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Understanding pension drawdown

Taking control of your pension income means considering the tax consequences

Pension drawdown enables you to take money from a defined contribution pension while keeping the rest invested. Rather than receiving a fixed income, you decide how much to withdraw and when, giving you flexibility to adjust your income as your circumstances change.

There are several ways to access a defined contribution pension. You could take your tax-free lump sum and leave the rest invested in drawdown, take smaller withdrawals as needed, or use part of your pension to buy an annuity that provides a guaranteed income. You could also take your entire pension as cash, although this can create a significant tax bill and leave you without a long-term retirement income.

HOW DOES DRAWDOWN WORK?

You can normally access a private pension from age 55, although the normal minimum pension age is due to rise to 57 from 6 April 2028, subject to certain exceptions. Once eligible, you can usually move some or all of your pension into flexi-access drawdown and take income as needed.

For example, someone might take 25% of their pension as tax-free cash, leave the remaining 75% invested, and then withdraw a regular monthly income. Alternatively, they could take occasional lump sums when larger expenses arise. This flexibility can be useful, but withdrawals need to be managed carefully to avoid the pension running out prematurely.

WHAT TAX WILL YOU PAY?

You can usually take up to 25% of your pension as tax-free cash, subject to the relevant allowances. The standard lump sum allowance for 2026/27 is £268,275, although some people may have a higher protected allowance.

The remainder of your drawdown withdrawals are generally taxable as income and are added to your other taxable income for the year. For 2026/27, the standard Personal Allowance is £12,570, and Income Tax is generally charged at 20%, 40% or 45% in England, Wales and Northern Ireland, depending on your taxable income.

DIFFERENT WAYS TO ACCESS YOUR PENSION

Drawdown is just one option. Flexi-access drawdown allows you to take taxable income while keeping the remaining pension invested. Annuities can convert some or all of your pension into a guaranteed income, usually for life.

You can also take uncrystallised funds pension lump sums (UFPLS), with each withdrawal typically comprising 25% of the fund, which is paid tax-free (if it is within the individual's Lump Sum Allowance), and 75% taxable income. Taking your entire pension as a lump sum is another option, but the taxable portion could push you into a higher Income Tax band.

WHY TIMING MATTERS

Taking a large withdrawal in a single tax year could increase your Income Tax bill by pushing more of your income into a higher tax band. Spreading withdrawals across tax years may therefore be more tax-efficient, depending on your circumstances.

It is also important to consider other income, including salary, the State Pension, investment income and rental income. These can all affect your overall tax position and the amount of pension income you can take without moving into a higher tax band.

WATCH THE CONTRIBUTION RULES

If you continue contributing to a defined contribution pension after accessing any defined contribution pension flexibly, the Money Purchase Annual Allowance (MPAA) applies. For 2026/27, the MPAA is £10,000, which may limit the amount you can contribute efficiently.

The standard annual pension allowance is £60,000, though this can be reduced for some higher earners. Understanding these rules is particularly important if you plan to take pension benefits while still working. n

GET ADVICE BEFORE WITHDRAWING

Choosing how and when to access your pension can have long-term consequences. The right approach will depend on your income needs, tax position, investment strategy, health, other assets and how long you expect your money to last.

If you are considering pension drawdown and would like to understand the tax implications or compare the ways to access your pension, please get in touch.

A PENSION IS A LONG-TERM INVESTMENT THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION. HM REVENUE AND CUSTOMS PRACTICE AND THE LAW RELATING TO TAXATION ARE COMPLEX AND SUBJECT TO INDIVIDUAL CIRCUMSTANCES AND CHANGES WHICH CANNOT BE FORESEEN. THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAX PLANNING.

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