

Cash Warning Avatar Video Script (Verbatim)

So you're thinking of taking some cash from your pension pot?

1. You can normally take up to 25% of your pension pot tax-free, subject to an allowance set by the government. Anything more than this is subject to income tax.
2. Let's say you had a pot worth £40,000 and took it all as cash. The first £10,000 would, subject to allowances, be tax-free. The remaining £30,000 would be taxable. If you don't have any other taxable income, your personal allowance; the amount of income you get before paying tax, would mean the first £12,570 of this, is tax-free. The rest (£17,430) is taxed at the basic rate of 20%.
3. This would result in a £3,486 tax payment. This would be higher if you had other sources of income, like a salary.
4. If instead you choose to take your pot as two £20,000 lump sums over two years. The first 25% (£5,000) of each amount would be tax-free, and after your personal allowance, if you have no other taxable income, you'd only pay £486 tax a year. A total of £972.
5. Taking your money over more years in this way, could reduce the tax you pay. Or you could take your tax-free cash in one go and leave the rest invested in drawdown. You could then take the rest over your preferred number of years, which could also reduce the tax you pay.

There are other risks to be aware of too.

6. If you're hoping to use your pension to finance your retirement, any money you take out now, means less stays invested. This could give you less income and options in the future. Taking cash could also mean the amount that can be saved into your pension without paying extra tax is reduced to £10,000 year, limiting your ability to rebuild your pot later on.
7. Taking cash can also impact certain means tested state benefits. These are benefits that look at how much income you have, for example universal or pension credit. Additionally, if you're hoping to leave something behind for loved ones, any money still in your pension pot can normally be passed on free of inheritance tax.
8. This is why it's important to get guidance or advice and consider all your options before taking cash.