



Case Studies – Example retirement scenarios

1 Taking your entire pension pot as cash

You have the option of taking your entire pension pot in cash as a single cash lump sum.

25% of this will usually be tax-free but the rest will have tax deducted as income.

Taking money from your pension pot could increase the tax you pay on any income that you receive in the same tax year. This means you might be required to pay a higher rate of income tax than you would otherwise usually pay. This may also mean you have to complete a self-assessment tax return.

Example:

Elizabeth has decided that she would like to take all the money from her pension pot as cash. She doesn't want to stop working yet, but she has some debt that she would like to pay off before she starts making plans for her retirement.

Her pension pot is worth £20,000, which means Elizabeth can take £5,000 as a tax-free lump sum to help pay off her outstanding debts.

The value of her pension pot after taking her tax-free cash is £15,000. This will be added to her other taxable income, in order to work out the level of income tax she will have to pay on this amount.

A 'personal allowance' is the amount of money you can earn before you have to start paying tax. This is currently £12,500 for most people, including Elizabeth.

Here's how that breaks down:

Value of Elizabeth's pension pot (after tax-free cash)	£15,000		£33,000
Elizabeth's employment income	£18,000	Minus the personal allowance	£12,500
	£33,000	Total taxable income	£20,500
		Income tax payable	£4,100

Elizabeth's total taxable income is £20,500, which means she is subject to basic rate tax of 20% on her income from all sources. This means she will pay £4,100 tax on her remaining pension savings.

Note: This will be deducted at the emergency tax rate, however, HM Revenue & Customs will refund the difference at the end of the tax year or Elizabeth could apply for the refund sooner if she wants to. However, it means that the amount of tax deducted initially is more than £4,300 until the refund or adjustment is made.



All figures shown are calculated for the 2020/2021 tax year.