

Pension choices

Why it pays to think before you act



Your pension is likely to be one of the biggest assets you'll ever own – but for many people, it feels confusing and hard to navigate.

Over the years, you may have collected several different pots from past jobs, and as retirement approaches, deciding what to do with them can feel overwhelming. Should you bring them together for easier management? Is it the right time to release tax-free cash, perhaps to clear a mortgage? Would partial retirement work best with flexible drawdown, or would an annuity give you the security you want?





These are big decisions which require careful consideration. The good news is, you have options. By exploring them now, you can create a retirement plan that gives you freedom, security and peace of mind.

1

Autumn Budget – on the horizon

With the Autumn Budget set for 26 November, now is an ideal time to consider your options before any potential changes to pensions and their treatment are announced.

We do know that from April 2027, unspent defined contribution pensions will become subject to Inheritance Tax (IHT) – a significant change from today's rules, where pensions usually sit outside the estate.

There is speculation that other pension changes may be announced, although purely speculative at this point, it's a good idea to be thoughtful now about your current options and circumstances. So, we're going to take a closer look at releasing tax free cash from your pension, flexi-access drawdown, annuities and pension consolidation.

2

Tax-free cash – unlocking funds when you need them

One of the most well-known pension benefits is the ability to take up to 25% of your pot as tax-free cash – available from age 55 (rising to 57 in 2028). Many people use this to repay a mortgage, fund

home improvements, help children onto the property ladder or achieve a long-held goal, such as travelling the world.

The big advantage is that you can access a significant sum without paying Income Tax on it, but there are trade-offs. Taking a large lump sum early reduces the amount left invested, which could limit future growth and income. If not managed carefully, you could also fall into a lower pension balance than you need later in retirement. It's wise to map out how much you truly need now, how much you can afford to keep invested, and the impact of each decision on your long-term plan. Careful planning ensures you strike the right balance.

3

Flexi-access drawdown – creating flexible retirement income

Flexi-access drawdown is popular with people who want to phase their retirement gradually. It allows you to draw an income when needed, while leaving the rest of your pension invested for potential growth. The flexibility is a major benefit – you can vary withdrawals to suit your needs, pause if markets are volatile and control how much taxable income you take each year.

On the downside, drawdown requires active management. Market falls or drawing too much too quickly can erode your pot,



potentially leaving you short later in life. There are also Annual Allowance rules to consider once you start taking taxable income. Regular financial reviews can help keep withdrawals sustainable and your investments aligned with your goals, so you don't run out of money too soon.



4

Annuities – an income for life

For those who value security, an annuity provides a guaranteed income for life, no matter how long you live – making it a great option for covering essential bills such as housing, utilities and food.

You can also choose options like joint-life annuities (continuing payments to a spouse) or escalation (so payments rise with inflation). The main downside is inflexibility: once you buy an annuity, you can't usually change your mind or access the capital. If you die earlier than expected, you may not receive as much back as you paid in (unless you selected certain guarantees).

Many people find a balanced approach works well – using part of their pot for an annuity to secure core income, and leaving the rest in drawdown for flexibility and growth potential.

5

Pension consolidation – bringing your pots together

Over a career, it's common to accumulate several workplace pensions – sometimes forgotten entirely. Losing track happens for many reasons: job changes resulting in multiple workplace pensions, investing through various platforms over time, or simply neglecting older pensions as life gets busy. Consolidation can simplify life by bringing everything under one roof, making it easier to track performance, reduce paperwork and often save on charges.

A single pot also helps when planning withdrawals, because you can take a more coordinated approach to tax efficiency. However, consolidation isn't always the best move. Some older pensions offer valuable guarantees, such as higher-than-market annuity rates or protected tax-free cash, which you could lose by transferring. There may also be exit penalties. Before consolidating, it's important to get a full review of all your existing pots so you can keep valuable benefits and only move plans that make sense.

Finding the right mix for you

The right solution may involve a combination of these options. A financial review can help you understand what's available, weigh up the risks and benefits, and create a plan tailored to your unique circumstances and objectives. The key is to make choices that give you flexibility now and security later.

There's no one-size-fits-all. Your pension choices depend on your goals, lifestyle and appetite for risk. We can help you create a plan that gives you both freedom now and security later – so you can enjoy retirement on your own terms.

Most importantly, we can help give you peace of mind that you're in control over your finances.



Contact us

To find out more, or to book a complimentary initial appointment, email info@waterhousefa.co.uk or call 01761 880016.

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