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Taking money from your pension

From age 55 (rising to 57 from April 2028) you can normally access defined contribution pensions. The freedom is real — and so are the traps. This guide covers the main routes and what each one commits you to.

The headline rule: 25% tax-free

You can usually take 25% of your pension tax-free, up to a lifetime cap of £268,275 (the Lump Sum Allowance). The remaining 75% is taxed as income when you draw it — which means *when* and *how fast* you take money determines how much tax you pay overall.

The main routes

- **Flexi-access drawdown** — take your tax-free cash, leave the rest invested, and draw an income as needed. Flexible, but the pot can run out if markets fall or withdrawals are too high.
- **Annuity** — exchange some or all of the pot for a guaranteed income for life. Less flexible, but removes the risk of outliving your money; rates have improved markedly in recent years.
- **Lump sums (UFPLS)** — take chunks directly from the pot, each one 25% tax-free and 75% taxable.
- **Mix and match** — many people combine routes, for example securing essentials with an annuity and keeping the rest flexible.

Two tax traps almost everyone meets

Emergency tax: the first flexible withdrawal is often taxed on an emergency basis, taking far more than is actually due — reclaimable, but a nasty surprise if you needed the full amount.

The MPAA: taking taxable income flexibly triggers the Money Purchase Annual Allowance, slashing the amount you (and an employer) can pay into pensions from £60,000 to £10,000 a year — permanently. A serious issue if you might want to keep working and contributing.

Watch out for…

- Taking the tax-free cash just because you can — once out, it loses tax-free growth and may sit in your estate.
- Triggering the MPAA before you have finished building your pension.
- Drawing large amounts in a single tax year and paying 40% where careful phasing could have meant 20%.
- Pension scams — anyone contacting you out of the blue about "unlocking" or "reviewing" your pension.

How taking advice might help

This is the decision where mistakes are hardest to undo. Once tax-free cash is out, it loses its wrapper; once the MPAA is triggered, it stays triggered; once income is drawn in the wrong tax year, the extra tax is gone.

A modelling exercise — which routes deliver what you need with the lowest lifetime tax bill — tends to be one of the highest-value pieces of pension work anyone does. It typically pays for itself many times over.

Questions worth asking yourself

- What do you actually need the money for — income, a one-off cost, or simply reassurance?
- Could spreading withdrawals across tax years cut your tax bill substantially?
- Might you want to contribute to a pension again later — and does the MPAA change your plan?

• How would your income cope if markets dropped 20% in your first two years of drawdown?

Want to talk it through?

Send your question via pensionhelper.com — you'll get a straight answer within 24 working hours. Free to ask. Fixed-fee guidance from £99 when it's worth doing the numbers properly. A regulated adviser introduction when it's genuinely warranted.