Age 55 plus – unlock your pension

Changes were introduced with effect from April 2015, which provide those aged 55 plus with greater access to their pension savings. Where an individual has a defined contribution (money purchase) scheme, it is no longer necessary to purchase an annuity with the pension pot. Further, withdrawals in excess of the tax-free lump sum are taxed at the individual's marginal rate of tax rather than at the punitive rate of 55% that applied prior to 6 April 2015.

Options

Once you reach age 55, there are various options available for your defined contribution pension pot:

- leave it where it is;
- invest in an annuity;
- take a flexible income;
- cash in the whole pot; or
- mix and match from the above.

Take it later

Although it is now possible to access pension savings at age 55, this is not the best option for everyone. It may suit you better, particularly if you are still working, to leave it where it is and to continue to invest so that you have a larger pot available to take later.

Tax-free lump sum

Once you have reached age 55 you can take 25% of your pension pot as a tax-free lump sum. Amounts in excess of the tax-free lump sum are taxed at the individual's marginal rate of tax.

Annuity

It is no longer compulsory to use pension savings to buy an annuity, but those looking to secure an income in retirement may wish to invest some or all of the pension pot in an annuity. Financial advice should be sought to ensure that you purchase the right annuity for your personal circumstances.

Drawdown

If you want a flexible income in retirement you can opt for one of the drawdown options. This option allows you to take cash from your pension pot as you need it and can be achieved in one of two ways. The first option is to take the 25% tax-free lump sum in one chunk and then take the remainder of the pension pot as regular or irregular cash sums or as a one-off payment. Once the lump sum has been taken, the further withdrawals are taxed at the individual's marginal rate of tax. The annual allowance drops to £10,000 once the first payment in excess of the tax-free lump sum is taken. If only the tax-free lump sum is withdrawn, the allowance remains at £40,000.

The alternative is to take smaller sums (uncrystallised fund pension lump sum). Under this approach, the first 25% of each withdrawal is tax-free and the balance is taxed at the individual's marginal rate of tax. The annual allowance drops to £10,000 as soon as a withdrawal is made.

The annual allowance where a pension has been drawn down is to drop to £4,000 from April 2017.

Taking it all out

There is nothing to stop you withdrawing you pension pot at age 55 and splurging the lot. The first 25% is tax-free and the remainder taxed at your marginal rate. But remember, you may need an income to fund your life into your eighties and beyond.

Mix and match

Depending on the scheme rules, you could take some for a holiday of a lifetime, invest some in an annuity and leave the rest where it is.

Beware scams

Schemes that offer to unlock your pension before age 55 should be avoided at all cost. You will trigger punitive tax charges which will drastically reduce your pension pot.