Factsheet 91

Pension Freedom and benefits

June 2023

About this factsheet

Changes to how you can use funds in your occupational or private pension were made in 2015

3 Pension choices

Essentially, there are six choices open to you when considering what to do with a defined contribution pension pot:

Leave your pension pot untouched – i.e. it remains invested

Seek a secure or guaranteed income for life – usually called an '*annuity*'

Seek an adjustable income – often called a '*drawdown*'

Take money in chunks – known as '*Uncrystallised Funds Pension Lump Sum*'

Cash in the whole pot – usually subject to tax

3.3 Seek an adjustable income (‘*flexi-access drawdown*’)

You can take 25 per cent of your pot as a single, tax-free cash sum. The other 75 per cent stays invested to give a regular, taxable income. You can decide what income you take and when you take it. Not all providers offer this option and if you decide to transfer funds to a provider who does, you may be charged a fee for this.

4 Tax

The general rule is you can take up to 25 per cent of your pension pot tax free. The remainder is subject to your usual marginal tax rate. This is the highest rate of income tax you are liable for in a financial year.

Be careful deciding when to take money from your pension pot as it counts as part of your income for that tax year. It may move you to a higher tax band, so you pay more tax and receive less money overall.

Example

Debra earns £10,000 a year from part-time work. She decides to top

5.1 Income

Any regular income you receive is usually taken into account when calculating entitlement. If you buy an annuity paying a weekly, monthly, or annual income, the amount is taken into account, according to the means-test for that benefit or tax credit. You may be paid less, or no, benefit as a result and may be no better off than before.

Case study – seek a secure income

John is 57 years old and lives with his wife Nora. John is paid £918.82 a month Universal Credit for him and Nora. This includes their monthly rent of £340.

John has £30,000 in his pension pot, which he uses to buy an annuity paying £130 a month. This is taken fully into account as income so Universal Credit is reduced to £788.82

If you are a couple where one of you has reached State Pension age and that person decides to leave their pension pot untouched, the DWP include '*notional income*' in the assessment of the above benefits. This is an amount equivalent to the income you would have received if you had bought an annuity with the pension pot. See section 6.1.

5.2 Capital

If your pension pot remains untouched and you are below State Pension age, its value is ignored as a capital asset. However, if you take a lump sum from your pension pot, as partial drawdown or the whole amount, it is treated as capital in the means-test.

This may mean your entitlement is reduced or removed.

5.2.1 Capital limits

The capital limits are as follows. The *upper limit* is £16,000 – if your capital assets exceed this amount, you are not entitled to working age benefits, regardless of your income. The *lower limit* is £6,000.

If you have more than £6,000 but less than £16,000, you are assumed to receive an income from your capital assets. This is calculated through '*tariff income*'. For every £250 above £6,000, you are assumed to receive £4.35 a month in tariff income for UC or £1 a week otherwise.

You can claim HB and CTR with PC, or on their own. If you are entitled to PC Guarantee Credit, you are automatically entitled to maximum HB and CTR if you have rent and Council Tax liability. Your income and capital are not taken into account again when assessing entitlement to HB and CTR, if you are entitled to PC as well.

If you claim HB or CTR without a PC award in place, different rules apply on how income and capital are taken into account. These rules are not covered in this factsheet, seek specialist advice if this applies to you.

This section covers PC Guarantee Credit. It does not cover PC Savings Credit, which is not payable for people reaching State Pension age after 6 April 2016.

6.1 Capital

For PC, there is no upper capital limit. There is a lower capital limit of £10,000. Any capital you have less than £10,000 is disregarded entirely.

If you have over £10,000, you are treated as having a weekly '*deemed*' income of £1 for every £500 (or part of £500) over the £10,000 limit.

Example
Aziz has £15,000 in savings and £2,750 in premium bonds. He is treated as having capital of £17,750. This is £7,750 over the lower capital limit of £10,000.

He is treated as having deemed income of £16 a week (16 lots of £500 or part of £500 above £10,000).

If you withdraw your entire pension pot in one go, the deemed income rules apply.

Case study – take the whole lot
John and Nora reach State Pension age and he takes his £30,000 pension pot in one go. He puts £26,000 (after tax) into a savings account. He receives a State Pension of £203.85 a week. Their

Case study – seek an adjustable income

John takes a 25 per cent drawdown from his £30,000 pension pot, equal to £7,500 and invests the remaining £22,500 in an annuity paying £22.50 a week. John receives State Pension of £203.85

Case study - deprivation may not have occurred

John draws down the whole £30,000 pension pot. He has two unsecured

7.3 Diminishing capital

If notional capital rules are applied to a working age benefit claim, the amount of notional capital is reduced every 13 weeks by the amount of benefit you would have received if these rules had not applied.

If you have notional capital rules applied to a Pension Credit claim, the amount of notional capital is reduced each week by the amount of Pension Credit you are losing.

Seek expert advice if you are affected from Age UK Advice, Age Cymru Advice or Citizens Advice. DWP guidance on diminishing capital:

for **working age benefits** from paragraph 29900 onwards at www.gov.uk/government/uploads/system/uploads/attachment_data/file/470848/dmgch29.pdf; and

for **pension age benefits** from paragraph 84861 onwards at www.gov.uk/government/uploads/system/uploads/attachment_data/file/515170/dmgch84.pdf

See the following case study for how these rules should work in practice.

8 Social care and deprivation

There are similar rules around deprivation of capital and income if you receive social care services funded by your local authority, whether at home or in residential care, or you may need these services in the future.

For more information, see factsheet 40, *Deprivation of assets in social care*

9 Scams

There are criminals taking advantage of these freedoms by tricking you into cashing in your pension pot and giving them your money to invest. Pension scams are serious as you could lose some, if not all, of your pension savings, or end up with a large tax bill (there can be high charges if you withdraw your pension savings early).

If you think you have been scammed or someone tries to scam you, report it to Action Fraud online or call 0300 123 2040 (in Scotland, report it to Police Scotland).

If you are considering investing your pension pot, talk to an adviser regulated by the Financial Conduct Authority (FCA). Check the FCA register of firms online and find an Independent Financial Adviser through the Money Helper website www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser

9.1 How to spot a pension scam

Fraudsters try different ways to persuade you to part with your pension cash, from promising opportunities that are simply too good to be true to giving you false information. They might:

claim to know loopholes to get more than the usual 25 per cent tax-free

offer high returns of over eight per cent from overseas investments, or new or creative investments

offer a loan, saving advance, or cashback from your pension

suggest you put all your money in a single investment (most financial advisers suggest spreading your money in different schemes)

send paperwork to your door by courier requiring an immediate signature

claim they can help you access your pension pot before the age of 55 (unless you are seriously unwell or have a certain type of scheme, this is not legally possible).

If you plan to take your pension early, check whether there are penalties for doing so. If it is a workplace pension, you may need your employer's agreement to do so.

Other signs you are being scammed

If you answer yes to any of these, you may be being scammed:

Were you contacted out of the blue, over the phone or on your doorstep?

Did you respond to an advert offering a free pension review?

Are you being pressured into making a quick decision?

Are the firm's only contact details a mobile phone number or a PO box address?

Has the firm told you that you cannot call them back?

Never be fooled by an impressive website offering advice. Instead, visit the Pension Wise website for free and impartial guidance on your pension options. They never contact you out of the blue and they have only one website. You can register your interest for an over-the-phone or face-to-face appointment.

For more information about Independent Financial Advisers, see section 12 of factsheet 43, *Getting legal and financial advice*.

For more information, see:

Age UK information guide *Avoiding scams*

Age Scotland guide *Avoiding scams*, or

Useful organisations

Action Fraud

Pensions Ombudsman (The)
www.pensions-ombudsman.org.uk
Telephone 0800 917 4487

Independent organisation dealing with complaints about private and occupational pension schemes.

Pension Service (The)
www.gov.uk/contact-pension-service
Telephone 0800 731 0469
State Pension Forecasting Team 0800 731 0175

For details of state pensions, including forecasts and how to claim your pension.

Pension Wise
www.moneyhelper.org.uk/en/pensions-and-retirement/pension-wise
Telephone 0800 138 3944

Free and impartial government service, through Citizens Advice offering information and guidance about defined contribution benefits.

Police Scotland Fraud
www.scotland.police.uk/advice-and-information/scams-and-frauds/
Telephone 101

To report fraud and any other financial crime in Scotland.

Society of Later Life Advisers (SOLLA)
http://societyoflaterlifeadvisers.co.uk
Telephone 0333 2020 454

SOLLA aims to assist consumers and their families in finding trusted accredited financial advisers who understand financial needs in later life.

Tax Help for Older People
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