

# The Pension Freedom Guide

Your complete guide to understanding and using your pension freedom options with confidence

This guide contains 14 pages and will take approximately 12 minutes to read



# What's Inside

This guide explains your pension freedom options in plain English, helping you understand how to access your retirement savings in the way that works best for you.

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## What Are Pension Freedoms?

From April 2015, the government introduced changes to pension freedoms, giving you more control over your pension and allowing you to take money out of your pension pot from age 55. This means you can now take money out of your pension pot from age 55, rather than having to wait until you are 65. This is a significant change, as it allows you to access your pension pot earlier than before.

There are a number of options available to you when you take money out of your pension pot. You can take a lump sum, or you can take a regular income. You can also choose to take a combination of the two. It's important to consider your options carefully, as taking money out of your pension pot can have tax implications.

### Key Changes

- No requirement to buy an annuity with your pension pot
- Freedom to take your pension pot as a lump sum if you wish
- Flexible access to cash your pension pot and invest it elsewhere



## Your Four Options at a Glance

Personal Pension freedom gives you four main ways to access your pension contributions. You can choose from these options, and we can help you find the right one for your circumstances.



### Cash Saver

You can access your pension as cash and use it for anything you like. You can also use it to pay for living expenses.



### Flexi Access Drawdown

You can take your pension as cash when you need it. You can also use it to pay for living expenses.



### Buy an Annuity

Buy an annuity to receive a regular income for life. You can also choose to receive a lump sum.



### Take Cash Lump Sums

Take cash lump sums from your pension. You can take up to 25% of your pension as a lump sum.

### *Did you know?*

Did you know that you can also use your pension to pay for living expenses? You can also use it to pay for living expenses. For example, using an annuity to receive a regular income and a lump sum to pay for living expenses.

# Taking Your Tax-Free Cash

One of the most popular features of pension freedom is the ability to take up to 25% of your pension pot as a tax-free lump sum. This can provide a significant boost to your finances in retirement.

## How It Works

When you access your pension, you can usually take up to 25% as a tax-free lump sum. The remaining 75% is then treated as income when you withdraw it. There are two main ways to take your tax-free cash:

- **Flexible Commencement Lump Sum (FCLS)** - This gives you the 25% tax-free option, but means the rest of the pension is held in a drawdown arrangement.
- **Uncrystallised Funds Pension Lump Sum (UFPLS)** - This involves taking a lump sum of 25% of each withdrawal to pay for your pension.

## Your Allowances for 2025/26

### Your Pension Allowances for 2025/26

**£268,275**

Lump Sum Allowance  
(tax-free cash limit)

**£60,000**

Annual Allowance  
(contributions)

**£1,073,100**

Lump Sum and Death  
Benefit Allowance

# Flexi-Access Drawdown Explained

Drawdown is the most flexible way to access pension savings. It lets you take your 25% tax-free lump sum and then use the remaining 75% flexibly, drawing income when you need it.

## How Drawdown Works

You make your pension into a drawdown arrangement. Your money stays invested in funds you choose with our guidance, and you can withdraw to suit your needs. We'll take the amount and timing of withdrawals.

## Benefits of Drawdown

- Your pension pot can continue to grow
- You can flexibly use your cash income (25%)
- You only pay tax on what you withdraw
- Remaining funds can be passed to beneficiaries

## The Risks

Your pot can go down as well as up, so there is a risk of running out. We'll help you understand and adjust your strategy as you move through retirement.

## Key Figures

~2.5%

Average annual rate of return over 10 years to 31/12/2025

£230.25

For each £100 of pension pot value

89%

Of people who have used a drawdown since 2015

# Annuities: Guaranteed Income for Life

An annuity converts your pension pot into a regular guaranteed income. With certain rules of their design, it can provide a reliable source of income throughout the rest of your retirement life.

## Level Annuity

- Higher starting income
- Simple and predictable
- No investment risk
- Income drops when inflation rises
- Income drops when interest rates rise

**Best for:**  
Those who want a steady income and don't mind their income falling over time.

RECOMMENDED

## Escalating Annuity

- Income rises each year
- Protects against inflation
- No investment risk
- Higher income in later years
- Lower starting income

**Best for:**  
Those wanting to enjoy retirement with rising income.

**Don't forget the charges!**  
When you choose an annuity for yourself, you'll also have to consider the charges. These can be a significant cost, so it's important to understand what you're paying for. The charges can vary between different providers, so it's worth comparing them.

# Tax and Your Pension Income

Understanding how your pension withdrawals are taxed is essential for managing your income. Your pension income is added to any other income and taxed at your marginal rate.

Tax Band	Income Range (2025/26)	Rate
Personal Allowance	Up to £12,570	0%
Basic rate	£12,571 to £50,270	20%
Higher rate	£50,271 to £125,140	40%
Additional rate	Over £125,140	45%
State Pension (new)	£11,973 per year	Taxable

**Watch out for Money Purchase Annual Allowance (MPAA)**

When you take taxable income from your pension, you are subject to the 20% tax that your annual allowance for money purchase contributions drops from £10,000 to just £4,000. This is called the Money Purchase Annual Allowance (MPAA). If you are still working and contributing to a pension, you may not be aware of this. We can help you find out more about the rules.

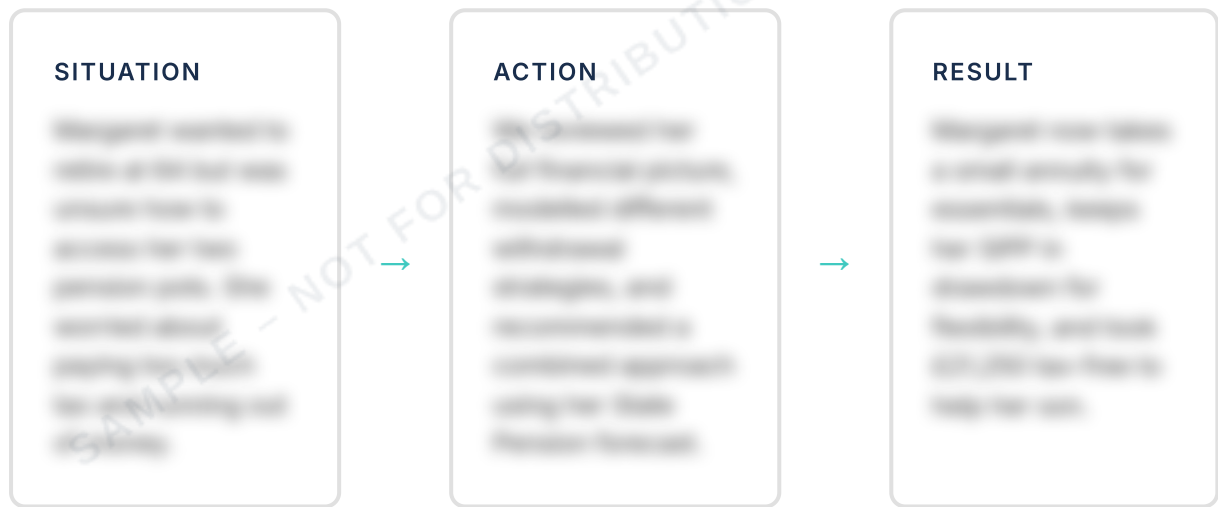
# Making Pension Freedoms Work for You

Let's see how pension freedoms can be put into practice with a real-world example.

**MR** Margaret Reynolds, 65 ▶ **Her situation**

Having left her career with a company pension of £200,000 and a small private pension worth £50,000.

Travel to see family abroad    Help son with house deposit    Financial peace of mind



**What Margaret has done:**

Margaret decided to take a lump sum of £50,000 from her company pension. She used the lump sum to help her son with his house deposit. She set up a drawdown pension for the remaining £150,000. She takes a monthly payment of £1,000 from the drawdown pension. She can stop taking payments if she needs the money for something else. She can start taking payments again if she needs the money for something else.

# Passing On Your Pension

One of the most valuable features of pension freedom is the ability to pass your remaining pension to your beneficiaries. The rules differ depending on your age when you die.

## Current Rules

- **Death before age 75:** Your beneficiaries can inherit your remaining pension completely tax free (income tax).
- **Death at age 75 or older:** Beneficiaries pay income tax at their marginal rate on withdrawals.
- **Using cash or income:** Beneficiaries can choose to take the inheritance as a lump sum or as regular income.

## Important Change from April 2027

From 6 April 2027, uncrystallised pension funds will be included in your estate for inheritance tax (IHT) purposes. This is a significant change. Currently, pensions do not form part of your estate, which is a powerful tool for passing on wealth.



### Plan ahead

The 2027 change could mean an IHT charge on pension savings that were previously exempt. We can help you understand your options and help you consider whether it makes sense to crystallise your savings before April 2027.

# Protecting Yourself from Pension Scams

Protect yourself from pension scams by following these steps. Use the checklist to protect yourself from fraud.

<input checked="" type="checkbox"/> <b>Check the regulator's website</b> Visit the Financial Conduct Authority (FCA) website to check if the company is authorised to provide pension services.	<input checked="" type="checkbox"/> <b>Check the regulator's website</b> Visit the Financial Conduct Authority (FCA) website to check if the company is authorised to provide pension services.
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# Your Next Steps

Having worked out your pension options, you now know what you need to do. Here are the steps to get started.

**1 Gather your pension statements** 15 MINS

Collect your pension statements from all your pension providers, including workplace pensions, SIPPs, and any old pensions from previous employers.

**2 Check your State Pension** 10 MINS

Find out how much State Pension you will get and when you'll start. Check the rules for your National Insurance contributions that you need to do.

**3 Book a pension review with us** 5 MINS

We'll review all your pensions together, make efficient withdrawal strategies, and recommend the best approach for your goals.

**4 Start planning your retirement income**

With our guidance, you can create a retirement strategy that balances the efficiency, flexibility, and security of the retirement you want.

**Ready to take the next step?**

Call us on **0800 000 0000** or visit [advisorsgroup.co.uk](https://www.advisorsgroup.co.uk) to book your free pension review.



Your Financial Adviser

# Ready to make the most of your pension freedoms?

Our team of experienced financial advisers is here to help you navigate your pension options with confidence. Whether you are approaching retirement or already there, we will create a personalised plan that works for your life.

## Book a consultation

Call us on

or email