

# Time to Take Your *Pension* *Lump Sum?*

October 2024

BM

X

in





# Thinking of taking your pension lump sum?

With the UK government's budget on 30 October approaching fast, many people are considering withdrawing their pension tax-free cash as a lump sum to get ahead of potential changes.

Some might even be thinking about gifting this money to loved ones. However, it's important to think carefully about the long-term implications.

Reaching retirement age is an important milestone, and with it comes the option to withdraw up to 25% of your pension savings as tax-free cash (in tranches, as 'income' or via a lump sum). You can start withdrawing from the age of 55, which can be tempting many years before you actually reach pension age. It's essential to consider the long-term effects regarding how and when you choose to access this tax-free cash.

## Important considerations for your decision making

If you are thinking about withdrawing cash from your pension for your own personal needs, speak to your financial adviser and be aware of these potential pitfalls and risks to help inform the choices you make:

### Tax consequences

Although the lump sum is tax-free, how you use it can have tax implications. For instance, withdrawing and investing the money will likely subject future returns to income tax, capital gains tax and inheritance tax.

### Impact on retirement income

Withdrawing a large lump sum reduces the amount of money left in your pension pot, which could affect your future retirement income. It's important to ensure that you will still have enough to live comfortably in your later years. In many cases, tax-free cash can be taken regularly to provide an extremely tax-efficient income in retirement

### High-risk ventures

Without proper advice, you might be tempted to invest the lump sum in high-risk or unregulated ventures that could result in significant losses. A financial adviser can help you make informed decisions that align with your risk tolerance and financial goals.

## The benefits of keeping your lump sum invested

Keeping your lump-sum invested within your pension can offer several long-term benefits:

### Continued growth

Keeping your money invested allows it to continue growing, potentially providing a larger income in the future.

### Tax efficiency

Pension investments often benefit from tax advantages that can enhance your overall returns.

### Financial security

Maintaining a larger pension pot helps to ensure you have sufficient funds to support your lifestyle throughout retirement.

“

A financial adviser can help you *make informed decisions* that align with your *risk tolerance and financial goals*.”





## The risks of acting on speculation regarding tax-free cash limits

You may have seen speculation in the press that the tax-free lump sum could be capped at £100,000.

It is important to note that tax-free cash is already capped at £268,275 which already impacts doctors, senior nurses, civil servants, senior teachers, politicians and many private-sector individuals.

As we covered previously, the government could raise between £3bn and £15bn from limiting tax relief on pension contributions, which could mean a cap on tax-free cash would be less likely. The current thinking is that the government will either change the taxation of pensions upon input or output, but not both.

Tax-free cash limits already apply to many pensions. If a stricter cap were introduced, we believe it would be difficult for the government to apply limits retrospectively without protection, similar to when the lifetime allowance was introduced. We recommend not acting on speculation.

For example, in 2023 there was rife speculation about abolishing inheritance tax, which in the end did not happen. There is now current talk of making the inheritance tax more restrictive meaning that planning based on the 2023 speculation could have caused irreversible financial damage.

## Seek professional advice

A financial adviser can help you to ensure that your financial decisions reflect your needs, are sound and beneficial, including:

### Make the most of your pension

They can help ensure your money works for you without jeopardising your financial security.

### Navigate tax laws

They can help reduce your tax liability and enhance benefits.

### Choose smart investments

They can help you achieve better returns with the decisions you make.

### Gain peace of mind

They can help you feel confident in your financial decisions.

## Know your options before the budget

As the date of the UK government's Budget on 30 October draws near, it's more important than ever to seek the professional advice for your personal circumstances. By consulting with a financial adviser and taking advice ahead of any decisions or changes, you are empowered and can be confident that you are making the most of your money, safeguarding your retirement income and reducing tax liabilities.



## Important information

The information in this document does not constitute advice or a recommendation and you should not make any investment decisions on the basis of it. Investors should be aware that the price of investments and the income from them can go down as well as up and that neither is guaranteed. Investors may not get back the amount invested. Past performance is not a reliable indicator of future results. Changes in rates of exchange may have an adverse effect on the value, price or income of an investment.

Brooks Macdonald does not provide tax advice and independent professional advice should be sought. Tax treatment depends on individual circumstances and may be subject to change in the future, so you should seek independent tax advice, as to your own position.

Brooks Macdonald is a trading name of Brooks Macdonald Group plc used by various companies in the Brooks Macdonald group of companies. Brooks Macdonald Group plc is registered in England No 04402058. Registered office: 21 Lombard Street, London EC3V 9AH.

Brooks Macdonald Asset Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in England No 03417519. Registered office: 21 Lombard Street, London EC3V 9AH.

Brooks Macdonald International is a trading name of Brooks Macdonald Asset Management (International) Limited. Brooks Macdonald Asset Management (International) Limited is licensed and regulated by the Jersey Financial Services Commission. Its Guernsey branch is licensed and regulated by the Guernsey Financial Services Commission and its Isle of Man branch is licensed and regulated by the Isle of Man Financial Services Authority. In respect of services provided in the Republic of South Africa, Brooks Macdonald Asset Management (International) Limited is an authorised Financial Services Provider regulated by the South African Financial Sector Conduct Authority. Registered in Jersey No 143275. Registered office: Third Floor, No 1 Grenville Street, St Helier, Jersey JE2 4UF.

More information about the Brooks Macdonald Group can be found at **[brooksmacdonald.com](https://brooksmacdonald.com)**