JUST.

NEWS RELEASE

Wednesday 9th November 2022

As the number of full pension withdrawals soars, Just Group asks: Are you letting HMRC enjoy your retirement?

- **Tot up your tax before pulling your pension, retirement specialist Just Group warns**
- **Thousands each month emptying large pension pots, triggering significant tax bills**

More pensions were fully withdrawn in 2021/22 than in any previous financial year, raising concerns that each month many thousands are being stung for unnecessary tax.

Data from the Financial Conduct Authority[1] shows that 395,237 pensions were accessed and emptied in 2021/22, nearly 16% higher than the previous year and the highest recorded since full withdrawal became an option following the pension 'freedom and choice' reforms of 2015.

Analysis of the FCA's figures by **retirement specialist Just Group** highlights the increasing number of people fully withdrawing significant pension pots which can result in a sizeable tax bill, not just for wealthy people but for those with more modest pension pots who may get caught out by the rules.

- ***41,819 pensions fully withdrawn were worth more than £30,000 including…***
- 24,158 – more than 2,000 withdrawals each month – valued at £30,000-£50,000
- 14,085 – another 1,000+ withdrawals each month – valued at £50,000-£100,000
- 3,043 valued at £100,000-£250,000
- 533 valued at more than £250,000

"About one in nine of pensions accessed for the first time and fully withdrawn were sufficiently large that alarm bells over tax should be ringing," said **Stephen Lowe, group communications director at Just Group**.

"That concern is reinforced by the fact than six out of 10 of these large pots were taken without the benefit of professional advice or even the use of the free, independent and impartial guidance offered by Pension Wise.

"With so many making big decisions on their own, how confident can we be these will turn out to be in the long-term interests of savers? Even simple strategies could have potentially cut thousands of pounds off these tax bills."

Earnings in excess of the personal allowance are subject to income tax at either the 20% basic rate, 40% higher rate or 45% additional rate (note that rates are different in Scotland and for savings and dividend income). Payments from pensions are not subject to a deduction for National Insurance.

A basic rate taxpayer earning £30,000 a year could expect, in the year they take the pension, to pay:

- £3,486 income tax with no pension withdrawal.
- £8,432 income tax after a £30,000 pension withdrawal (of which £22,500 is taxable income)
- £14,432 income tax after a £50,000 pension withdrawal (of which £37,500 is taxable)

A higher rate taxpayer earning £60,000 a year could expect to pay tax:

- £11,432 income tax with no pension withdrawal.
- £26,432 income tax after a £50,000 pension withdrawal (of which £37,500 is taxable)
- £46,460 income tax after a £100,000 pension withdrawal (£75,000 of which is taxable)

“There are some tripwires to watch out for but also some easy steps to take to ensure you don’t get surprised and tax is minimised,” said Stephen Lowe.

“An obvious problem is taking a pension lump sum in the same tax year that you are already receiving other taxable income which could include earnings, State or other pension, and redundancy payments above the tax-free threshold.

“This is compounded if taking the pension pushes your income for the year into a higher tax band, so you end up paying 40% instead of 20% tax, for example, or if it pushes you into above the £100,000 threshold that triggers withdrawal of the personal allowance.”

He said that there were several key strategies to minimise the tax:

- Only take what you need – the rest can continue growing tax-free in the pension.
- Think about withdrawing lump sums in tax years when other taxable income is low or zero – for example, wait until the tax year after you retire to withdraw major amounts.
- Consider splitting pension withdrawals over two tax years (or more).

“Even if you have no other income, taking a £50,000 pension lump sum will land you with a £4,986 tax bill in that tax year. If you instead took £25,000 a year split over two tax years, income tax would be £1,236 each year or a total of £2,472 – that’s more than half as much tax paid as taking it in one lump sum,” said Stephen Lowe.

“You don’t necessarily have to wait 12 months between payments either. You could take the first lump sum just before the tax year end on April 5th and the second in the new tax year starting April 6th – waiting just a couple of days could save you more than £2,500 tax.”

<u>**Example income tax calculations with pension withdrawals. Non-taxable income includes the Personal Allowance of £12,570 in 2022/23 (* denotes tapering) plus 25% pension tax free cash.**</u>

Individual (normally a non-taxpayer) withdrawing a pension lump sum					
Non-pension income	Pension withdrawal	Non-taxable income	Taxable income	Income tax payable	Income tax as proportion of taxable income
£0	£30,000	£20,070	£9,930	£1,986	20%
£0	£50,000	£25,070	£24,930	£4,986	20%
£0	£100,000	£37,570	£62,430	£17,432	28%
£0	£250,000	£62,500*	£187,500	£69,335	37%

Individual (normally a basic rate taxpayer) with £30,000 a year income withdrawing a pension					
Non-pension income	Pension withdrawal	Non-taxable income	Taxable income	Income tax payable	Income tax as proportion of taxable income
£30,000	£0	£12,570	£17,430	£3,486	20%

£30,000	£30,000	£20,070	£39,930	£8,432	21%
£30,000	£50,000	£25,070	£54,930	£14,432	26%
£30,000	£100,000	£35,070*	£94,930	£30,432	32%
£30,000	£250,000	£62,500*	£217,500	£82,835	38%

Individual (normally a higher rate taxpayer) with £60,000 a year income withdrawing a pension					
Non-pension income	Pension withdrawal	Non-taxable income	Taxable income	Income tax payable	Income tax as proportion of taxable income
£60,000	£0	£12,570	£47,430	£11,432	24%
£60,000	£30,000	£20,070	£69,930	£20,432	29%
£60,000	£50,000	£25,070	£84,930	£26,432	31%
£60,000	£100,000	£25,000*	£135,000	£46,460	34%
£60,000	£250,000	£62,500*	£247,500	£96,335	39%

Enquiries

Media

Stephen Lowe, Group Communications Director

Lucy Grubb, Head of Media & PR

Telephone: +44 (0) 1737 827 301
press.office@wearejust.co.uk

Temple Bar Advisory

Alex Child-Villiers
William Barker
Sam Livingstone

Telephone: +44 (0) 20 7183 1190

Notes to Editors:

About the research

1 – FCA, Retirement income market data 2021/22: https://www.fca.org.uk/data/retirement-income-market-data-2021-22

About Just

Just (Just Group plc) is a FTSE-listed specialist UK financial services company.

A leader in the individual retirement income, care and defined benefit de-risking markets, Just has been trusted to manage around £23 billion of customers' retirement savings and has helped customers release more than £6 billion from their properties.

Just provides the following wide range of products, advice and professional services to individual customers, financial intermediaries, corporate clients and pension scheme trustees:

Marketed Products

- De-risking solutions for pension scheme trustees who want to remove the financial uncertainty of operating defined benefit pension schemes;
- Individually underwritten retirement income products delivering a guaranteed income for life;
- Long term care plans that provide those people moving into residential care with peace of mind by knowing a regular payment will be made to the care provider for the rest of their life;

- Lifetime mortgages for people who want to safely release some of the value from their home.

Professional services

- Regulated financial advice and guidance services for individuals wanting help in using their pension savings and/or releasing some of the value from their home; and
- A range of business services tailored for our corporate clients, ranging from consultancy and software development to fully outsourced customer service delivery and marketing services.

The companies within Just Group are authorised and regulated in the United Kingdom by the Financial Conduct Authority and / or the Prudential Regulation Authority.

www.justgroupplc.co.uk

@wearejust_pr