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INDEPENDENT FINANCIAL ADVISERS

Guide to

Planning Your Retirement Income with Confidence

Pension freedoms provide greater flexibility, but choosing the right approach can be complex

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A Guide to Planning Your Retirement Income with Confidence

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Welcome to A Guide to Planning Your Retirement Income with Confidence.

Retirement planning is no longer simply a question of choosing a date, taking a pension and receiving a fixed income. Pension freedoms give many people considerably more choice over when and how they use their defined contribution pension savings. That flexibility can be valuable, but it also places more responsibility on you to make the right decisions.

When you reach the point of accessing a defined contribution pension, you generally have several options. You may be able to take a tax-free lump sum, move some or all of your pension into flexi-access drawdown, take one or more uncrystallised funds pension lump sums (UFPLS), purchase an annuity or combine different approaches.

Using different products for different purposes

The options available will depend on your pension scheme and circumstances, so do not assume that your existing provider offers every option. The Financial Conduct Authority (FCA) recognises four main types of pension decumulation product: UFPLS, small pot payments, drawdown and pension annuities.

The important point is that taking your pension is not necessarily a one-off decision. You can potentially phase your retirement income, taking different amounts at different times and using different products for different purposes.

How to structure your retirement income

For example, you might use guaranteed income to cover essential bills while retaining some pension savings in drawdown for discretionary spending.

Alternatively, you might take a tax-free lump sum to fund a specific expenditure while leaving the rest invested. Professional financial advice should always be sought before deciding how to structure your retirement income.

Take a tax-free lump sum

For many people, the first option they encounter is the Pension Commencement Lump Sum (PCLS), commonly called tax-free cash. Under the standard rules, you can normally take up to 25% of your pension benefits tax-free, subject to the Lump Sum Allowance. For 2026/27, the standard Lump Sum Allowance

> Tax-free cash is an option, not an obligation. Before taking it, ask what purpose the money will serve and how the decision affects the rest of your retirement plan.

is £268,275, although people with certain forms of transitional or protected rights may have a different allowance.

You do not necessarily have to take all of your available tax-free cash at once. Depending on the pension arrangement, you may be able to take benefits in stages. This can be useful where you have a specific short-term need for cash but want to leave more of your pension invested for the future. Taking tax-free cash and designating funds for drawdown are also separate activities and do not necessarily have to happen at the same time.

Consider what the cash is for

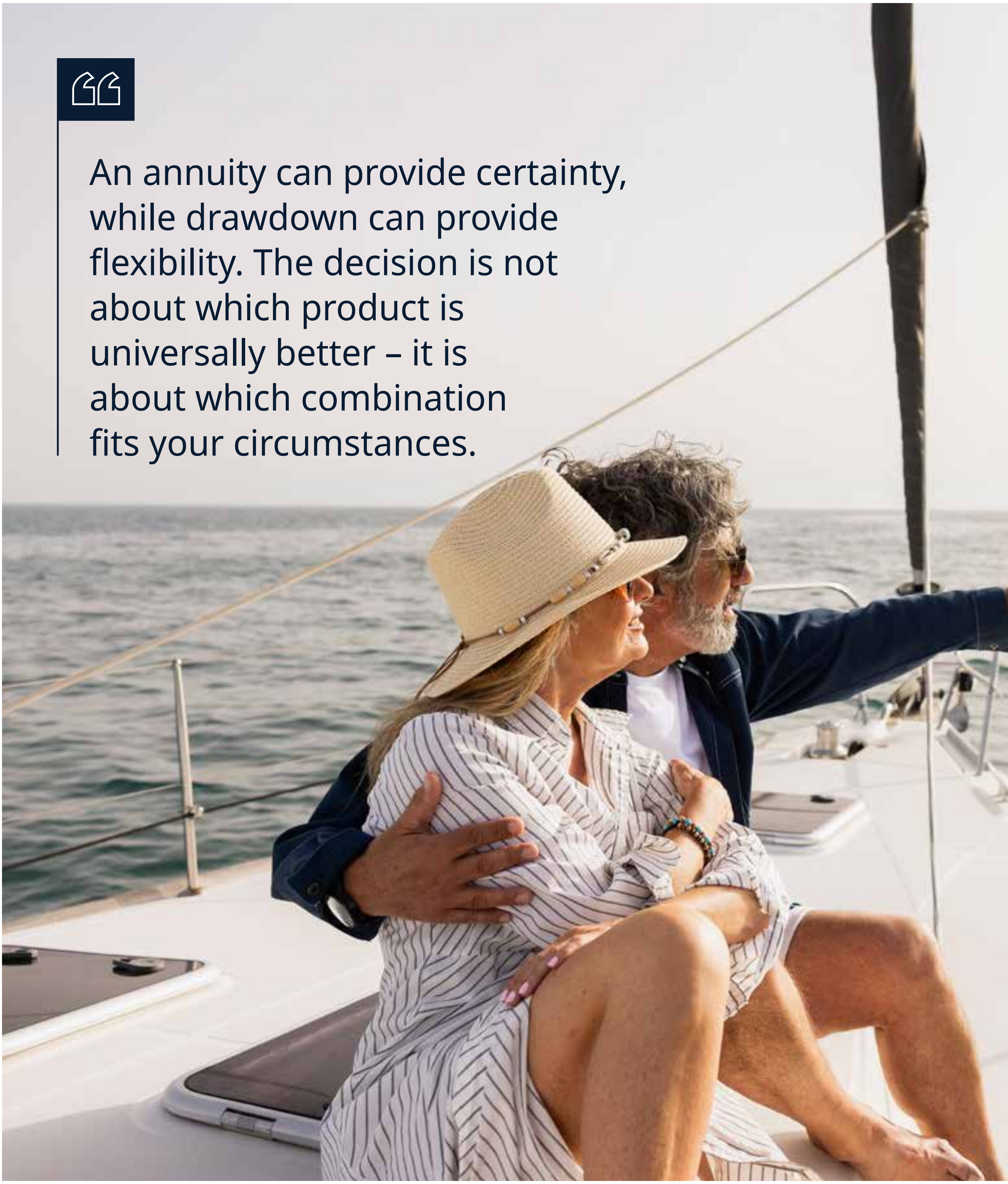
Tax-free does not automatically mean financially beneficial. Taking a large lump sum can reduce the amount remaining in your pension and therefore the future income it could potentially provide. It may also mean losing future investment growth on the amount withdrawn.

Before taking tax-free cash, consider whether you actually need the money. If the intention is simply to move it into an ordinary savings account, compare the potential benefits with leaving the money within the pension. The right answer will depend on your investment objectives, tax position, cash requirements and wider assets.

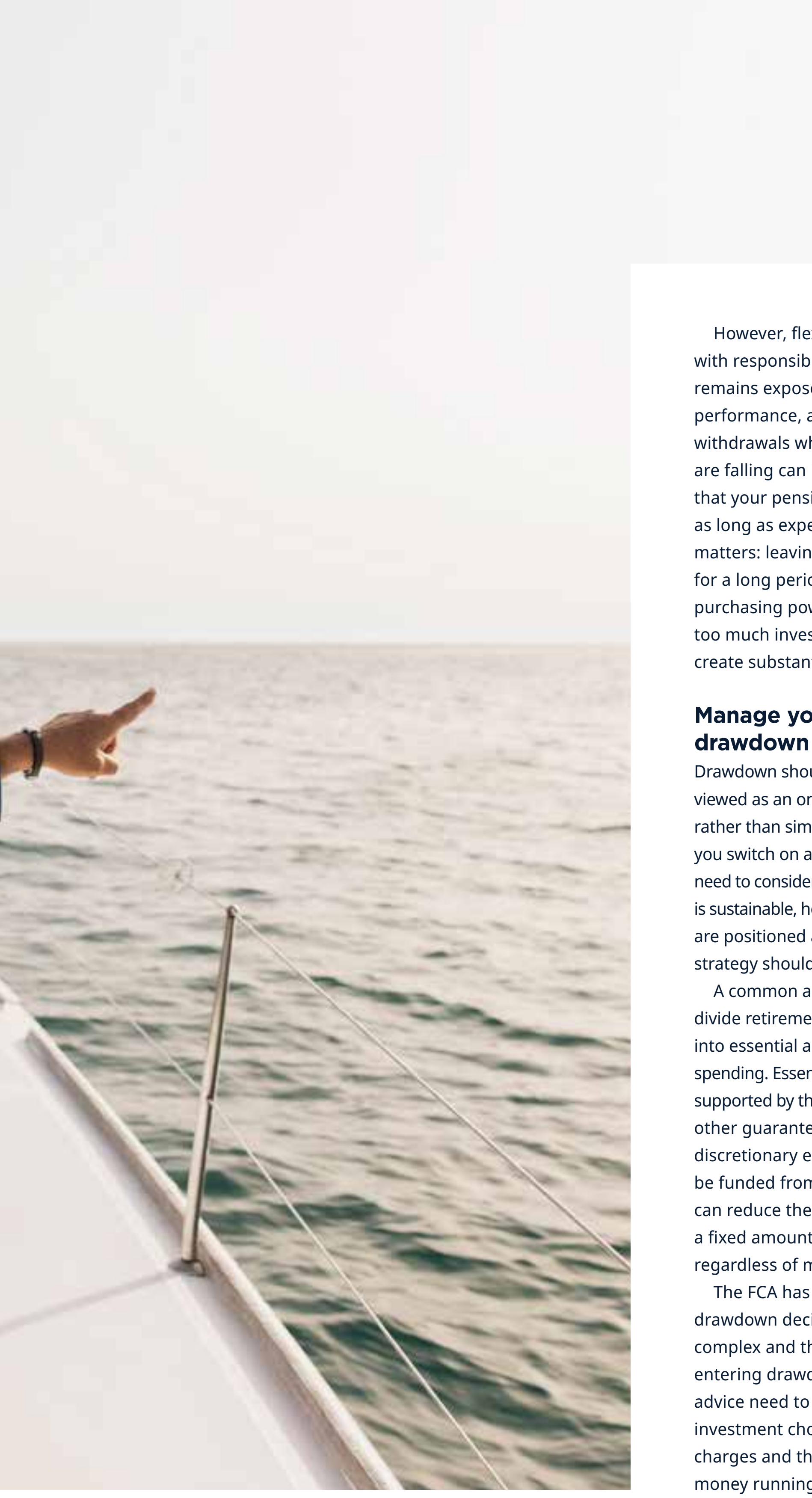
Use flexi-access drawdown

Flexi-access drawdown allows you to move pension savings into a drawdown arrangement while keeping the underlying funds invested. You can then normally choose how much income to take and when to take it, subject to the terms of the pension arrangement.

This can provide considerable flexibility. You might take a modest regular income, increase withdrawals temporarily to meet a large expense or take no income for a period while other sources of income meet your needs.



> An annuity can provide certainty, while drawdown can provide flexibility. The decision is not about which product is universally better – it is about which combination fits your circumstances.



However, flexibility comes with responsibility. Your pension remains exposed to investment performance, and taking withdrawals while investments are falling can increase the risk that your pension does not last as long as expected. Inflation also matters: leaving money in cash for a long period may reduce its purchasing power, while taking too much investment risk can create substantial losses.

Manage your drawdown carefully

Drawdown should therefore be viewed as an ongoing strategy rather than simply a product that you switch on at retirement. You need to consider how much income is sustainable, how your investments are positioned and how often the strategy should be reviewed.

A common approach is to divide retirement expenditure into essential and discretionary spending. Essential costs might be supported by the State Pension and other guaranteed income, while discretionary expenditure could be funded from drawdown. This can reduce the pressure to take a fixed amount from investments regardless of market conditions.

The FCA has highlighted that drawdown decisions can be complex and that consumers entering drawdown without advice need to consider investment choices, withdrawals, charges and the risk of their money running out.

Look at an annuity

An annuity works differently. Instead of keeping your pension invested and drawing from it, you normally exchange some or all of your pension fund for a guaranteed income, usually for life.

The amount of income offered can depend on factors including your age, the size of your pension, interest rates and your health. Some annuities can provide increasing income, while others may include benefits for a spouse or partner after your death. Enhanced annuities may also be available for people with certain medical conditions or lifestyle factors.

An annuity can provide valuable certainty because you know that the agreed income will continue according to its terms. It can therefore be particularly relevant when you want to cover essential expenditure without relying on investment performance.

Shop around before buying

Your existing pension provider may offer an annuity, but you do not necessarily have to buy one from that provider. Shopping around can be important because different providers may offer different income rates and features.

Consider carefully whether you want a single-life or joint-life annuity, whether income should increase over time and whether there should be a guarantee period or other death benefits.

> The best retirement strategy may not be a single pension solution. It could be a carefully considered combination of guaranteed income, flexible withdrawals and other assets.

Once an annuity has been purchased, it is generally a long-term, irreversible decision, so professional advice should always be considered before proceeding.

The FCA emphasises the importance of shopping around when considering retirement income options, including annuities and other products introduced through pension freedoms.

Understand UFPLS

An uncrystallised funds pension lump sum, or UFPLS, allows you to take a payment directly from pension savings without first moving the whole fund into drawdown.

Broadly, each UFPLS payment is normally divided into a tax-free element and a taxable element. Where the standard rules apply, 25% of the payment is normally tax-free and 75% is subject to Income Tax at your marginal rate.

For example, if you took a £20,000 UFPLS payment, broadly £5,000 could be tax-free and £15,000 would normally be taxable. The actual tax position depends on your circumstances, including your other income and available allowances.

UFPLS can be useful where you want occasional access to your pension without committing to a regular drawdown income. However, repeated withdrawals can gradually reduce your pension fund, and the taxable element could affect your Income Tax position.

Think about the tax consequences

One of the biggest differences between the options is how taxable income is created. Taking a large taxable withdrawal in one tax year could push your total income into a higher tax band. It can also affect your Personal Allowance where income is sufficiently high.

For this reason, it may be worth considering whether withdrawals can be spread between tax years. For someone with variable employment income, for example, the timing of pension withdrawals could form an important part of wider tax planning.

Remember, too, that flexible access can affect future pension contributions. Taking certain taxable pension income can trigger the Money Purchase Annual Allowance, restricting the amount you can subsequently contribute to defined contribution pensions while benefiting from tax relief.

Combine different approaches

You do not necessarily have to choose between an annuity and drawdown. A blended strategy can sometimes provide both security and flexibility.

For example, you could use part of your pension to purchase an annuity sufficient to cover essential expenditure, while keeping the remainder invested in drawdown for holidays, home improvements or other discretionary spending. Alternatively, you might take tax-free cash in stages and use drawdown alongside other income sources.

The most appropriate approach depends on your objectives, financial resources, health, expected longevity, investment attitude, tax position and the needs of anyone financially dependent on you.

Do not overlook your existing scheme

Before transferring your pension to access a different option, check what you might be giving up. Older pension arrangements can contain valuable guarantees, including guaranteed annuity rates or protected pension ages.

A transfer may also involve costs, investment changes or the loss of valuable benefits. Defined benefit pensions require particular care because transferring away from a guaranteed income can mean giving up significant benefits.

Your provider should explain your available options, but product information is not the same as personalised financial advice. If you are unsure, professional financial advice should always be sought before transferring or accessing substantial pension benefits.

Make the decision part of a wider plan

Ultimately, the question should not simply be **'How much can I take from my pension?'** Instead, consider **'How can I use my pension to provide the income I need throughout retirement?'**

Start with your expected expenditure, identify guaranteed income such as the State Pension, assess other savings and investments, and then establish how much additional income your pension needs to provide.

Your answer may change over time. You might need more income in the early years of retirement for travel and leisure, while later expenditure may focus more heavily on care or support. Regular reviews can help ensure your pension strategy continues to reflect your circumstances. ■

Ready to talk about your retirement income options?

Professional financial advice should always be sought before making significant pension decisions. We can help you compare the available options, model different income scenarios, assess tax implications and consider the sustainability of your retirement income.

To find out more or to discuss your retirement income plans, please get in touch with us. We're here to help you make informed decisions and create a retirement strategy that is aligned with your needs, circumstances and long-term goals.

Time to make informed choices about your retirement income?

With greater choice comes greater responsibility. We can help you understand your pension options, assess the potential tax implications and develop a retirement income strategy tailored to your circumstances.

Contact us today to discuss your options.

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