Factsheet 91

Pension Freedom and benefits

June 2024

About this factsheet

Changes to how you can use funds in your occupational or private pension were made in 2015. Once you reach the age of 55, you now have much more freedom to access your pension savings or pension pot and to decide what to do with this money.

This factsheet contains basic information about your choices with

1 Introduction

When you reach 55 years of age, you have choices about how, when, and if you can access private pension savings or pension pots. This *defined contribution pensions*

Whereas previously, you almost always had to buy an annuity with your pension pot, you now have a choice to draw down some, or all, of your pension pot, in one go, or at different times, or you can leave it invested.

Pension Wise offers basic guidance and information on pension freedoms.

Neither Pension Wise nor Age UK can give advice on your best options. Speak to a regulated independent financial adviser if you need advice see factsheet 43, *Getting legal and financial advice* for more information.

Be careful of scams see section 9 for things to look out for.

2 What pensions are covered?

Pension freedoms apply to *defined contribution pension* only. These should not be confused with *defined benefit pension schemes* (or *final salary schemes*). If you have a private sector defined benefit

3 Pension choices

There are six choices for your defined contribution pension pot. You can:

Leave your pension pot untouched i.e. it remains invested

Seek a secure or guaranteed income for life usually called an *annuity*

Seek an adjustable income often called a *drawdown*

Take money in chunks known as *Uncrystallised Funds Pension Lump Sum*

Cash in the whole pot usually subject to tax

Mix of the above either now or in the future.

You can exercise these options once you reach 55 years of age, although this can be earlier if you retire on ill-health grounds or have a protected retirement age. The minimum age is due to increase to 57 from 2028, in line with rises in State Pension age. It is important to consider the impact of the different options on your income tax and benefit entitlement.

Scams
Beware of scams or people offering high interest or unrealistic rewards if it seems too good to be true, it probably is. If in doubt, check with Age UK Advice, Age Cymru Advice, Age Scotland or Pension Wise. See section 9 for more information about scams.

3.1 Leave pot untouched

It is up to you when you take your money. You might reach the normal retirement date under your scheme or have been sent a pack from your pension provider. Neither factor requires you to take out your money immediately. If you do not take anything, make sure you check the investments and charges under the pension contract.

3.2 Seek a secure income

You can use part, or the whole, of your pension pot to buy an annuity. Typically, an annuity provides you with a regular and guaranteed income. There are many different types of annuities available. The amount of annuity you get depends on how much you have in your pot, when you buy it, your age, your health and lifestyle, and the type of annuity.

It is a good idea to shop around for the best annuity deals as they vary and the company holding your pension funds may not offer the best deal. You do not have to buy an annuity from the company holding your pot. See section 2.3.1 of factsheet 12, *Planning your retirement: money and tax,* for more detailed information about annuities.

3.3 Seek an adjustable income ('*flexi-access drawdown*')

You can take 25 per cent of your pot as a single, tax-free cash sum. The other 75 per cent stays invested to give a regular, taxable income. You can decide what income you take and when you take it. Not all providers offer this option and if you decide to transfer funds to a provider who does, you may be charged a fee for this. You probably need to be involved in choosing and managing your investments and you may be charged a fee for this arrangement. Remember the value of your pot can go up or down since it is invested in the stock market.

3.4 Take money in chunks

You can take amounts of money from your pension pot until it runs out. You decide how much to take and when to take it. Your 25 per cent tax-free amount is not paid in one lump sum you get it over time. Each time you take a chunk of money, 25 per cent is tax free and the rest is taxable. *Uncrystallised Funds Pension Lump Sum* (UFPLS). Some pension providers charge a fee to take cash out. Not all providers offer this option or set minimum levels of withdrawals. If your current provider does not offer it, you can transfer your pot to another provider but there might be a fee.

3.5 Cash in the whole pot

You can cash in the whole value of your pension pot in one go. However, you need to think about things such as how much tax you will pay on the amount taken and what you will live on when you retire. In particular, you need to be cautious if you decide to spend most, or all, of the money in one go, if you also claim certain benefits or require social care, now or in the future (see later sections).

3.6 Mix of the above

One of the most important things to understand is that, within these options, you have freedom to decide what to do with your pension pot after reaching 55 years of age. You can, for example, leave your pension pot to grow for a few years, withdraw 25 per cent tax free as income, and use the remainder to purchase an annuity. If you have multiple pots, you can use different options for each, e.g. leave one pot untouched and take cash in chunks from another.

W*n e7 656c600816T1 216546 0.871 0.933 rg38.64 77.304 397.06 111

5.1 Income

Any regular income you receive is usually taken into account when calculating entitlement. If you buy an annuity paying a weekly, monthly, or annual income, the amount paid is taken into account, according to the means-test for that benefit or tax credit. You may be paid less, or no, benefit as a result and may be no better off than before.

If you are a couple where one of you has reached State Pension age and that person decides to leave their pension pot untouched, the DWP

notional income

an amount equivalent to the income you would have received if you had

5.3 Mixture of income and capital

If you decide to take an adjustable income, you may find yourself affected by both income and capital rules. Similarly, if you decide to take money from your pension pot in chunks, it may be treated as either income or capital depending on the regularity of withdrawals.

Case study – ~~seek an adjust~~[redacted]~~ income~~

You can claim HB and CTR with PC, or on their own. If you are entitled to PC Guarantee Credit, you are automatically entitled to maximum eligible help from HB and CTR if you have rent and Council Tax liability. Your income and capital are not taken into account again when assessing entitlement to HB and CTR, if you are entitled to PC as well.

If you claim HB or CTR without a PC award in place, different rules apply on how income and capital are taken into account. These rules are not covered in this factsheet, seek specialist advice if this applies to you.

This section only covers PC Guarantee Credit. It does not cover PC Savings Credit, which is not payable for people reaching State Pension age after 6 April 2016.

6.1 Capital

For PC, there is no upper capital limit. There is a lower capital limit of £10,000. Any capital you have less than £10,000 is disregarded entirely.

If you have over £10,000

Case study -

DWP guidance

DWP guidance on capital deprivation is at paragraph 29805 onwards at www.gov.uk/government/uploads/system/uploads/attachment_data/file/865598/dmgch29.pdf

DWP guidance on income deprivation is at paragraph 28568 onwards at www.gov.uk/government/uploads/system/uploads/attachment_data/file/599060/dmgch28.pdf

7.2 State Pension age

7.2.1 Income

If you draw regular income from your pension pot through drawdowns, rather than buying an annuity, this is compared to the amount you would get from an annuity and whichever amount is higher is taken into account as notional income.

If you leave funds in your pension pot, you are treated as having notional income based on the annuity those funds could yield (see section 6.2, *Case study leave it alone*).

If you take one or more lump sums from your pension pot, you are

7.3 Diminishing capital

If notional capital rules are applied to a working age benefit claim, the

9 Scams

There are criminals taking advantage of these freedoms by tricking you into cashing in your pension pot and giving them your money to invest. Pension scams are serious as you could lose some, if not all, of your pension savings, or end up with a large tax bill (there can be high charges if you withdraw your pension savings early).

If you think you have been scammed or someone tries to scam you, report it to Action Fraud online or call 0300 123 2040 (in **Scotland**, report it to Police Scotland).

If you are considering investing your pension pot, talk to an adviser regulated by the Financial Conduct Authority (FCA). Check the FCA register of firms online and find an Independent Financial Adviser through the Money Helper website www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser

9.1 How to spot a pension scam

Fraudsters try different ways to persuade you to part with your pension cash, from promising opportunities that are simply too good to be true to giving you false information. They might:

claim to know loopholes to get more than the usual 25 per cent tax-free

offer high returns of over eight per cent from overseas investments, or new or creative investments

offer a loan, saving advance, or cashback from your pension

suggest you put all your money in a single investment (most financial advisers suggest spreading your money in different schemes)

send paperwork to your door by courier requiring an immediate signature

claim they can help you access your pension pot before the age of 55 (unless you are seriously unwell or have a certain type of scheme, this is not legally possible).

If you plan to take your pension early, check whether there are penalties

agreement to do so.

Other signs you are being scammed

If you answer yes to any of these, you may be being scammed:

Were you contacted out of the blue, over the phone or on your doorstep?

Did you respond to an advert offering a free pension review?

Are you being pressured into making a quick decision?

address?

Has the firm told you that you cannot call them back?

Never be fooled by an impressive website offering advice. Instead, visit the Pension Wise website for free and impartial guidance on your pension options. They never contact you out of the blue and they have only one website. You can register your interest for an over-the-phone or face-to-face appointment.

For more information about Independent Financial Advisers, see section 12 of factsheet 43, *Getting legal and financial advice*.

For more information, see:

Age UK information guide *Avoiding scams*

Age Scotland guide *Avoiding scams*, or

Pensions Regulator guidance at
www.thepensionsregulator.gov.uk/pension-scams.aspx

Useful organisations

Action Fraud
www.actionfraud.police.uk
Telephone 0300 123 2040

Action Fraud is the national fraud reporting centre where enquirers should report fraud if they have been scammed or defrauded. They provide a central point of contact for information about fraud and financially motivated internet crime. In Scotland, contact Police Scotland.

Citizens Advice
England www.citizensadvice.org.uk
Wales www.citizensadvice.org.uk/wales
Northern Ireland www.citizensadvice.co.uk
Scotland www.cas.org.uk
In England telephone 0800 144 8848
In Wales telephone 0800 702 2020
In Scotland telephone 0800 028 1456

National network of advice centres offering free, confidential, independent advice, face to face or by telephone.

Financial Conduct Authority
www.fca.org.uk/consumers
Telephone 0800 111 6768

Regulate independent financial advisers , website has searchable

Financial Ombudsman
www.financial-ombudsman.org.uk
Telephone 0800 023 4567

Deals with complaints about financial services including pension providers.

Jobcentre Plus
www.gov.uk/contact-jobcentre-plus
Telephone 0800 055 6688

Part of the DWP, administers most benefit claims for people of working age and the regulated Social Fund.

MoneyHelper
www.moneyhelper.org.uk/en/pensions-and-retirement
0800 011 3797

Offer information and guidance on different types of pensions. They can help you if you want to complain about a workplace or private pension.

Pensions Ombudsman (The)
www.pensions-ombudsman.org.uk
Telephone 0800 917 4487

Independent organisation dealing with complaints about private and occupational pension schemes.

Age UK

Age UK provides advice and information for people in later life through our Age UK Advice line, publications and online. Call Age UK Advice to find out whether there is a local Age UK near you, and to order free copies of our information guides and factsheets.

Age UK Advice
www.ageuk.org.uk
0800 169 65 65
Lines are open seven days a week from 8.00am to 7.00pm

In Wales contact

Age Cymru Advice
www.agecymru.org.uk
0300 303 4498

In Northern Ireland contact

Age NI
www.ageni.org
0808 808 7575

In Scotland contact

Age Scotland
www.agescotland.org.uk
0800 124 4222

Support our work

We rely on donations from our supporters to provide our guides and factsheets for free. If you would like to help us continue to provide vital services, support, information and advice, please make a donation today

Our publications are available in large print and audio formats

Next update June 2025

The evidence sources used to create this factsheet are available on request. Contact *resources@ageuk.org.uk*