Pension Withdrawals: The Risks Of Too Much Too Young!

by Leanne Watkins, Paraplanning Manager

As you approach retirement, most people are keen to make sure they are maximising what's likely decades of savings that will be used to enjoy the years when you no longer have to work.

However, with an increase in the state pension age between May 2026 and March 2028 and along with an ageing population, preserving as much as possible of your private pensions has never been more important, otherwise you may find yourself having to answer the question

What are you willing to give up to ensure you have sufficient resources to live a comfortable life?

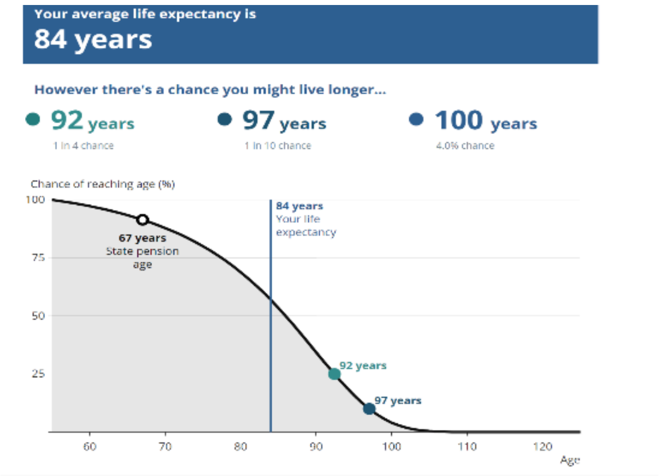
That's where a little knowledge and a great financial plan can help towards avoiding discussions about having to give up those items of luxury that you have worked so hard for.

However, taking too much income from pensions at too young an age can have serious long-term consequences on retirement security.

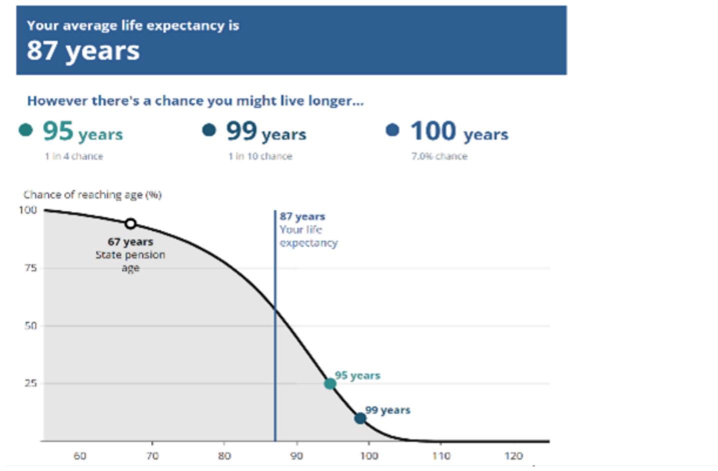
The core principle of a pension is to provide a steady income during retirement when regular employment income may be limited or non-existent. If you withdraw too much too early you run the risk of depleting pension funds whilst you are alive and in need of the income. This can leave you financially vulnerable in later years when you may need the funds the most. The average life expectancy of a man and woman will surprise you:

ONS Life Expectancy

55 Year Old Male Today



55 Year Old Female Today



PLEASE NOTE: State Pension ages are approximate. For your actual State Pension age, please refer to the State Pension age timetable.

As you will see from the charts,[1] 1 in 4 men are likely to live until they are 92 and 1 in 4 women are likely to live until they are 95. Based on a study by the Health Foundation,[2] there is evidence to show that those with the highest income tend to live considerably longer, so it is therefore, crucial to carefully plan and manage pension withdrawals to ensure a financially stable future.

Another reason is that taking too much out of your pension early can result in higher taxes and penalties. Withdrawals from a pension are typically subject to income taxes, and if you take a large sum out at once you may find yourself in a higher tax bracket, resulting in a larger tax bill.

You may also miss out on the power of compounding. Leaving your money invested in your pension allows it to grow over time through returns on your investments, dividends, and interest. The longer your money remains invested, the more it can potentially grow, helping to provide more financial security in retirement and to protect your money from the effects of inflation, which can affect not only what you can afford today, but what you can afford in the future.

For example, if you withdrew £1,000* out per month, assuming an inflation rate of 3% the real value (or buying power) over the time periods shown would be:

5 Years - £862.61

10 Years - £774.09

15 Years - £641.86

20 Years – 553.68

*Please note that this figure is a generic example of a withdrawal and is intended to illustrate the impact of inflation only.

Determining how much to withdraw from your pension each year in retirement can depend on various factors, including your financial goals, expenses, life expectancy, investment returns, and any potential changes in your circumstances. This is where a personalised cashflow can assist in determining a sustainable level.

It is essential to review and adjust your withdrawal rate periodically based on changes in your financial situation, investment performance, and any unexpected expenses that may arise. Additionally, consider factors like your desired lifestyle in retirement, other sources of income, healthcare costs, and future long-term care needs when determining your withdrawal rate.

Consulting with a Nugenis Financial Planner can help you assess your individual circumstances, create a retirement income plan, and determine a withdrawal strategy that aligns with your financial goals and needs taking into account the above points. Planning ahead and regularly reviewing your retirement plan are essential if you want to ensure that you have enough money to support your desired lifestyle throughout your retirement years which, as we know, is something we all want.

[1]https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/articles/lifeexpectancycalculator/2019-06-07
[2]https://www.health.org.uk/evidence-hub/money-and-resources/income/relationship-between-income-and-healthy-life-expectancy-by-local-authority