National Friendly Financial Solutions

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A Guide to Your Retirement Options

2025/26 Tax Year

This guide outlines the different options available to you from your pension funds when you retire. It also provides useful information about the State Pension and the benefits available from workplace pensions your employer may have provided for you.

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About us

We're a specialist telephone-based financial advice service, serving the whole of the UK from our head office in Bristol. We cover all aspects of financial planning with our core expertise in retirement planning, protection and later life care.

If you're looking for financial advice that you can rely on, call us and you'll be assigned your very own friendly adviser. We'll carry out a full financial review, use our expert knowledge to research the marketplace and recommend the best solutions for you. We will then implement the advice, take care of any arrangements for you and can provide with you annual reviews.

We will provide impartial advice on the following areas:

- ✓ **Pension funding**
- ✓ **Choice at retirement**
- ✓ **Estate planning**
- ✓ **Long term care funding**
- ✓ **Managing your investments**

The friendly way to make sense of your money

Call us today and speak to one of our advisers to find out how we can help:

0333 014 6267 Lines open 9am-5pm Monday to Friday excluding bank holidays. Calls from UK landlines and mobiles cost no more than a call to a 01 or 02 number and will count towards any inclusive minutes. Calls are recorded for training and quality purposes.

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Introduction

This guide outlines the different options available to you from your pension funds when you retire. It also provides useful information about the state pension and the benefits available from workplace pensions your employer may have provided for you.

The government does not prescribe a particular product which you will need to use when accessing your pension savings. It will be up to you to decide how you want to access them, either as a lump sum or through some sort of financial product.

The options described in this guide generally apply to defined contribution (money purchase) pension pots such as personal pensions, group personal pensions, Self-Invested Personal Pensions (SIPPs), and stakeholder pensions. These options are not normally available to defined benefit / final salary pension schemes.

We look at the different options in more detail in later sections of the guide but, in summary, the choices that are usually available to you are:

Take one or more lump sums directly from your current pension plan(s), known as Uncrystallised Funds Pension Lump Sums (UFPLS) and/or

Use some or all of your funds to buy an annuity and/or place some or all of your funds in flexi-access drawdown.

You should also be aware that you need to take into account the risk factors that are relevant to your preferred means of accessing your pension fund and we will discuss these with you during our meeting.

You are able to take as much or as little as you like from your defined contribution pension from age 55. This minimum pension age is increasing to age 57 on 6 April 2028 but anyone who already has a plan allowing access from age 55 will still be able to access their funds from age 55 after this date. Your pension providers can confirm the minimum access age in respect of the plans you hold.

Apart from the tax free cash element of the pension fund (usually 25%) any funds withdrawn will be added to your earned / pension income and taxed accordingly depending which income tax bands they fall into. If taxable, the tax rate could be 20%, 40% or 45% (or in Scotland 19%, 20%, 21%, 42%, 45% or 48%) or a combination of these rates depending on the amount withdrawn.

Questions about you, for you to think about

Financial advice isn't simply about recommending a product for you. To do our job properly we need to understand what you want to achieve, your goals and ambitions, so that we can help build a financial future with you which realises those objectives. We will talk to you about these, but in the meantime here are some questions to get you thinking specifically about your retirement. You don't have to answer them right now, but we will work through those which are relevant.

What does retirement mean to you?

- Do you want to stop working altogether, keep working as long as possible, or gradually reduce your working hours?
- Do you have a specific age in mind?
- Will you want to sell any assets, such as a business or a property?

How do you want to live in retirement?

- Are there any once in a lifetime dreams you want to fulfil?
- Have you any plans to move abroad, or purchase a second property?
- Do you anticipate living in your current house or downsizing?
- When will you need to generate retirement income and how much?
- Will you need your income monthly, quarterly or annually?

How much risk can you afford to take with your income?

- Do you need to pay specific bills or regular payments out of this income?
- Does it matter if some or all of your income fluctuates, and goes up or down? How much?
- If this income was not paid out how long could you last from other sources? What other income sources or assets do you have available?
- How important is certainty of income, is there a minimum you need to meet?

How much risk do you feel comfortable with?

- Would you rather take some risk with this income to see if you can get more even if this means it may go down and you could lose it altogether?
- Is it important for you to retain flexibility accepting this comes with some additional risk, or would you prefer to make an irreversible decision in return for greater certainty of income?
- Are you more concerned about the risk of inflation eroding the relative value of your money, or investment fluctuations eroding the absolute value of it?
- Are you comfortable with retaining an ongoing involvement in managing your retirement income, albeit with professional help, or would you rather make a decision and then forget about it?

Preparing for the worst

- How healthy are you? Do you have any illnesses or any concerns about how long you might live, or require income for?
- Do you have any future financial obligations to meet, such as debts?
- Do you have dependants, such as family, who would be reliant on your income when you die? When if at all, would this dependency end?
- Do you wish to leave an inheritance?
- Should you need specialist care in later life, do you have any views on what type of care you would prefer?

Whilst thinking about these questions and your forthcoming retirement, there are also a number of factors that you should consider carefully.

The decision you make now in respect of your retirement could be irreversible so please take the time to consider the factors below and also the product features we have documented in this guide.

Risk Factors

- Your state of health
- Whether your pension savings offer any form of guarantee
- The ongoing needs of your partner and/or dependants
- The effect of inflation
- Whether you have considered all the options available to you
- Whether you will have a sustainable income in retirement
- What the tax implications are
- Whether you understand the charges involved
- The impact on any means tested benefits
- Do you have debt – how will taking your pension affect this?
- Are you aware of pension and investment scams and what they look like?

Summary of current options

a. You can leave your existing pension fund with your current provider. Then, if you wish, take a tax free cash sum (known as a pension commencement lump sum) and buy a guaranteed income for life - a Lifetime Annuity (Compulsory Purchase Annuity), from your current provider.

b. You could transfer the whole value of your pension fund to another provider who offers the best annuity rate for a lifetime annuity (this is known as exercising the open market option).

c. You may transfer your pension fund to a provider offering a Lifetime Annuity on a flexible basis (often called variable or third way annuities). These types of annuity look to combine the certainty of a lifetime annuity with investment growth as seen with flexi-access drawdown Pension. There are only a small number of these products in the marketplace.

d. You can transfer the whole value of your pension fund into a flexi-access drawdown pension. This allows you to vary future income levels to fit in with your overall financial plan, either by use of drawdown pension or short term/fixed term annuity. There are drawdown plans available which allow a fixed and guaranteed income to be purchased for a specific period of time, up to a maximum of 40 years in some cases, with some plans also giving an option to include a guaranteed maturity value at the end of the income term.

e. You can take all your benefits as a lump sum, known as an Uncrystallised Funds Pension Lump Sum (UFPLS). The first 25% of the lump sum will be tax free if within your available allowances with the remainder taxed as pension income. In some cases, you may be able to withdraw your fund as a series of UFPLS if required.

f. You can convert your retirement fund in stages, over a number of years (often referred to as staggered vesting or phased retirement) into income using either annuity, drawdown pension or UFPLS. This may be available with your current pension arrangement or you may need to transfer into a personal pension plan or self invested personal pension first.

g. You can also use the value of your pension fund to utilise a combination of these options.

h. It may be possible for you to take all your benefits from your defined contribution pension scheme as a 'small pots' lump sum if the value isn't above £10,000.

Changes from 6 April 2024 – Transitional tax-free amount certificate

If you have accessed a pension plan of any type before 6 April 2024 and might benefit from increasing your tax free lump sum entitlement through obtaining a Transitional Tax-Free Amount Certificate (TTFAC), then if you take a Pension Commencement Lump Sum (tax free cash sum) or Uncrystallised Funds Pension Lump Sum (UFPLS) on or after 6 April 2024 before obtaining a TTFAC you will have lost the chance to do so. This may mean a lower entitlement to tax free lump sums during your lifetime or for your beneficiaries if you should die before age 75 than might have been the case if you had obtained a TTFAC.

State Pension

The State Pension is intended to ensure that everyone has a basic amount of money to support them in their old age. The amount you will receive is based on your National Insurance (NI) record and anyone with only a post 5 April 2016 NI record will need to have 35 years' worth of NI contributions or credits to receive a full new State Pension.

State Pension is paid every four weeks and can be paid straight into your bank account.

The new State Pension was introduced for everyone reaching State Pension age on or after 6th April 2016. It has the following features:

- It's a single weekly amount. The full amount has been set at £230.25 for 2025/26.
- However, you may get more or less than this full amount, depending on your individual circumstances.
- The full amount will be given to people with at least 35 years of National Insurance (NI) contributions or credits (although deductions are made where someone has been contracted out of the Additional State Pension scheme in the past and this can result in less than the full amount being available even if 35 years' NI contributions have been made).
- To qualify for any new State Pension, people will need at least 10 years of contributions. Those with between 10 and 34 years of contributions will receive a proportion of the pension.
- People with a pre and post 6 April 2016 NI record may receive a full new State Pension with less than 35 qualifying years and some new State Pension with less than 10 qualifying years, as the old State Pension system required between one and 30 qualifying years and the 'starting amount' is the higher of the two systems.
- It will be an individual entitlement, so in general there will be no special rules for people who are married or in civil partnerships, bereaved or divorced.
- Pension Credit and other means-tested benefits will continue to provide a safety net for people with low incomes.
- Anyone who had already been paying National Insurance before 6 April 2016 was given a state pension 'starting amount' in 2016 of the higher of:
  - The amount they would have received under the pre-2016 old state pension system including basic and additional state pension
  - The amount they would have received if the post-2016 new State Pension had been in place throughout their working life

When working out the starting amount a deduction was made if you had ever been 'contracted out' of the additional state pension via a personal or workplace pension scheme – for example if you have been a member of a public sector pension. If you were contracted out at some point you will either have paid NI contributions at a lower rate because you were paying into a contracted out pension instead or you will have paid the normal rate of NI with the government then paying a rebate into your private pension plan.

If your starting amount is more than the full amount of the new State Pension, any amount over that level will be protected and paid in addition to the new State Pension when you start to claim it. In this situation, any National Insurance qualifying years you have after 5 April 2016 won't add more to your State Pension.

If your starting amount is less than the full amount of the new State Pension you may be able to increase your state pension by adding more qualifying years to your NI record after 5 April 2016. You can normally do this until you reach the full new State Pension amount or reach State Pension age - whichever is first. Each qualifying year on your NI record after 5 April 2016 adds an extra 1/35th of the State Pension figure to your State Pension entitlement (so around £6.57 extra per week for each additional qualifying year added, based on the 2025/26 state pension figure).

How the new State Pension will affect individual entitlement

The State Pension is based on your own contributions and in general you will not be able to claim on your spouse or civil partner's contributions at retirement or if you are widowed or divorced.

However, if you're widowed you may be able to inherit part of your partner's additional pension that they built up. There is also provision under the new system for women who paid the reduced rate 'married woman's contributions' to use these contributions towards the new State Pension.

Is there any way you can increase your entitlement?

If you are not on course to receive a full State Pension on your own contributions you may be able to increase your entitlement in a number of ways:

- If you have not yet reached State Pension age, you may be able to increase your State Pension if you continue to work and pay NI contributions.
- Paying voluntary NI contributions to increase your entitlement.
- Seeing if you are eligible (or were previously eligible) for NI credits through various benefits, such as Carer's Credit or Specified Adult Childcare credits.

Deferring your State Pension

You can put off claiming your State Pension when you reach State Pension age if you wish to. This will allow you to build up additional benefits which you can take in the form of extra State Pension.

If you reached State Pension age before 6 April 2016 and have already chosen to defer your State Pension you may be able to take the deferred payments as additional pension or as a lump sum (this also applies if you were already in receipt of your State Pension before 6 April 2016 - you can choose to stop the payments and defer to a later date - although you can only do this once).

Voluntary National Insurance (NI) contributions

If you have gaps in your NI record it's possible for some people to pay voluntary class 2 or 3 NI contributions in order to increase State Pension entitlement.

It's only possible to fill gaps from the previous six tax years.

Annuities (guaranteed income for life)

Lifetime annuity

This is the most basic type of annuity and pays you a guaranteed income for your lifetime.

A lifetime annuity pays a guaranteed income for your life from the funds you have built up in your pension plan. Your annuity provider will pay you a regular income taxed in the same way as earnings. The amount of income payable is dependent on your age and health, the size of your pension fund, economic factors, the type of annuity and the options you select. You should also be aware that once you have purchased an annuity you cannot cash it in or make changes to your selected options.

Annuity options include:

Single-life or joint-life - A joint life last survivor annuity pays out until the second person of a couple dies. It's possible for the annuity to continue at the same level to a survivor but most couples elect for a spouse/dependant's income of between 1/3rd and 2/3rds of the original amount. It's not necessary for a couple to be husband and wife and any person of either sex may be eligible for a dependant's pension, although it may be necessary in such circumstances to show financial dependency (the rules on who can be paid a survivor's pension were relaxed from 6 April 2015 although annuity providers will have their own restrictions in place). With some pension schemes a spouse's pension must be provided. The higher the level of spouse/ dependant's pension included, the lower the starting income will be.

Frequency of income - You may select at the outset how often you want to receive income each year. Most people choose monthly, but you can be paid quarterly, half-yearly or annually.

Income paid in advance or in arrears - Payments can be made either in advance or arrears. If you opt for monthly income and purchase your annuity on 1 January and you receive your payment on that day, you are being paid in advance. If your first payment is not made until 1 February, you are being paid in arrears. Payments made annually in arrears would give the highest income figure but the first payment would not be received until a year after annuity purchase.

With or without proportion - When you die, an annuity with proportion will pay a proportionate amount to cover the period from the last payment until the date of death. This is most valuable when income payments are made on an annual basis. This option is only available for payments made in arrears. Without proportion represents the cheaper option.

Level, escalating or decreasing - A level annuity pays the same amount of income year after year. It pays a higher income compared to the initial starting income available under an escalating annuity, which will take a number of years to catch up and exceed a level annuity. An escalating annuity, on the other hand, is designed to increase each year. The greater the level of escalation chosen, the lower the initial income will be. It's possible to select a fixed rate of increase each year normally in the range of 3% to 8.5%. Alternatively, you can choose to link increases to reflect changes in the Retail Prices Index (RPI) - however, your income is not guaranteed to increase each year as the RPI may not rise and if it did fall, so might your income. Some annuities arising from occupational pension schemes can also escalate by Limited Price Indexation (LPI). LPI means your income increases each year in line with the RPI but only up to a maximum of 5% or 2.5% depending on when the pension was earned. It's also now possible to purchase an annuity that has the facility to be decreased.

A guarantee period - If you select a guarantee period and you die within the period chosen, payments will continue for the balance of time remaining. Normally the guarantee period will be either 5 or 10 years. Remaining instalments would be paid as an income to the nominated beneficiary and would be free from income tax if you die before age 75 and subject to income tax at the beneficiary's marginal rate(s) if you die after age 75. The longer the guarantee period, the more costly the option is.

Annuity protection lump sum death benefit - This option allows for a return on death equal to the difference between the cost of annuity purchase and the gross income payments received. If you die before age 75 the payment to your beneficiaries will be free from income tax and if you die aged 75 or over it will be taxed at the beneficiary's own income tax rate(s).

In addition to the options you can select there are also several different types of annuity as described below.

Enhanced/impaired life annuity

Most annuity providers offer annuities which pay you a higher than normal income if you have a medical condition(s) which can affect your normal life expectancy. These are called impaired life annuities.

An enhanced annuity may be available if you smoke regularly, are overweight, if you have followed a particular type of occupation or live in certain parts of the country.

Main features of an Enhanced/impaired life annuity:

Age & health	Annuity rates are calculated initially on age, so the older you are when you purchase an annuity, the higher the annuity will be. A higher than normal annuity can be purchased if you have a medical condition or qualify for an enhanced annuity as described above.
Investment risk	The income will not keep pace with inflation (unless the annuity is set up to increase each year and the increase rate matches or exceeds inflation). There is no investment risk but you should be aware that you will not benefit from future growth on your pension fund.
Other risks	In the event of death, depending upon the type of annuity you have purchased, benefits to your beneficiaries could be lower than those enjoyed under some of the other options available to you and briefly explained in this guide. Some pensions carry guaranteed annuity rates that you only be entitled to if you take your pension at a particular time and in a prescribed way.
Flexibility	You will be able to access your tax free cash lump sum immediately, to spend or invest as you wish. You receive a guaranteed level of gross income for life. The level of income is fixed at outset based on the available annuity rates and cannot be changed (except for any regular increases or decreases chosen). If you have a partner, dependants or other beneficiaries you wish to provide for on your death, you must make this election at outset and it cannot be changed.
Taxation	You can usually take up to 25% of your pension fund as a tax free lump sum. Your annuity will be taxed at your marginal rate(s) of tax, so if you are a non-taxpayer you may receive some or all of your annuity tax free.
Transfers & withdrawals	It's not usually possible to transfer your annuity once in payment. You receive a guaranteed level of gross income for life and will be taxed on this at your marginal rate(s). It's not possible to withdraw additional sums from your annuity. However annuity products may become available that will allow further amounts to be withdrawn – subject to the terms and conditions defined at outset.

Availability	There are several annuity providers currently in the market and you need to ensure that you check the rates that are available as these will vary from provider to provider.
Long term care	Your pension income will be taken into account should you require care in the future.
Treatment after death	Your spouse/dependants/beneficiaries can enjoy a guaranteed level of gross income, in the event of your death (if this option is selected at outset). For survivors' annuities, the income will be tax free if you were to die before age 75. Your pension can be payable for a guaranteed minimum period of time (for example 5 or 10 years). You have the option to include annuity protection – your beneficiaries will receive a lump sum on your death equal to the difference between the amount you paid to purchase the annuity and the gross annuity payments you had received up to your death (the payment will be free from income tax on death before 75 and taxed at the recipient's marginal income tax rate(s) if you die after age 75). Currently, most pension death benefits don't form part of your estate on death. This is expected to change from 6 April 2027 such that if you should pass away on or after that date, your pension death benefits will form part of your estate and may be liable for Inheritance Tax.
Type of charges	An adviser charge is usually deducted by the annuity provider before the lifetime annuity is purchased, there are no ongoing product charges (the provider charges are accounted for within the annuity rate offered).
Future planning issues	If you decide to move abroad after retirement, you can usually arrange to have your pension paid to an overseas bank account if you wish to.

Lifetime annuity (flexible) also referred to as variable or third way annuities

There are some products on the market that are increasingly emerging which attempt to combine the certainty of a conventional annuity with the prospect of investment growth seen with drawdown pension i.e. in an attempt to offer the best of both worlds.

With a flexible annuity (not a drawdown pension product), the range of income you can draw is 50% - 120% of the annual rate of a level annuity which could be purchased with the pension fund, for the same term ('level annuity' means either a single life level annuity or a joint life level annuity depending which type has been purchased).

Generally speaking flexible (variable or third way) annuities fall into two main categories:

- Annuities with flexibility – these are similar to conventional lifetime annuities i.e. payable throughout lifetime but with a degree of income and/or investment flexibility.
- Fixed term annuities – these provide a guaranteed income for a set period of time with a guaranteed or reviewable maturity value.

A third category which is made up of drawdown pension products with income guarantees is also available:

- Drawdown Pension with income guarantees – these are similar to standard drawdown pension plans (see Drawdown Pension section below) but with some level of underpinning income guarantee which will continue no matter how the underlying investment performs. Most plans can provide a guaranteed income for a specific time period, often up to 20/25 years.

Main features of a lifetime annuity (flexible):

Age & health	Annuity rates are calculated initially on age, so the older you are when you purchase an annuity, the higher the annuity will be. A higher than normal annuity can be purchased if you have a medical condition or qualify for an enhanced annuity as described above.
Investment risk	Although an implicit rate of investment growth has been assumed when setting the annuity rate to provide your income there is no guarantee that investment returns will exceed or even match that assumed. Your income, therefore, could fall or fail to increase.
Other risks	In the event of death, depending upon the type of annuity you have purchased, benefits to your beneficiaries could be lower than those enjoyed under some of the other options available to you and briefly explained in this guide.
Flexibility	You will be able to access your tax free cash lump sum immediately, to spend or invest as you wish. You may receive a minimum guaranteed level of gross income for life or for a fixed period. You may have flexibility in terms of altering the income payments to reflect changes in personal or financial circumstances.

Flexibility (continued)	Your income may fully/partially reflect the movements in the value of the underlying assets. Your income may rise above the minimum guaranteed level if the underlying investments perform well. Subject to limits imposed by legislation, you will be able to plan in advance the level of income that you wish to take each year, so that you can take into account any other sources of income which may become available to you.
Taxation	You can usually take up to 25% of your pension fund as a tax free lump sum. Your annuity will be taxed at your marginal rate(s) of tax, so if you are a non-taxpayer you may receive some or all of your annuity tax free. You can structure your income to mitigate liability to personal income tax. By reducing your income in some years you may be able to avoid a higher rate tax liability.
Transfers & withdrawals	It's not usually possible to transfer your annuity.
Availability	There are a small number of providers in the market who offer this product and you should review the product detail of each carefully.
Long term care	Your annuity payments will be taken into consideration should you require long term care in the future.
Treatment after death	Your spouse/dependants/beneficiaries can receive an income in the event of your death (if this option is selected at outset). For survivors' annuities or survivors' drawdown, the income will be tax free if you were to die before age 75 and taxed on the recipient at their marginal rate(s) if you die after age 75. Your pension can be payable for a guaranteed minimum period of time (for example 5 or 10 years). You have the option to include annuity protection – your beneficiaries will receive a lump sum on your death equal to the difference between the amount you paid to purchase the annuity and the gross annuity payments you had received up to your death (the payment will be free from income tax on death before 75 and taxed at the recipient's marginal income tax rate(s) if you die after age 75). Currently, most pension death benefits don't form part of your estate on death. This is expected to change from 6 April 2027 such that if you should pass away on or after that date, your pension death benefits will form part of your estate and may be liable for Inheritance Tax.
Type of charges	There will usually be an initial set up charge and ongoing annual charges.
Future planning issues	At the end of each fixed period you will normally have the option to purchase a conventional annuity. If you decide to move abroad after retirement, you can usually arrange to have your pension paid to an overseas bank account if you wish to.

Drawdown pension

Drawdown pension is only available from money purchase schemes (or by first transferring into a money purchase scheme, which is likely to involve charges). There are two ways of drawing income from a drawdown pension arrangement, income withdrawal and short-term annuity.

You do not have to buy an annuity when you want to start taking an income from your pension fund. Instead, you can put off buying an annuity, perhaps indefinitely, and in the meantime, you can take an income direct from your pension fund. This facility is referred to as drawdown pension.

If you want to take part of your pension fund as a tax- free lump sum (usually up to 25% of the fund) you do this before starting to take income from the fund. All income from drawdown pension or short-term annuity contracts (if it exceeds your Personal Allowance) is subject to income tax in the same way as earnings.

If you have never had a drawdown pension plan before then the drawdown product available to you is flexi-access drawdown. If you already have a capped drawdown plan you may be able to choose to either place further funds into your capped drawdown plan or take out a flexi-access drawdown plan as described below:

Capped drawdown

New capped drawdown contracts are no longer available (from 6 April 2015) but if you already have some funds in a capped drawdown plan, you may be able to add additional pension funds to the plan. Existing capped drawdown plans can continue and can remain subject to the current rules on income limits and income reviews. As long as no more than the maximum income level is withdrawn each year, the plan can remain as capped drawdown. Should you withdraw income above the maximum limit your plan will become a flexi-access drawdown plan (see below). You can also ask your capped drawdown provider to alter your plan to a flexi-access drawdown plan if required.

For most people the maximum amount of income that can currently be drawn each year under capped drawdown is 150% of a comparable lifetime annuity based on tables published by the Government Actuary's Department. You could choose to take a level of income below the maximum or you could elect not to draw any income at all. Any amount of income from zero through to the 150% maximum can be selected. The plan and maximum income will be reviewed every 3 years up to the anniversary of entering drawdown after the 75th birthday and annually thereafter.

The main advantage of keeping withdrawals within the maximum limit is that the £10,000 Money Purchase Annual Allowance described below under flexi-access will not apply to you. You will keep the full annual allowance (£60,000 currently unless your threshold income exceeds £200,000 and adjusted income exceeds £260,000 where a tapered allowance will apply) and can therefore continue to fund pensions up to this level (without suffering a tax charge). Anyone who wishes to continue to fund their money purchase pension plans at a level above £10,000 per annum gross needs to bear this in mind.

Flexi-access drawdown

Flexi-access drawdown is the new term for drawdown pension which allows you to place your pension funds in a drawdown plan and from age 55 withdraw as much or as little as you want over any period. Up to 25% of the fund can be taken as a tax free lump sum when the fund is placed in drawdown and any income taken will be taxed as pension income.

You will be able to make further pension contributions, however, if you take any income or withdraw a lump sum in addition to the tax free lump sum, you will have a reduced annual allowance of £10,000 for future contributions to defined contribution plans. This is known as the Money Purchase Annual Allowance. Where you remain a member of a defined benefit occupational pension scheme, you will also benefit from the standard annual allowance for your defined benefit scheme funding.

There are also rules in place to prevent the tax free lump sum from being taken and used to increase pension contributions and gain further tax relief via a pre-planned course of action.

You should think about reviewing your drawdown income every year as well as the decision on whether it might be appropriate to purchase an annuity at that point.

If you die with funds remaining in a drawdown plan (capped or flexi-access), subject to the rules of the particular plan your beneficiaries will have the option of continuing to take drawdown pension, buying an annuity, or taking the remaining fund as a lump sum. If you die aged under 75, drawdown income, annuity income and lump sum payments will be free from income tax and if you die on or after age 75, they will be taxed at the recipient's marginal income tax rate(s).

*The minimum pension age is increasing to age 57 from 6 April 2028. Only those who already have plans allowing access from age 55 will be able to keep that lower age after 5 April 2028. Your pension provider can confirm your minimum access age in respect of your plans with them.

Main features of drawdown pension (capped and flexi-access):

Age & health	The amount of income you can withdraw under a capped drawdown plan is based on the Government Actuary's Department (GAD) tables which are based on age but do not take health into account. For flexible and flexi-access drawdown you can choose how much income you want to withdraw without reference to any rates or limits other than the size of your pension fund. If you or your spouse is relatively young, a secured pension (lifetime annuity or scheme pension) would be less attractive due to the lower mortality factor and, in addition, there is a longer timescale to take advantage of the potential investment rewards and risks of drawdown pension. You can delay purchasing a lifetime annuity if you think annuity rates will improve.

Investment risk	Investing in relatively safe areas such as cash and gilts is unlikely to enable a higher lifetime income to be achieved than with a secured pension therefore investing in the type of assets that might achieve the extra returns necessary will involve risk. The shorter the term to the intended date of purchasing a secured pension, the greater the risk. The value of your pension fund may go down as well as up and investment returns may be less than those shown in the illustrations. Taking withdrawals may erode the capital value of the fund, especially if investment returns are poor and a high level of income is being taken. This could result in a lower income if/when an annuity is eventually purchased. Overall income may be less than that which could have been available via the annuity route.
Other risks	Annuity rates may be at a lower level if/when annuity purchase takes place and there is no guarantee that your income will be as high as that offered under the other options referred to earlier. There is no guarantee that annuity rates will improve in the future. They could be lower if/when you decide to purchase an annuity than they are currently. Your pension may be lower than if you bought a lifetime annuity now. High levels of drawdown pension may not be sustainable in the longer term. If you intend to invest some or all of your pension fund there may be charges involved with the new investment. If you withdraw large amounts of capital from your drawdown fund these may impact on any means tested benefits you are in receipt of. If greater than the actual income being taken, an income in line with that available from an annuity based on your age at that time will be taken into account.
Flexibility	You can take your tax free cash lump sum immediately to spend or invest as you wish without the need to take any income at all if this suits your circumstances. You will be able to plan in advance the level of income that you wish to take each year, so that you can take into account any other sources of income which may become available to you. There are products available which offer a level of guaranteed income which is paid regardless of the performance of the investments in your pension fund thereby removing some of the risk involved with drawdown pension (albeit at a price and subject to specified conditions being met). And some plans also offer a guaranteed maturity value which, if chosen, is paid at the end of the chosen income term. If the drawdown pension product is set up within a Self Invested Personal Pension (SIPP) wrapper, this will permit access to a wide range of investments and enable the investments to be rearranged easily if required (and usually more cost effectively than switching between product providers).

Taxation	You can usually take up to 25% of your pension fund as a tax free lump sum. You can structure your income to mitigate liability to personal income tax. By reducing your income in some years you may be able to avoid a higher rate tax liability. If in flexi-access drawdown you may withdraw an unlimited amount from your pension fund, although all amounts withdrawn will be taxed as income at your marginal income tax rate(s).
Transfers & withdrawals	It's possible to transfer your drawdown plan from one provider to another. You will be taxed on any income withdrawn at your marginal rate(s). You can make ad hoc withdrawals instead of, or in addition to, taking a regular income from your fund.
Availability	There are many drawdown providers in the market and you should ensure you consider costs, service standards and investment choice before selecting a provider.
Long term care	Your income payments will be taken into consideration should you require long term care in the future. If greater than the actual income being taken, an income in line with that available from an annuity based on your age at that time will be taken into account.
Treatment after death	Subject to the terms of the plan, your beneficiaries can continue to take withdrawals from any remaining drawdown fund on your death (annuity purchase is also an option) or take the remaining fund as a lump sum. If you die before age 75 any income or lump sums taken by your beneficiaries will be free from income tax. If you die after age 75, any lump sum or income taken by your beneficiaries will be taxed at the recipient's marginal income tax rate(s). Currently, most pension death benefits don't form part of your estate on death. This is expected to change from 6 April 2027 such that if you should pass away on or after that date, your pension death benefits will form part of your estate and may be liable for Inheritance Tax.
Type of charges	Drawdown pension products tend to have higher charges than Secured Pension products due to the greater amount of administration and advisory input they involve.
Future planning issues	If you decide to move abroad after retirement, you can usually arrange to have your pension paid to an overseas bank account if you wish to. If your health/circumstances change, you may change the amount of income you are drawing and or/purchase an annuity.

Short-term and fixed-term annuity

Short-term and fixed-term annuities can be valuable for those who want a guaranteed income for a defined time period whilst retaining some flexibility for the future. Such products do tend to build in higher charges than lifetime annuities and may involve investment risk. And, as with drawdown strategies, there's always the risk of annuity rates worsening before a lifetime annuity is bought if that might be an option.

As the terminology used within this area of the industry doesn't always give the clearest picture of the type of product being purchased, it's important to be aware of the specific terms and conditions.

Short-term annuity

Under pensions legislation, the definition of a 'short-term annuity' is an annuity purchased using drawdown pension funds. So some or all of the drawdown pension fund is used to buy the short-term annuity with the annuity then being paid directly by the insurance company rather than being paid out of the drawdown pension fund. There are three conditions that a short-term annuity must meet:

- It must be purchased by the application of sums or assets representing all or part of the member's drawdown pension fund,
- It must be payable by an insurance company, and
- It must be payable for a term not exceeding five years

Other features that apply to a short-term annuity under pensions legislation are:

- The annuity does not have to come to an end at age 75
- The short-term annuity may be guaranteed for up to five years
- Apart from such guaranteed annuity payments, a short-term annuity contract cannot provide a benefit on death
- Short-term annuity payments are classed as pension income, in the same way as income withdrawals, and are liable for income tax at the member's marginal rate in the tax year in which they are paid. The scheme administrator is required to deduct income tax from the annuity payments, under the PAYE regulations.

Fixed-term annuity

A fixed-term annuity (other names may be used depending on the provider) is a product offered by insurance companies that provides a guaranteed income for a set period of time.

Unlike the short-term annuity described earlier, a fixed-term annuity can be purchased using uncrystallised funds, as well as drawdown funds.

The fixed term annuity can be set up on its own or as a Trustee Investment Plan within a pension scheme.

A fixed-term annuity provides a regular retirement income for a number of years, which can be as long as 20-40 years depending on the product, so not restricted to five years as with a short-term annuity. The plan may give the option of an agreed 'maturity amount' at the end of the annuity period, which may be able to be used to invest in another retirement income product, such as another fixed-term annuity or a lifetime annuity or be withdrawn from the pension.

On death, as with lifetime annuities, options can include guaranteed periods, capital protection or a survivor's pension.

Some plans include the option to convert to a lifetime annuity in future.

As with short-term annuities, fixed-term annuity payments are classed as pension income, in the same way as income withdrawals, and are liable for income tax at the member's marginal rate in the tax year in which they are paid. The scheme administrator is required to deduct income tax from the annuity payments, under the PAYE regulations.

There are several products in the marketplace which all have slightly different features so it's important to be clear on the terms and conditions of the particular product being recommended.

Other pension decumulation products include drawdown plans offering a guaranteed minimum level of income from within the drawdown plan, with the guarantee paid for by an annual charge on the fund. The income is normally guaranteed for life and may increase dependent on investment returns.

And, of course, pension funds could just be split with part used to purchase a lifetime annuity for security and the rest placed in drawdown for flexibility.

Transferring drawdown plans

A partial transfer of a drawdown fund is not allowed under pensions legislation so normally a drawdown to drawdown transfer means the funds must be moved in their entirety. However, some drawdown plans may be segmented and allow the transfer of full segments so it's important to confirm with the product provider to find out if this is the case as the latter would offer more flexibility.

As there are only a limited number of products on the market and the terms for each vary, it's important to compare the benefits and limitations of each product when reaching a decision.

Main features of a short-term and a fixed term annuity:

Age & health	If you or your spouse is relatively young, a secured pension (lifetime annuity or scheme pension) would be less attractive due to the lower mortality factor and, in addition, there is a longer timescale to take advantage of the potential investment rewards and risks of drawdown pension. You can delay purchasing a lifetime annuity if you think annuity rates will improve. As you get older there is the prospect of annuity rates rising and providing you with higher income. This is because life expectancy is shorter for someone older and it therefore costs less to provide them with the same given level of income than for a younger person, assuming all other things being equal. Some short term/fixed term income products don't offer enhanced annuity/income rates for those with health issues so a comparison with a lifetime annuity on enhanced rates/impaired life rates should be made, if applicable, before a decision is reached.
Investment risk	There is usually no investment risk in relation to the short term annuity/ fixed term annuity element. The income is guaranteed to be paid within the terms of the contract.

Other risks	Annuity rates may be at a lower level when lifetime annuity purchase takes place and there is no guarantee that your income will be as high as that offered under the other options referred to earlier. There is no guarantee that annuity rates will improve in the future. They could be lower if/when you decide to purchase a lifetime annuity than they are currently. Your pension may be lower than if you bought a lifetime annuity now. Using short-term/fixed term annuities to take high levels of income may not be sustainable in the longer term. In the event of death, benefits for your beneficiaries could be lower than those enjoyed under some of the other options available to you and briefly explained in this guide.
Flexibility	You can take your tax free cash lump sum immediately to spend or invest as you wish without the need to take any income at all if this suits your circumstances. You will be able to plan in advance the level of income that you wish to take each year, so that you can take into account any other sources of income which may become available to you. The income from the short term annuity/fixed term annuity element is fixed for the term chosen (as selected at outset) and cannot respond to changing personal financial circumstances (although if the maximum level of income is not being taken under capped drawdown, or flexi-access drawdown applies, it's possible to purchase an additional short-term annuity/fixed term annuity or use income withdrawals from the Drawdown Pension fund to achieve further income (up to the maximum allowed if capped drawdown applies). Alternatively, a lifetime annuity could be purchased with some or all of the remaining pension fund). The pension fund value (less the amount used to purchase the short-term annuity/fixed term annuity and associated charges) will continue to be invested for you until you decide to purchase further short-term/fixed term annuities, a Lifetime Annuity or Drawdown Pension.
Taxation	You can usually take up to 25% of your pension fund as a tax free lump sum. Annuity payments are taxed as earned income. You can structure your overall income to mitigate liability to personal income tax. By reducing your income in some years, you may be able to avoid a higher rate tax liability. However, the income from the short-term annuity/fixed term annuity element is fixed for the term selected.

Transfers & withdrawals	The particular contract terms should be selected to see what flexibility the plan includes. You will be taxed on the income at your marginal rate(s). You can make ad hoc or regular withdrawals from your drawdown fund in addition to the short term/fixed term annuity income. The short term/fixed term annuity provides a guaranteed level of gross income over the term chosen.
Availability	There are many drawdown providers in the market and you should ensure you consider costs, service standards and investment choice before selecting a provider.
Long term care	Your income payments will be taken into consideration should you require long term care in the future. If greater than the actual income being taken, an income in line with that available from an annuity based on your age at that time will be taken into account.
Treatment after death	Subject to the terms of your plan, your beneficiaries can continue to take withdrawals from any remaining drawdown fund on your death (annuity purchase is also an option) or withdraw the remaining drawdown fund as a lump sum. If you die before age 75 any income or lump sums taken by your beneficiaries will be free from income tax. If you die after age 75, any lump sum or income taken by your beneficiaries will be taxed at the recipient's marginal income tax rate(s). Depending on the options selected when the short term / fixed term annuity was purchased, your beneficiaries may receive any outstanding annuity payments or a survivor's pension if you should die during the annuity term (taxed as described above). Currently, most pension death benefits don't form part of your estate on death. This is expected to change from 6 April 2027 such that if you should pass away on or after that date, your pension death benefits will form part of your estate and may be liable for Inheritance Tax.
Type of charges	Drawdown pension products tend to have higher charges than Secured Pension products due to the greater amount of administration and advisory input they involve. Short-term/fixed-term annuity charges will be incorporated within the annuity rate offered.
Future planning issues	If you decide to move abroad after retirement, you can usually arrange to have your pension paid to an overseas bank account if you wish to. If your health/circumstances change, you may change the way/amount of income you are drawing and or/purchase a lifetime annuity.

Uncrystallised Funds Pension Lump Sum (UFPLS)

You can withdraw a single or series of lump sums from your pension without the need to move the funds into a drawdown plan first. 25% of the UFPLS payment is normally tax free with the balance taxed at your marginal rate(s) of income tax. Some pensions may not offer the flexibility to withdraw in a series of lump sums and it will be necessary to transfer to a more flexible arrangement unless you wish to withdraw the entire fund.

In order to take advantage of UFPLS there are a number of conditions that will need to be met:

- You must be aged 55* or over or, if younger, meet ill-health conditions
- The payment must be payable from your uncrystallised rights held in a money purchase pension
- Some categories of individual aren't eligible to take an UFPLS, i.e. if you have primary or enhanced protection with protected tax free cash, if you have a lifetime allowance enhancement factor but the lump sum allowance is less than 25%, if you have enhanced protection and have taken a serious ill-health lump sum or if your pension funds came from a disqualifying pension credit
- Where scheme specific lump sum protection exists, the right to the higher TFC would have to be given up in order to use UFPLS

*The minimum pension age is increasing to age 57 from 6 April 2028. Only those who already have plans allowing access from age 55 will be able to keep that lower age after 5 April 2028. Your pension provider can confirm your minimum access age in respect of your plans with them.

Money Purchase Annual Allowance (MPAA)

Anyone accessing their defined contribution pension funds by taking an UFPLS (or taking drawdown income as described earlier) will have their annual allowance reduced to £10,000 for future contributions to defined contribution pension plans. If they exceed this level, the excess contributions will suffer an income tax charge thereby removing one of the main advantages of pension funding. For anyone considering taking benefits from their pension plans whilst continuing with pension funding this needs to be borne in mind. The purchase of a conventional lifetime annuity does not cause the reduced annual allowance to apply (although purchase of a flexible lifetime annuity would (i.e. one capable of decreasing)).

Main Features of UFPLS:

Age & health	You can choose how much you want to withdraw without reference to any rates or limits other than the size of your pension fund. If you or your spouse is relatively young, a secured pension (lifetime annuity or scheme pension) would be less attractive due to the lower mortality factor.
Investment risk	The value of any uncrystallised segments may go down as well as up and investment returns may be less than those shown in the illustrations. This could result in a lower income if/when an annuity is eventually purchased.

Other risks	Annuity rates may be at a lower level when annuity purchase takes place and there is no guarantee that your income will be as high as that offered under the other options referred to earlier. There is no guarantee that annuity rates will improve in the future. They could be lower if/when you decide to purchase an annuity than they are currently. Your pension may be lower than if you bought a lifetime annuity now.
Flexibility	You can take all of your pension fund as a lump sum or take your fund in stages over a number of years. An annuity or drawdown pension can be purchased with any of the funds you withdraw (or you can utilise the funds in any way you see fit). You can elect to take any uncrystallised pension funds by any of the other options covered in this guide. Your uncrystallised pension funds continue to be invested, thus providing you with the possibility of higher future income. This depends largely on how much you take out of the pension fund and future investment returns achieved on the residual fund. You will be able to change the shape of your retirement income to reflect your personal circumstances in the future. Should your health deteriorate, it may be possible to achieve a better annuity rate (ie. higher income) in future. It's also possible to postpone the choice of whether to include any survivor's pensions until a lifetime annuity is purchased – this could be valuable for someone whose spouse is in poor health.
Taxation	You will usually receive the first 25% of all withdrawals tax free (assuming you have sufficient lump sum allowance available) and the remainder will be taxed at your marginal rate(s) of tax. You will not receive all of the tax free element of your fund as a lump sum at outset if you are accessing your pension fund gradually over time and using the cash to supplement your income. You can structure your income to mitigate liability to personal income tax. By reducing your withdrawals in some years, you may be able to avoid a higher rate tax liability.
Transfers & withdrawals	The first 25% of any lump sum is usually tax free (assuming you have sufficient lump sum allowance available) and you will be taxed at your marginal rate(s) on the remainder. You can take all or part of your pension fund at any time.
Availability	Some products will not be able to support UFPLS and you may need to transfer your pension fund before being able to withdraw your funds.

Long term care	Any uncrystallised segments will be taken into consideration should you require long term care in the future. If you have withdrawn all of your pension fund and it's in a bank account or other savings vehicle it may also be taken into account.
Treatment after death	Any pension funds that are still uncrystallised on your death (i.e. remain in your pension plan untouched) can, subject to the terms of your plan, be paid to your beneficiaries as a lump sum, used to provide an annuity income or moved into drawdown to be drawn on as and when required. Funds withdrawn as a lump sum or as annuity or drawdown income will be free from income tax if you died before age 75 and on death after age 75, will be taxed on the recipients at their marginal tax rate(s). If you take the UFPLS and do not spend it, it will be included in your estate and be assessable for inheritance tax. Currently, most pension death benefits don't form part of your estate on death. This is expected to change from 6 April 2027 such that if you should pass away on or after that date, your pension death benefits will form part of your estate and may be liable for Inheritance Tax.
Type of charges	There may be ongoing charges for any uncrystallised segments.
Future planning issues	If your health/circumstances change, you can move any uncrystallised segments into drawdown and or/purchase an annuity.

Phased retirement

It's not necessary for all of the benefits to be taken from a Personal Pension at the same time (subject to any restrictions the product provider may impose). Most personal pensions allow portions of the fund to be withdrawn, used to buy annuities, or converted into drawdown pension at different times.

The process described above is known as 'phased retirement' (or 'staggered vesting').

Phased retirement using annuities

Each time you use a portion of your pension fund to buy an annuity, you can first take part of that portion as tax-free cash (normally 25% of the portion - so if £75,000 is used to buy an annuity, £25,000 would be available as a tax free cash sum). Converting portions of the fund regularly, for example once a year, means you can effectively use the tax-free cash, as well as the annuity, to provide your income. The drawback is that if you stagger the conversion of your pension fund into annuities, you will not be able to take all your tax-free cash from your total pension fund at once as a single lump sum.

You must convert enough of your pension fund each time to buy an annuity.

Phased retirement can be a very useful financial planning tool, for example, if you want to ease back gradually on work and start to replace your earnings with pension income. It also provides more flexible help for your survivors if you die. It's possible to vary the type of annuity on each occasion and it need not be on the same basis as the first or subsequent years. On death, the balance of the pension fund that has not yet been converted to annuities can provide a pension or a lump sum for your beneficiaries, depending on the terms of the pension plan. Phased retirement is generally suitable only if you have a fairly large pension fund, or have other assets or income to live on. This is because the bulk of your pension savings remain invested, usually in the stock market, which may be more risky than buying an annuity straight away.

Main features of phased retirement using annuities:

Age & health	Annuity rates are calculated initially on age, so the older you are when you purchase an annuity, the higher the annuity will be. A higher than normal annuity can be purchased if you have a medical condition or qualify for an enhanced annuity as described above.
Investment risk	Deferring the purchase of the annuity does not guarantee a higher level of future income and the value of your remaining pension fund, when aggregated with any annuity you have purchased, may not achieve the required level of growth to maintain income levels at the same level as could be achieved through the purchase of a conventional lifetime annuity with the entire pension fund (excluding tax free cash) at outset. This is because withdrawals of tax free cash and annuities purchased may erode the value of your pension fund if investment returns are not sufficient to make up the balance (including charges for the ongoing administration of the plan).
Other risks	In the event of death, depending upon the type of annuity you have purchased, benefits to your beneficiaries could be lower than those enjoyed under some of the other options available to you and briefly explained in this guide. There is no guarantee that your income will be as high as the income available under the lifetime annuity routes referred to earlier. You may feel that the possibility of future higher income does not compensate you for being unable to enjoy a guaranteed and secure level of income today and for the rest of your life.
Flexibility	You can use tax free cash as 'income' and thus, for a given level of income, reduce your overall liability to Income Tax. You will not receive all of your tax free cash as a lump sum at outset, because you are accessing your pension fund gradually over time and using the cash to supplement your income. Unless you opt to take out a drawdown pension, you must still purchase an annuity to provide income whenever you draw part of your tax free cash sum and annuity rates at that time may not be favourable. You will be able to change the shape of your retirement income to reflect your personal circumstances in the future (although each time you purchase an annuity, that income will continue for the rest of your life). Should your health deteriorate, it may be possible to achieve a better annuity rate (ie. higher income) in future with the unused portion of your pension fund. It's also possible to postpone the choice of whether to include any survivor's pensions until further annuities are purchased – this could be valuable for someone whose spouse is in poor health. You may have flexibility in terms of altering the income payments to reflect changes in personal or financial circumstances. You will be able to plan in advance the level of income that you wish to take each year, so that you can take into account any other sources of income which may become available to you.

Taxation	Your annuity will be taxed at your marginal rate(s) of tax, so if you are a non-taxpayer you may receive some or all of your annuity tax free. You may be able to structure your overall income to mitigate liability to personal income tax. By reducing your income in some years you may be able to avoid a higher rate tax liability. The annuity income will however be fixed.
Transfers & withdrawals	It's not usually possible to transfer your annuity. You will be taxed on the income at your marginal rate(s). You can withdraw additional segments and purchase another annuity (or select an alternative route such as drawdown) at any point in the future.
Availability	There are several providers in the market and you should ensure that you consider the rates available each time you take a segment of your pension fund.
Long term care	Your annuity payments will be taken into consideration should you require long term care in the future. Any remaining uncrystallised funds (i.e. segments not yet used to provide tax free cash or income) will also be taken into account when assessing your income on the basis of the annuity they could provide.
Treatment after death	***Annuities*** Your spouse / beneficiaries can enjoy a guaranteed level of gross income, in the event of your death (if this option is selected at outset). For survivors' annuities, the income will be free from income tax if you were to die before age 75 and taxable at the recipient's marginal rate(s) if you die after age 75. Your pension can be payable for a guaranteed minimum period of time (for example 5 or 10 years). You have the option to include annuity protection – your beneficiaries will receive a lump sum on your death equal to the difference between the amount you paid to purchase the annuity and the gross annuity payments you had received up to your death (the payment will be free from income tax on death before 75 and taxed at the recipient's marginal income tax rate(s) on death after 75). Currently, most pension death benefits don't form part of your estate on death. This is expected to change from 6 April 2027 such that if you should pass away on or after that date, your pension death benefits will form part of your estate and may be liable for Inheritance Tax.

Treatment after death (continued)	***Uncrystallised funds*** Your beneficiaries can choose from a variety of options, depending on the terms of your plan: • Take the remaining fund as a lump sum (free from income tax if you died before age 75, or taxed at the recipient's marginal income tax rate(s) if you died after 75). • Take income by purchasing a lifetime annuity or via drawdown pension (free from income tax if you died before age 75, taxed at the recipient's marginal income tax rate(s) if you died after age 75). • Currently, most pension death benefits don't form part of your estate on death. This is expected to change from 6 April 2027 such that if you should pass away on or after that date, your pension death benefits will form part of your estate and may be liable for Inheritance Tax.
Type of charges	Ongoing charges will continue in respect of your uncrystallised pension. An adviser charge is usually deducted by the annuity provider before the lifetime annuity is purchased. The product charges are allowed for within the annuity rate offered.
Future planning issues	You can take additional segments or fully crystallise your pension fund at any time in the future as your requirements change. If you decide to move abroad after retirement, you can usually arrange to have your pension paid to an overseas bank account if you wish to.

Phased retirement using drawdown pension

It's also possible to combine phased retirement with drawdown pension which would mean that you would move only part of your pension fund into drawdown and take the tax free cash and income (if required) from just that part. The balance of your pension fund would remain uncrystallised. To increase your income at a later date, you could either increase the rate of withdrawal (provided you did not exceed the maximum limit if using capped drawdown) or move a further part of your pension fund into drawdown and start to draw an income, including the tax free cash sum, from this further slice of your pension fund.

Each time you start using a segment (or portion of your pension fund) for drawdown pension, you can first take up to 25% of that portion as tax-free cash. Converting portions of the fund regularly, for example once a year, means you can effectively use the tax-free cash, as well as the drawdown pension payments, to provide your income. The drawback is that if you stagger the conversion of your pension fund into drawdown pension, you will not be able to take all your tax-free cash from your total pension fund at once as a single lump sum.

Phased retirement can be a very useful financial planning tool, for example, if you want to ease back gradually on work and start to replace your earnings with pension income. It also provides more flexible help for your survivors if you die. On death, the balance of the pension fund that has not yet been used for Drawdown Pension and any remaining drawdown pension fund can provide a pension for your surviving beneficiaries or a lump sum, depending on the terms of the pension plan. Phased retirement is generally suitable only if you have a fairly large pension fund, or have other assets or income to live on. This is because the bulk of your pension savings remain invested, usually in the stock market, which may be more risky than buying an annuity straight away.

Phased retirement could also be used with a combination of annuity purchase and drawdown pension as required.

Main features of phased retirement using drawdown pension:

Age & health	Flexi-access drawdown allows you to choose how much income you want to withdraw without reference to any rates or limits other than the size of your pension fund. If you or your spouse is relatively young, a secured pension (lifetime annuity or scheme pension) would be less attractive due to the lower mortality factor and, in addition, there is a longer timescale to take advantage of the potential investment rewards and risks of drawdown pension. As you get older there is the prospect of annuity rates rising and providing you with higher income. This is because life expectancy is shorter for someone older and it therefore costs less to provide them with the same given level of income than for a younger person, assuming all other things being equal. You can delay purchasing a lifetime annuity if you think annuity rates will improve.
Investment risk	Investing in relatively safe areas such as cash and gilts is unlikely to enable a higher lifetime income to be achieved than with a secured pension therefore investing in the type of assets that might achieve the extra returns necessary will involve risk. The shorter the term to the intended date of purchasing a secured pension, the greater the risk. The value of your pension fund may go down as well as up and investment returns may be less than those shown in the illustrations. Taking withdrawals may erode the capital value of the fund, especially if investment returns are poor and a high level of income is being taken. This could result in a lower income if/when an annuity is eventually purchased. Deferring the purchase of the annuity does not guarantee a higher level of future income and the value of your remaining pension fund, when aggregated with any income you have taken, may not achieve the required level of growth to maintain income levels at the same level as could be achieved through the purchase of a conventional lifetime annuity with the entire pension fund (excluding tax free cash) at outset. This is because withdrawals of tax free cash and income withdrawals may erode the value of your pension fund if investment returns are not sufficient to make up the balance (including charges for the ongoing administration of the plan).
Treatment after death	Whether uncrystallised or in drawdown pension, subject to the terms of your plan, any remaining pension fund on death can be paid to your beneficiaries as a lump sum or as income payments, tax free from income tax if you died before age 75 and on death after age 75, taxed on the recipient at their marginal tax rate(s). Currently, most pension death benefits don't form part of your estate on death. This is expected to change from 6 April 2027 such that if you should pass away on or after that date, your pension death benefits will form part of your estate and may be liable for Inheritance Tax.

Other risks	Annuity rates may be at a lower level when annuity purchase takes place and there is no guarantee that your income will be as high as that offered under the other options referred to earlier. There is no guarantee that annuity rates will improve in the future. They could be lower if/when you decide to purchase an annuity than they are currently. Your pension may be lower than if you bought a lifetime annuity now. There is no guarantee that your income will be as high as the income available under the lifetime annuity routes referred to earlier. You may feel that the possibility of future higher income does not compensate you for being unable to enjoy a guaranteed and secure level of income today and for the rest of your life.
Flexibility	Your uncrystallised pension funds and any drawdown pension fund not being withdrawn as income continue to be invested, thus providing you with the possibility of higher future income. This depends largely on how much income you take out of the pension fund (especially in the early years) and future investment returns achieved on the residual pension fund. If the drawdown pension product is set up within a Self Invested Personal Pension (SIPP) wrapper, this will permit access to a wide range of investments and enable the investments to be rearranged easily if required (and usually more cost effectively than switching between product providers). You will be able to change the shape of your retirement income to reflect your personal circumstances in the future. Should your health deteriorate, it may be possible to achieve a better annuity rate (ie. higher income) in future. It's also possible to postpone the choice of whether to include any survivor's pensions until a lifetime annuity is purchased – this could be valuable for someone whose spouse is in poor health.
Taxation	You will not receive all of your tax free cash as a lump sum at outset, because you are accessing your pension fund gradually over time and using the cash to supplement your income. You can structure your income to mitigate liability to personal income tax. By reducing your income in some years you may be able to avoid a higher rate tax liability.
Transfers & Withdrawals	It's possible to transfer your drawdown plan from one provider to another. You will be taxed on any income withdrawn at your marginal rate(s). You can make ad hoc withdrawals instead or in addition to taking a regular income from your fund.
Availability	There are many drawdown providers in the market and you should ensure you consider costs, service standards and investment choice before selecting a provider.
Long term care	Your income payments will be taken into consideration should you require long term care in the future. If greater than the actual level of income you are taking, an annuity based on your age at that time will be taken into account.

Type of charges	Drawdown pension products tend to have higher charges than secured pension products due to the greater amount of administration and advisory input they involve.
Future planning issues	If you decide to move abroad after retirement, you can usually arrange to have your pension paid to an overseas bank account if you wish to. If your health/circumstances change, you may change the way/amount of income you are drawing and or/purchase an annuity.

Scheme pension

A defined benefit scheme has to provide a scheme pension whereas other types of pension arrangement are not compelled to do so. This has led to a number of providers deciding to offer this option alongside others such as drawdown pension. With regard to defined contribution schemes, a scheme pension can only be taken after the offer and refusal of an annuity, at any time, after age 55*.

It's an alternative way to take an income but is based on your individual circumstances. There are regular reviews and these again are based on your circumstances prevailing at the time of the actuarial review.

It's also possible to provide a dependant's scheme pension.

*The minimum pension age is increasing to age 57 from 6 April 2028. Only those who already have plans allowing access from age 55 will be able to keep that lower age after 5 April 2028. Your pension provider can confirm your minimum access age in respect of your plans with them.

Main features of scheme pension:

Age & health	A scheme pension is determined by an actuary with the maximum income based on your age, state of health, mortality, any escalation or guaranteed period and fund value. In many situations this will potentially allow a larger income to be taken.
Investment risk	There is no investment risk but, if bought with a money purchase pension fund you should be aware that you will not benefit from future growth on your pension fund as your fund is swapped for a guaranteed lifetime income.
Other risks	The payment of a scheme pension depends on the financial health of the paying pension scheme unless the financial liability has been passed to an insurance company. With regard to a defined benefit (final salary) scheme, scheme pensions may be protected by the Pension Protection Fund in the event of the pension scheme winding up. The level of protection varies depending whether you retired before or on/after the scheme's normal pension age which may mean your scheme pension is not fully protected.

Flexibility	You will be able to access your tax free cash lump sum immediately, to spend or invest as you wish. There are regular reviews and these again are based on your circumstances prevailing at the time of the actuarial review. This can be particularly useful where your state of health has worsened and the actuary is able to reset the income at a level whereby the reduced longevity can be reflected by an increase in the amount of Scheme Pension payable. A scheme pension cannot normally be reduced.
Taxation	You can usually take up to 25% of your pension benefits as a tax free lump sum. Your scheme pension will be taxed at your marginal rate(s) of tax, so if you are a non-taxpayer you may receive some or all of your annuity tax free.
Transfers & Withdrawals	It's not possible to withdraw additional sums from your scheme pension or to transfer once in payment.
Availability	There are very few providers in the market who offer scheme pensions so you should compare this option against the others described in this guide carefully.
Long term care	Your pension income will be taken into account should you require care in the future.
Treatment after death	Pension protection may be included on death (on death a lump sum is paid which is equal to 20 times your starting scheme pension less the gross pension payments you had received up to the date of death – free from income tax if you died before age 75 and taxed at the recipient's marginal income tax rate(s) if you die after age 75). It's possible to provide a dependant's Scheme Pension although it cannot be higher than the Scheme Pension the deceased received. This will be taxable on the recipient at their marginal income tax rate(s) whatever your age at date of death. Currently, most pension death benefits don't form part of your estate on death. This is expected to change from 6 April 2027 such that if you should pass away on or after that date, your pension death benefits will form part of your estate and may be liable for Inheritance Tax. There is an exception for death benefits provided as a dependant's scheme pension.
Type of charges	An adviser charge is usually deducted by the provider before the scheme pension is purchased. The provider charges are allowed for within the rate of scheme pension offered.
Future planning issues	If you decide to move abroad after retirement, you can usually arrange to have your pension paid to an overseas bank account if you wish to.

Pension death benefits

What would you like to happen to the benefits from your pension plans in the event of your death?

Depending on the type of pension plans you have, it's usually possible for you to either complete a nomination form (also referred to as an 'expression of wish form') specifying what you would like to happen to your death benefits or to place your death benefits under trust.

With most occupational pension schemes the nomination form is the only option and this will also be the case with some individual pension plans such as personal pensions. The pension plan trustees or administrators have discretion over who they pay death benefits to, but the nomination form makes them aware of your wishes and, in normal circumstances, they will usually follow them. Some providers do offer the option of making a binding instruction which would then normally mean the death benefits would form part of your estate for Inheritance Tax purposes.

Some older plans such as retirement annuities and buy-out bonds (section 32 plans) may require that a trust wording be completed rather than a nomination form. If a trust wording isn't completed, any death benefits would usually form part of your estate for Inheritance Tax purposes.

NB: Currently, most pension death benefits don't form part of your estate on death. This is expected to change from 6 April 2027 such that if you should pass away on or after that date, your pension death benefits will form part of your estate and may be liable for Inheritance Tax.

We have given more detail on the possible options (in terms of death benefit instructions) below.

Points to consider

In light of the current pension flexibilities for death benefits, including the potential to pass funds down through the generations via flexi-access drawdown, and the possibility of paying death benefits to a far wider range of beneficiaries, it's important to bear in mind that it may be impossible to make use of these options if your pension plan or scheme doesn't offer them.

It has never been more important to check whether your pension arrangements can be used in the way you would like on your death. If you have pensions that can't facilitate the new freedoms, for example older pension plans that don't give your beneficiaries the option of leaving the remaining pension funds in drawdown, your beneficiaries could find that the only option available to them is annuity purchase or to take a lump sum (which may not be the most tax efficient option).

- What would you like to happen to any remaining pension fund on your death?
- Would you like your beneficiaries to have the option of the tax efficiency and flexibility of inherited drawdown?
- From 6 April 2024, the only death benefits that are tested against the Lump Sum and Death Benefit Allowance on death before 75 are those paid out as lump sums from funds that were crystallised after 5 April 2024. Should a lump sum death benefit exceed your remaining Lump Sum and Death Benefit Allowance, the excess will be subject to income tax on the recipient. Death benefits used for beneficiary drawdown or beneficiary annuity don't require there to be any Lump Sum and Death Benefit Allowance available in order to be paid tax free on death before age 75. So there can be an advantage for some in ensuring their pension plans give death benefit options other than lump sum payments.
- Is a secure fixed income from a survivor's annuity more appealing?
- Would a lump sum death benefit be better directed to a bypass trust where your chosen trustees can have the control over who benefits and when (which could include making loans)?

- From April 2027, unless your pension funds are passing to a spouse or civil partner on your death (and therefore covered by the spousal exemption), the funds will form part of your estate for Inheritance Tax purposes.
- Can the existing pension scheme facilitate your preferences? Not all pensions allow lump sum payments to be made to a bypass trust and not all pensions offer inherited drawdown.
- Nomination form issues :
  - Even where the pension arrangement offers all the new freedoms, it's crucial that nomination forms are kept up to date and fully reflect your wishes.
  - A death benefit nomination helps to guide the scheme trustees/administrators when exercising their discretion and they will rely on the most recent nomination form they have received. Nomination forms can normally be changed at any time.
  - The new rules around who can inherit make it even more important that nomination forms are correctly completed as if you want someone other than a dependant to inherit and would like them to have the option of inherited drawdown, you must name them on the nomination form. This is because, if you are survived by a dependant (spouse, minor child, disabled child for example), a non-dependant who isn't named on the nomination form can't be offered inherited drawdown. A lump sum can be paid at the trustees' discretion to a non-dependant even if there is a surviving dependant.
  - Issues can also arise where you have completed a nomination form with instructions that the lump sum death benefit be paid to a bypass trust. Some nominations to a bypass trust can be made binding upon the scheme administrator, in which case the scheme administrator must follow this instruction and has no discretion to pay to anyone else – such a binding nomination can still be revoked by completing a new nomination.
  - In light of the pension freedom changes you will need to decide if a bypass trust is still the right option. Bear in mind that a lump sum paid to a trust if you were to die after age 75 is taxed at 45% initially (then whenever a payment is made to a beneficiary it is paid with a 45% tax credit that the beneficiary can offset against their own tax liability and reclaim any difference).

Types of beneficiaries

Death benefits from pension plans can now be paid to any of the following classes of beneficiary (with the exception of scheme pensions where on death of the member the scheme pension can only be paid to a 'dependant' as defined below):

- One or more dependants (which means your spouse or civil partner, your child aged under 23 (or older but dependent due to a disability), any of your financial dependants (or anyone mutually dependent on you)).
- One or more nominees - a nominee is anyone you would like to benefit who doesn't fall into the 'dependant' definition above (for example, your adult children). A nominee can be nominated by you or by the scheme administrator. If you have a surviving dependant or if you've nominated an individual or charity, the scheme administrator cannot choose a nominee instead.
- One or more successors – a successor can inherit after the previous beneficiaries have died. The successor can be nominated by either the previous dependant, nominee or successor or, in some cases, by you (via your original instructions) or the scheme administrator.

Ways to make your choices regarding death benefits

One or more of the following options may be available in relation to any particular pension plan or scheme and it's important that this be checked with the scheme or pension provider in order that the appropriate actions can be taken in relation to the death benefits.

Writing the policy under trust/nomination

With uncrystallised personal pension plans and drawdown plans you may have the option of writing the death benefits under a form of discretionary trust (often referred to as a Spousal By-pass Trust) or by completing a nomination (expression of wish) form. The only type of death benefit that can be paid to a trust is a lump sum. With a nomination form, additional options such as drawdown may be available to your beneficiaries. If you elect not to make a nomination or use a Trust, the Trustees/administrators of your pension will liaise with your estate following your death and make a decision as to who should benefit; however this may not be the outcome you had intended so it's best to consider how a nomination or trust could help.

Using an individual trust

By writing your policy under an individual trust you can ensure that, in the event of your death, the benefits are available to the trustees for distribution without unnecessary delay. By placing in trust you are ensuring that your chosen trustees have the discretion over payment of the death benefits, which might include loans to beneficiaries (which can bring added inheritance tax planning opportunities for the beneficiaries as the repayment of the loan on the beneficiary's death will reduce their own estate). It's possible that tax charges could be incurred within the trust after your death, ie. on 10 yearly anniversaries and when funds are paid out of the trust, depending on the amounts involved.

The payment of the lump sum into the Trust will be paid free from income tax if you die before age 75 and it's within allowable limits but were you to die after 75 the tax rate deducted on entering the Trust is 45%. Any beneficiary receiving a payment from the trust then receives a corresponding tax credit that they can offset against their own tax liabilities.

Nomination into trust or to individual beneficiaries

A nomination, although not binding, ensures that, in the event of your death, the administrator takes into account your wishes as to where benefits should be paid without unnecessary delay. Nomination forms can be altered at any time prior to your death and should be revisited regularly.

A nomination form can be used to nominate that death benefits be paid into a trust on your death (lump sums only) as well as being used to nominate that benefits be paid to particular individuals. These instructions can be changed at any time. If there comes a time when it might be preferable for your death benefits to be paid to individual beneficiaries rather than into a trust, your nomination form can be altered to reflect this, i.e. After your 75th birthday when the tax rate on lump sum death benefits will be at the recipient's own income tax rate(s) rather than the 45% tax rate applicable at outset to trusts.

As a result of the pension freedoms introduced in 2015 it's possible, if the product allows, for pension funds to be left within the pension wrapper indefinitely following your death to be drawn on by subsequent generations of beneficiaries for as long as the funds last. It's therefore very important that your death benefit instructions accurately reflect your wishes and are kept up to date.

Binding instruction

Some providers offer the option of making a binding direction with regard to death benefits. This removes the discretionary powers of the provider/scheme administrator/trustees and means that the death benefits will normally form part of your estate for Inheritance Tax purposes.

Proposed changes for deaths on or after 6 April 2027

Currently, most pension death benefits don't form part of your estate on death. This is expected to change from 6 April 2027 such that if you should pass away on or after that date, your pension death benefits will form part of your estate and may be liable for Inheritance Tax. Dependants' scheme pensions are an exception and they will continue to be exempt from Inheritance Tax.

The friendly way to make sense of your money

Call us today and speak to one of our advisers to find out how we can help:

0333 014 6267 Lines open 9am-5pm Monday to Friday excluding bank holidays. Calls from UK landlines and mobiles cost no more than a call to a 01 or 02 number and will count towards any inclusive minutes. Calls are recorded for training and quality purposes.

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