in fact, as the latest official figures show that the Treasury expects

to receive an additional £400 million<sup>[1]</sup> in tax receipts from flexible pension withdrawals this year. Cashing in your pension pot will not give you a secure retirement income, and you should obtain professional advice if you are considering this option.

The findings show that typically smaller pensions are being fully withdrawn, while people with larger pensions are making multiple withdrawals in a tax year, suggesting they are treating their pension more like a bank account. These pensions are also being accessed for the first time before State Pension age. People accessing their cash also need to ensure they are not paying more tax than they need to.

### TAX BONANZA

This combination of taking multiple withdrawals in a tax year at earlier ages, when people are still likely to be earning income from work, means many people are likely to be paying more tax than if they took withdrawals more gradually. The Treasury is enjoying a tax bonanza, as predictions that paying Income Tax will be a natural brake on withdrawals hasn't stopped people simply taking the money.

HMRC also confirmed that around £38 million has been refunded in overpaid tax following the application of emergency tax rules on pension withdrawals in the last quarter (1 July–30 September), as many people continue to overpay at the point of withdrawal. ■

### Source data

[1] HMRC Pension schemes newsletter 104 for October 2018.

## TAKING CONTROL OF YOUR FINANCIAL FUTURE

Retirement is very much in the control of the individual. The money saved now will be in your hands in the future, so now is the time to start making active choices which will help to achieve your retirement dreams. To review your situation, please contact us.

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