

# Should I take the tax free cash lump sum from my pension?



## The basics

One of the big benefits of pensions has always been the tax free cash lump sum you can take when you retire. In general, you can take up to a quarter (25%) of your pension pot tax free and until recently, you would have expected to start taking an income with the rest of your money at the same time.

The government have now changed the rules. You can still have the tax free cash lump sum but you no longer need to start taking an income with the remainder, you can just leave it to use at a later date. You still need to be at least 55 years of age but you don't need to have retired from work. Taking this money may not be right for everyone so you should talk to one of our advisers who will help you consider whether it suits your circumstances.

## What could you do with the tax free lump sum?

For many people, a tax free cash lump sum offers a great opportunity to help put their financial affairs in order. Most common uses are typically:

- Help pay off a mortgage or other debts, such as credit cards and loans
- Paying for a holiday, a new car or just making life a little easier
- Help the children with a loan or to get them on the housing ladder
- Investing the lump sum to generate more income

## Benefits of taking the lump sum

- It's usually worth taking the lump sum as it is one of the only ways to take some of your pension pot completely tax free.
- Taking the lump sum could provide useful pot of money just when you need it most and you don't need to have retired.
- Using the money to pay off debts will mean that you will paying less interest which is always a good thing.

## Drawbacks of taking the lump sum

- Taking a quarter of your pension pot will mean there is less money to provide you with an income when you finally retire and it could have a major effect on your lifestyle in later life.
- Once the lump sum has been taken, the remaining pension pot will be subject to a 55% tax charge in the event of your death whereas there is no tax charge at all if you haven't taken the lump sum and your loved ones can have all the money.
- You could be giving up valuable benefits if you are in a workplace pension scheme.

There is no simple rule setting out how best to use your tax free cash or even whether you should take it at all. We have been providing help and advice in the retirement sector for more than 20 years, so contact one of our experienced advisers for a free chat to discuss whether or not it is right for you.

### Contact Us

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