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Quilter

Five common mistakes people make with their pension when they retire

1

Accidentally giving up added benefits

Some pensions offer you certain benefits such as a guaranteed annuity rate or additional death benefits. It may be that raiding your pension pot early means you will relinquish some of these benefits that you may wish to rely on later in life. These are becoming increasingly rare so should not be dismissed lightly, and if you are in doubt it is important to take advice before you let these benefits go.

2

Taking too much as tax-free cash in one go

One area where people may want to consider plugging any income shortfalls is by taking the 25% tax free lump sum that you are entitled to from your pension when you can access it. However, you do have flexibility over how much you withdraw tax-free and it is not always in your interest to take the full 25% in one go if you don't have an immediate need. If you are worried you may run out of money during retirement, then it could be better to take your tax-free cash out in stages. The longer you leave it in, the longer it has to continue to grow and help give you the retirement you deserve. Please remember the value of investments can go down as well as up and you may not get back the amount invested.

3

Accessing their pension too early

You should be considering if you really need to take the money out of your pension or if you have other, more easily accessible savings you can draw upon. Delaying dipping into your pension can increase the longevity of it and help ensure you don't run out of money in your old age. Furthermore, ensure everything is in order before taking any money out to avoid problems down the line.

Thanks to the generous death benefits that come with them, pensions are often the very last asset you want to touch if you plan to leave a legacy for your children or grandchildren. Pension pots are not normally subject to inheritance tax when you die, while if you die before 75, whoever inherits it will do so tax free. If you die after age 75 then the beneficiary will have to pay their marginal rate of income tax. Make sure your paperwork is up to date though as, given the financial value, it is not uncommon for your wishes to be contested.

4

Unintentionally triggering the money purchase annual allowance

As soon as you take just one penny out of your pension as income using the new flexibility provisions, such as flexi-access drawdown, you will have triggered the money purchase annual allowance (MPAA). This means the annual amount you can save into a pension will decrease to just £10,000. This is particularly challenging for those who still want to work and plan to top up their pension at a later date. Going over that allowance will mean you are faced with a tax bill. While it is an ill-thought-out policy that penalises those who strive for a comfortable retirement, it is something that can easily be forgotten without the correct advice.

5

Investing too much in cash

You should use this moment in time to ensure your investments are in line with your life goals. For example, do you need something that provides a regular income, or was this a one-off withdrawal and you don't plan to retire for several years yet? All these things will factor into the amount of risk you are able to take and ensure your retirement plans are fulfilled.

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