Pension flexibility two years on – the report card

The Financial Conduct Authority (FCA) has examined the impact of pension flexibility and is worried about the lack of advice.

Pension flexibility came into effect in April 2015. In theory, since then it has been possible from age 55 onwards to withdraw your entire money purchase pension fund as a lump sum, albeit generally 75% would be taxable as income. When the proposals first emerged there were concerns expressed that the temptation to take a pot of cash and spend it would be too great for many. The FCA has been examining what has actually happened since 2015 and in July published an interim report on its findings.

The FCA found that over half of the pension pots accessed since April 2015 had been withdrawn in full. While this grabbed the headlines, it does not tell the whole story: 60% of those pots were worth less than £10,000, while another 30% were below £30,000. That does not suggest the worries about people blowing their pension funds on a new Lamborghini have been realised. Indeed, the opposite seems to have happened: over half of those who fully cashed in their pension reinvested the proceeds in other savings or investments. However, as the FCA noted, such a move can "…give rise to direct harm if consumers pay too much tax, or miss out on investment growth or other benefits".

Bypassing advice

That danger highlights another FCA concern: that many people are failing to take advice about their pension flexibility options. In the FCA's words, they are choosing "the path of least resistance" and opting for drawdown with their existing pension provider. The regulator says that the lack of shopping around this implies "may result in [the unadvised] achieving poorer deals".

If you are considering drawing money from any pension arrangement, you should pay heed to the FCA's emphasis on the benefits of shopping around and taking advice. DIY pension planning can turn out to be an expensive option, even if at first sight it looks the easiest.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice. The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.