Your options at retirement – what they mean to you

In recent years, the way you can take your pension has changed significantly. You now have more flexibility over what you can do with your pension pot when you retire.

Here, we outline the options available and how these work.

Most people want their pension income to last them the rest of their life, so careful planning will be needed.

There are various options as to how you can take your benefits after you've reached the minimum pension age. This is currently age 55. From 6 April 2028 this will be age 57 unless you have a protected pension age. To find out more visit aviva.co.uk/nmpa.

Whichever option you choose, you will usually have the option of taking up to 25% of your pension pot as a tax-free lump sum.

Any additional income you take will be added to any other income you might receive (e.g. salary, State Pension, any other pension income, rental or investments income) and will be subject to your marginal rate of income tax. Your marginal rate of income tax is the highest percentage of tax you pay when all your income in a tax year is added together.

What's best for you will depend on your overall needs and circumstances.

Tax and benefits are subject to interpretation, change and individual circumstances. The options described apply only to 'money purchase' pensions i.e. where your benefits are based upon the value of your pension pot and not linked to your salary.

Annual Allowance

The annual allowance is a limit (£60,000 for 2024/25 tax year) on the amount of pension contributions you and your employer can make each year before you may incur a tax charge. If you earn more than £260,000 (from the 2024/25 tax year) your annual allowance may be reduced. If you access your pension pot using flexi-access drawdown or withdraw a cash sum your annual allowance will reduce to £10,000 for all your money purchase pension plans. For more information on annual allowance see the **What is the annual allowance brochure at https://static.aviva.io/content/dam/document-library/corporate-pensions/fe3537.pdf**

Lump Sum Allowance and Lump Sum & Death Benefit Allowance

HMRC places limits on the amount of tax-free benefits that can be taken from pension schemes. The limits apply to benefits during your lifetime and on death. Income tax is payable on benefits taken above these amounts.

For tax year 2024/25 the standard Lump Sum Allowance is £268,275 and the standard Lump Sum and Death Benefit Allowance is £1,073,100. Your remaining allowances reduce each time you take benefits. Your personal allowances may be higher than the standard amounts if you've been granted one or more of the types of protections by HMRC.

You can find more information on these allowances at: **gov.uk/tax-on-your-private-pension**. If they're likely to affect you, we recommend you get financial advice.

You can choose a combination of these options		How the options work
Up to 25% tax-free cash sum with balance buying an annuity	**Normally, you can take 25% of your pension pot as a tax-free lump sum then invest in a product which pays you a guaranteed regular amount for the rest of your life.**	If you take up to 25% of your pension pot as a tax-free cash sum, you can then use the remaining pot to buy an annuity. The level of income you receive will depend on the rates available at the time you buy the product. This income will be added to your other income for the tax year and the income tax you'll pay will be based on that amount. Once the annuity has been set up it can't usually be changed or cashed-in. You should shop around to get the best deal for you especially if you're in poor health or have certain lifestyle choices. Taking a tax-free cash lump sum will reduce the level of annuity income you will receive.
Up to 25% tax-free cash sum with balance providing flexible (regular or adhoc) withdrawals	**Flexi-Access Drawdown allows unrestricted withdrawals while the balance stays invested.**	If you take up to 25% of your pension pot as a tax-free cash sum you can leave the rest of your money invested and then take out unrestricted withdrawals. For example, if your pension pot is £50,000 you can take your tax free lump sum of £12,500 first. You could then take withdrawals each month. The funds you leave invested have the potential to grow, but their value could also go down and you may get back less than has been invested. Any withdrawals will be added to your other income for the tax year and the income tax you'll pay will be based on that amount. Most people want their pension income to last them the rest of their life, so careful planning will be needed. You will need to consider where you are investing and what risk you are willing to take.
Unrestricted lump sums with up to 25% tax-free	**You can choose to take all or some of your pot as cash.**	Up to 25% of the amount you choose to take will be tax-free. For example, if your pension pot is worth £50,000 and you take £1,000 every month, £250 of this amount would be tax-free every time. The remaining £750 would be added to your other income for the tax year and the income tax you'll pay would be based on that amount. It's important to remember that taking out large amounts of money in a year may mean you move to a higher tax band. Most people want their pension income to last them the rest of their life, so careful planning will be needed. You will need to consider where you are investing and what risk you are willing to take. Any funds you leave invested have the potential to grow, but their value could also go down and you may get back less than has been invested.

For more help on pensions and retirement

If you want more help thinking about pensions and retirement, a good place to begin is **MoneyHelper**, the government-backed free guidance service. You can access MoneyHelper online at moneyhelper.org.uk or by phone on 0800 011 3797.

If you are over 50 you can use the **Pension Wise** (moneyhelper.org.uk/en/pensions-and-retirement/pension-wise) service, from MoneyHelper, online or by phone on 0800 138 3944. They offer a free face to face or telephone guidance session. They won't tell you what you should do, but they'll provide you with information to help you understand your options

Financial Advice

For more tailored advice, you should speak to a financial adviser. Bear in mind they will charge a fee for this advice, but it will be personalised to your individual needs. If you don't have an adviser, you can find an up-to-date list of regulated advisers at **MoneyHelper** (moneyhelper.org.uk/en/pensions-and-retirement/taking-your-pension/find-a-retirement-adviser)

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