Freedom and choice

The options for taking money from your pension plan

This document gives you information to help you understand more about your new pension plan. This is an important document. Please keep it safe for future reference.

Taking your pension pot

Pension plans are designed to provide an income in later life but you don't have to stop work before you can start taking your money.

The pension plan is designed to provide an income, cash lump sums, or a combination of both. You can take any of these options at your selected retirement age or any time after age 55. You should think very carefully before proceeding or your money may run out sooner than you wish. Reaching the age of 55 is not a deadline to act. Leaving your money invested will give it more time to grow but it could go down in value too.

You have considerable freedom in how you take your money – and everyone's circumstances are different – but there are usually six main things to consider when making your decision:

- How much income you need and how long your money needs to last.
- Your investment strategy for any money remaining in your pot.
- The tax implications depending on how and when you take your money and any other income you're receiving.
- Any other savings or investments including the State Pension that you intend to rely on in retirement.
- Any partner or dependants you wish to provide for.
- What will happen to any remaining pension pot when you die.

Helping you decide

Taking money out of your pension pot is a big decision and you should think very carefully before doing anything. Some decisions – for instance the purchase of an annuity – may be irreversible.

So we do what we can to help you make the right choices. You'll find a lot of helpful information on your scheme's website including our retirement planning tool which enables you to estimate what you might get when you take your benefits, depending on your personal circumstances.

In addition, the government has a service to ensure everyone has access to free and impartial guidance close to retirement.

Pension Wise from MoneyHelper

This free and impartial service helps you understand your options for using your pension pot, so you can choose the right one for you.

Provided by MoneyHelper, a government organisation, it offers clear and simple guidance online or over the phone.

To find out more or book an appointment visit:
moneyhelper.org.uk/pensionwise
or call **0800 138 3944.**

If you're still unsure, you may wish to consult a regulated financial adviser. If you don't already have one, you'll find a list at: **unbiased.co.uk**. Financial advisers normally charge for their services.
Legal & General can help you to access guidance and advice. Please visit your scheme website (if applicable) to see what services are available to you. Or you can call us on **0345 070 8686** for more information. Call charges will vary and we may record and monitor calls.

The options in summary

Whenever you do decide to take your money, there are four main options:

1. Take your entire pot as cash

You may take your entire pot as cash. Up to the first 25% will usually be tax-free (subject to allowances) and the remainder will be subject to income tax.

2. Take a flexible income

You can usually take up to 25% of your pot tax-free (subject to allowances) and leave the rest invested to provide an income – either as monthly payments or occasional lump sums or a combination of the two.

This is known as Flexi-Access Drawdown and gives you considerable flexibility in how you take your money.

Please note however, that if you withdraw too much too quickly or your investments don't perform as well as you'd expected, you could run out of money.

3. Get a guaranteed income

You can usually take up to 25% of your pot tax-free (subject to allowances) and use the remainder to buy a guaranteed income for life or a fixed period. This is known as an annuity.

Annuities can be arranged in a number of ways including the facility to continue payments to a nominated beneficiary in the event of your earlier death.

Certain lifestyle factors such as smoking or medical conditions such as diabetes may entitle you to enhanced annuity rates to reflect a shorter life expectancy.

4. Take it in a series of cash lump sums

You can leave your pension pot invested and take lump sums as and when you wish with usually the first 25% of each withdrawal tax-free (subject to allowances).

You could choose this option if you wish to spread your tax-free cash over the longer term and don't wish to use it all at once.

Please note however, that if you withdraw too much too quickly or your investments don't perform as well as you'd expected, you could run out of money.

Alternatively you may choose a combination of two or more of the above options, depending on the size of your pension pot. Or you could use just part of your pension pot as described and leave the rest to be decided upon at a later date.

Whichever option you choose, after you've taken up to the first 25% of your pension pot tax-free (subject to allowances), all other income is subject to tax.

You may also choose to move your pension pot to another provider, if you so wish. You should shop around to find what's best for you.

It's worth noting that some options are only available to pension pots of a certain size and may not currently be available to all pension products.

Your options in detail

The following examples are all based on UK Income Tax rates (excluding Wales and Scotland).

1. Take your entire pot as cash

You may take your entire pot as cash. Up to the first 25% will usually be tax-free (subject to allowances) and the remainder will be subject to income tax.

Example: Liz is still working but wants to take her whole pot of £20,000 as cash to pay off some debts. She gets the first 25% (£5,000) tax-free but the remainder is subject to income tax at 20%, so she has to pay £4,086 tax on it (which includes her income).

So her income and tax for the year looks as follows:

Pension pot	£20,000.00
25% tax-free cash	£5,000.00
Value of pot after tax-free cash	£15,000.00
Other income	£18,000.00
Total taxable income	£33,000.00
Total income less personal allowance £12,570	£20,430.00
Income tax @ 20%	£4,086.00
Net income after tax*	£28,914.00


Figures stated are for tax year 2024/2025

* doesn't include any tax-free cash which has been taken in the same tax year.

2. Flexi-Access Drawdown

You can usually take up to 25% tax-free and use the rest of your pot to provide a monthly income and/or occasional lump sums as you require. After the tax-free 25%, all subsequent withdrawals are subject to income tax.

If you withdraw too much or your investment funds don't perform as well as expected, you could run out of money. If you decide to take Flexi-Access Drawdown, you should shop around for the best option.


Figures stated are for tax year 2024/2025

Example: David is retiring and has a pension pot of £300,000. He plans to take his 25% tax-free lump sum for holidays and other major purchases and leave the remaining £225,000 invested whilst drawing a regular income of £1,000 a month.

When added to his State Pension of £11,502.40, his annual income will be £23,502.40. After taking his personal allowance of £12,570 into account, he is taxed at 20% on the remaining £10,932.40, which amounts to £2186.48 a year.

So his income and tax for the year looks as follows:

Pension pot	£300,000.00
25% tax-free cash	£75,000.00
Value of pot after tax-free cash	£225,000.00
Regular income for pension pot	£12,000.00
State Pension	£11,502.40
Total taxable income	£23,502.40
Total income less personal allowance £12,570	£10,932.40
Income tax @ 20%	£2186.48
Net income after tax*	£21,315.92

* doesn't include any tax-free cash which has been taken in the same tax year.

3. Guaranteed income

If you'd prefer the security of a guaranteed income for life or a fixed period, you can use some or all of your pot to buy an annuity.

Annuities can be arranged in a number of ways including the facility to continue payments to a nominated beneficiary in the event of your earlier death. Certain lifestyle factors such as smoking or medical conditions such as diabetes may entitle you to enhanced annuity rates to reflect a shorter life expectancy, although this varies from provider to provider. You should shop around to find the best deal for your particular circumstances.

Figures stated are for tax year 2024/2025

Example: Helen wants to fully retire and use her pot to buy a guaranteed income for the rest of her life. She has £150,000 in total and takes the first 25% (i.e. £37,500) tax-free to pay off some debts and enjoy a luxury holiday. She uses the rest to buy an annuity of £5,625 a year and she also gets a State Pension of £11,502.40 a year. So her total annual income is £17,127.40. The personal allowance is £12,570 so she's taxed at 20% on the remaining £4557.40 at £911.48 a year.

So her income and tax for the year look as follows:

Pension pot	£150,000.00
25% tax-free cash	£37,500.00
Value of pot after tax-free cash	£112,500.00
Regular income from annuity	£5,625.00
State Pension	£11,502.40
Total taxable income	£17,127.40
Total income less personal allowance £12,570	£4557.40
Income tax @ 20%	£911.48
Net income after tax*	£16,215.92

* doesn't include any tax-free cash which has been taken in the same tax year.

4. Occasional cash withdrawals

If you don't need your pot to provide a regular income, you can leave it invested and simply take lump sums as and when you wish. Up to the first 25% of each withdrawal will usually be tax-free (subject to allowances) but the remainder will be subject to income tax.

Other providers may offer different terms, so you may wish to shop around. If you take this option, you should think about spreading your withdrawals over a number of years to minimise your tax liability. Again, if you take too much out or your investment funds don't perform as well as expected, you could run out of money.

Example: Ben is semi-retired on an annual income of £18,000 and wants to use some of his pot to top up his income. His pot is worth £250,000. He takes £10,000, of which the first 25% (i.e. £2,500) is tax-free but the remainder (i.e. £7,500) is subject to basic rate tax of 20% so he pays £2,586 to the taxman (which includes other income).

So his income and tax for the year looks as follows:

Annual income	£18,000.00
Cash withdrawal	£10,000.00
25% tax-free	£2,500.00
Portion of tax withdrawal taxable	£7,500.00
Total taxable income	£25,500.00
Total income less personal allowance £12,570	£12,930.00
Income tax @ 20%	£2,586.00
Net income after tax*	£22,914.00

Figures stated are for tax year 2024/2025

* doesn't include any tax-free cash which has been taken in the same tax year.

Things to remember about tax

Income tax

After the first 25% any money you take from your pension pot either as cash or as an annuity may be subject to income tax.

Depending on how and when you take your money and any other income you receive, you could be pushed into a higher tax bracket than currently applies. This may mean you'll need to complete a self-assessment return if you don't already do so.

When you do start taking your money, we're obliged under HM Revenue & Customs (HMRC) rules to deduct tax using an emergency tax code. This may mean we deduct too little or too much tax but HMRC will make the necessary adjustments through your tax code to ensure you only pay the appropriate amount. If you're making further withdrawals, they'll be taxed at your normal rate.

Lump Sum Allowance

When you access your pension, you can usually take up to 25% of it as a tax-free lump sum.

Your Lump Sum Allowance is the maximum amount of money you can take as tax-free lump sums from all the pensions you have. While you can still take out money over this allowance, you will need to pay income tax on it.

The Lump Sum Allowance is £268,275. It will be higher if you have any protected tax-free lump sums, or a protected lifetime allowance.

Lump Sum and Death Benefit Allowance

Your Lump Sum and Death Benefit Allowance (LSDBA) is the total amount of tax-free money you can take across all the pensions you have as a:

- tax-free lump sum
- tax-free serious ill-health lump sum, paid out before you turn 75, or
- tax-free lump sum death benefit, paid out if you pass away before you turn 75.

The LSDBA is £1,073,100. It will be higher if you have any protected tax-free lump sums, or a protected lifetime allowance. Income tax will need to be paid on any funds paid above the LSDBA, by whoever receives the payment.

Continuing your contributions

If you do decide to take money out of your pot but continue to make contributions, you need to be aware of the impact this may have on your annual allowance which is the most you and your employer can contribute towards your pension pot without you incurring a tax charge.

Currently this is capped at £60,000 for most people but reduces to £10,000 for high earners.

Your annual allowance may also reduce to £10,000 if you take money from your pension pot beyond the 25% tax-free cash, depending on the options you choose.

A note on state benefits

Taking money from your pension as a regular income or cash lump sums could affect your entitlement to any means-tested state benefits.

If you spend, transfer or give away money from your pension pot and the Department for Work & Pensions (DWP) decide you've deliberately deprived yourself of it, you'll still be treated as having that money and it will be taken into account as income or capital when your benefits are being worked out.

What happens on death

If you die before 75, any money left in your pension pot will usually pass to your chosen beneficiary free of tax.

If you die aged 75 or over, it will be taxed at your beneficiary's marginal rate regardless of how the money is taken.

Your next steps

- If you've got other pension pots, you may be able to consolidate them into one place so it's easier to manage. Please note this option may not be suitable for everyone.
- To find out more about your options request a maturity pack via our helpline **0345 070 8686**. Call charges will vary. We may record and monitor calls.
- Use our online retirement planning tool to explore your options (visit **legalandgeneral.com/mya**).
- **Pension Wise from MoneyHelper**
  This free and impartial service helps you understand your options for using your pension pot, so you can choose the right one for you.

  Provided by MoneyHelper, a government organisation, it offers clear and simple guidance online or over the phone.

  To find out more or book an appointment visit **moneyhelper.org.uk/pensionwise**
  or call **0800 138 3944.**
- Different providers offer different features, rates of payment, qualifying criteria and charges so you should always shop around for the best option. Visit **moneyhelper.org.uk** for more information.
- If you're leaving some of your pension pot invested, you may wish to reconsider your investment strategy so that it best suits your retirement lifestyle plans. Visit **legalandgeneral.com/mya** to manage your investments.
- If you're unsure, you may wish to talk a regulated financial adviser. You will find a list at **unbiased.co.uk**.

  They will normally charge for their services.

Legal & General can help you to access guidance and advice. Please visit your scheme website (if applicable) to see what services are available to you. Or you can call us on **0345 070 8686** for more information. Call charges will vary and we may record and monitor calls.

Important warning about pension scams

Be very careful who you talk to about your pension.

In recent years there has been a dramatic increase in pension scams with victims losing their retirement savings to unscrupulous fraudsters.

Typically such scams start with an unsolicited phone call or text message and promise unrealistic returns. Victims are put under considerable pressure to make quick decisions and once the money is gone there's little chance of getting any of it back.

Visit **fca.org.uk/scamsmart** for more information.

Make sure that any business you deal with is authorised by the Financial Conduct Authority by checking **fca.org.uk**

All information is based on our understanding of current pension regulations for the 2024/2025 tax year. Please note that the law and tax rates may change in the future.

Contact us

legalandgeneral.com/workplacepensions

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