

What you need to know about...

Releasing cash from a pension

Pension plans are great tax-efficient ways of saving for your retirement. However, the problem for most people is that you must keep your money tied up for the long-term, and must then only use your fund to buy an income. The only way to release cash lump sums from your pensions is under the tax-free cash rules. Until now, this meant that you needed to take an income; new rules now allow you to take your tax-free cash but defer the income.

Why release cash from your pension?

Some people may need to get access to their tax-free cash under their pension plan, but may not yet need the income that a pension usually provides. The new rules mean that you can now opt to take the tax-free cash, but defer the income.

The 'normal' route

Most people get to retirement and take the maximum tax-free cash. For most pension schemes this will be 25% of the total fund value. They will then take the remaining fund and purchase an annuity. An annuity is a lump sum contract designed to provide an income for life.

What if you need the cash, but not the income?

This is where the new rules come in. If you are over age 55, you can now take your tax-free cash in the normal way but avoid taking the income. This works by using a specialist contract called an unsecured pension plan.

An unsecured pension plan allows you to keep your pension fund invested, and allows you then to take an income from zero through to a maximum level based around what you would receive from an annuity.

Ultimately, this allows you to avoid taking the income if you don't need it, whilst releasing the cash you need.

Sounds great - what are the downsides?

This is a complex area and needs financial advice to determine whether this would be right for you. However, here are some of the main issues that you should consider:

Increased costs

As a specialist product, unsecured pension plans come with extra costs. This will no doubt be more expensive than your standard pension plan. You may also be charged to exit your current pension.

Increased risk

The plan will keep your money invested, which will be riskier than if you took out a guaranteed product such as an annuity. Thus, you will be exposed to investment risk (that your fund may go down in value), plus the extra costs mentioned above. This may mean that your pension fund will need to grow at a greater rate than previously.

Reduced pension

It is likely that reducing your pension fund early will result in you receiving less income than you would have done had you kept your money invested until the full term.

You can only take the tax-free cash once

Once you have retired from the scheme, you cannot then take tax-free cash again, or contribute to the

Continued overleaf...

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scheme. You can however contribute to a new plan should your earnings permit this. This may mean that your tax-free cash will be lower than it would have been had you invested for longer.

Also, you must not use the tax-free cash to reinvest into another pension plan. This is known as recycling, and incurs high penalties.

Who is this for?

Really, releasing cash from your pension in this way is only for a small percentage of clients. You should speak to us about this area for advice before going ahead.

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