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Happiness is freedom

With greater freedom comes greater responsibility

'The secret to happiness is freedom' wrote the ancient Greek historian Thucydides. And with the introduction of the pension freedom rules, those aged over 55 now have far greater freedom of choice over how they use their pension pot to fund their retirement years.

When pension freedoms commenced during the tax year 2014/15, it dramatically changed the pensions landscape. How people can now access their retirement income is substantially different from previous generations. On the one hand, pension freedoms have made it much easier for people to access their pension pots, and as a result some may think they can do it themselves.

CONVERTING A PENSION POT INTO CASH AND INCOME

On the other hand, the reality about how best to convert a pension pot into cash and income is one of the most complex decisions in personal finance, and it is simply too difficult for most people to do without expert, professional financial advice.

Worryingly, half of Britons aged 55 and over (51%) admit they know little about the pension freedom rules introduced in April 2015, according

to new research^[1]. A further one in ten (10%) over-55s say they know nothing about the changes, which represented a complete shake-up of the UK's pensions system five years ago.

FREEDOMS LET PEOPLE ACCESS THEIR PENSION POT

Just a third of over-55s (34%) can remember the changes taking place. The research also found that women are less likely to know about the rules than men, with 58% over the age of 55 admitting to knowing little about them compared to 43% of men.

The pension freedoms let people aged 55 and over access their Defined Contribution or Money Purchase pension pot in whatever way they want. The biggest change is that people aged 55 and over can withdraw their entire pension pot as one lump sum. However, there are likely to be charges (tax implications) for cashing in your whole fund,

and not all pension schemes (particular workplace pensions) or providers will offer this option.

GREATER ONUS ON PEOPLE TO KEEP THEMSELVES INFORMED

Money Purchase pensions include Personal Pensions and Stakeholder Pensions. Your contributions are used to build up a pot of money, and you choose how and when you want to use that pot. They don't include Defined Benefit pensions, where the amount of income you receive is linked to your salary and length of service.

With greater freedom comes greater responsibility. There is now more onus on people to keep themselves informed of their options when it comes to accessing their pension money. You need to make sure you have enough to live on throughout your retirement, and that you can provide for any dependants after you die.



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LIKELY TO TAKE A TAXABLE LUMP SUM IN RETIREMENT

Under the rules of pension freedoms, you can access your pension from the age of 55. If you choose to take a lump sum from your pension, 25% of the amount you withdraw will be paid tax-free, while the remaining 75% is taxable.

Looking ahead, 35% of adults aged between 45 and 54 say they will probably, if not definitely, take a tax-free lump sum from their pension at some point. Of those, 30% will do so as soon as they reach 55. Meanwhile, 15% of adults aged between 45 and 54 say they are likely to take a taxable lump sum in retirement. Of those, almost a quarter (24%) plan to do so as soon as they get to 55.

A NEST EGG CAN BE CONSIDERED A BIG ACHIEVEMENT

In the current economic climate, some may be tempted to dip into their pension savings as soon as they can. With more people retiring with debts and mortgages to pay, the decision to access this requires serious thought. Perhaps the biggest difficulty in managing your own retirement money is guessing how long you will live and what investment returns you might expect.

By many estimates, you are going to need at least 70% of your income in retirement. Unfortunately, in our society of instant gratification, where keeping up with the Joneses is more important than saving money for the future, for many having a nest egg can be considered a big achievement. ■

LIVE THE LIFESTYLE YOU WANT WHEN YOU RETIRE

Saving for your retirement is essential, and making the right choices now can really pay off. Deciding what to do with your pension pot is one of the most important decisions you will ever make for your future. We're here to help you make good decisions so you can live the lifestyle you want when you retire. Please contact us to talk to us about your retirement plans.

Source data:

[1] Standard Life's research of more than 2,000 UK adults found 35% of Britons aged between 55 and 64 have already accessed their pension pot, prior to State Pension age

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND YOUR ENTITLEMENT TO CERTAIN MEANS-TESTED BENEFITS AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION

LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

TAX RULES ARE COMPLICATED, SO YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT.

THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.