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# Pension freedoms

Will the new retirement rule of 'no rules' offer people a better financial future?

Following pension reforms, there are now more options for using your private pension pot. Since April 2015, some people over 55 have greater freedom in how they can access their pension pots – the money they've built up during their working life.

The changes to private pensions affect those in a defined contribution pension scheme. This is one where you build up savings (your 'pension pot') throughout your life to fund your retirement. Before making any decisions, it's important that you consider your options and the impact that your decision could have on your tax bill or benefit entitlements.

## WHAT BEST SUITS YOUR NEEDS

If you have a defined contribution pension, you have more options for how to use the money according to what best suits your needs. You are no longer restricted to simply buying an annuity. Instead, you can withdraw some or all of the money as a lump sum.

It's important to obtain professional financial advice before making any decisions, as the options you choose could affect your income, overall retirement savings, benefits entitlements and how much tax you pay.

## MOST POPULOUS AGE GROUP

New population data<sup>[1]</sup> shows that the new pension freedoms will face their peak test in the

coming five years. The most populous age group in the UK today consists of those aged 51 – a total of 945,000 people. This group will gain access to the pension freedoms in 2020. This year will test if the new retirement rule of 'no rules' will offer people a better financial future.

In the tax year 2016/17, 393,000 individuals took advantage of the freedoms across the UK, withdrawing £6.45 billion from their pensions. As the number of people reaching the age of 55 in the coming five years peaks – at 945,000 in 2020 – the pension freedoms will face their greatest test on whether they can offer a sustainable financial future<sup>[2]</sup>.

## SERIOUS CONSIDERATION OF FUTURE NEEDS

Recent government research identified that only one in three (34%) people in the 45–54 age group had given any consideration to how many years of retirement they may need to fund<sup>[3]</sup>. Entering the arena of the pension freedoms without serious consideration of future needs could spell trouble for many savers.

Thursday 6 April 2017 marked two years since the introduction of some of the most radical

reforms to UK pensions in a generation. You can only take advantage of the pension freedoms from age 55. Anyone thinking of withdrawing lump sums from their pension fund should consider the impact this will have on future retirement income. ■

### Source data:

[1] [www.ons.gov.uk/releases/](http://www.ons.gov.uk/releases/)

## HOW WILL YOU DECIDE WHAT THE BEST COURSE OF ACTION TO TAKE IS?

The choices you make for your pension fund can determine the level of income you receive for the rest of your life. For this reason, you should seek professional financial advice and guidance to decide the best course of action to take. For more information, please contact us.

