Pensions freedom: taking too much or too little

New statistics have been published showing just how much has been withdrawn in the first year of pensions freedom.

In August, the Association of British Insurers (ABI) published data showing how much had been withdrawn from pension arrangements in the 12 months to April 2016, the first year in which the pension flexibility reforms introduced by George Osborne had full effect. In total:

- £4.3bn was paid out in 300,000 lump sum payments, with an average payment of £14,500; and

- £3.9bn was extracted via 1.03m drawdown payments, with an average payment of £3,800.

The headline of the press release from the ABI said “Majority take sensible approach, but signs some withdrawing too much too soon”. Indeed, the ABI statistics showed that in the first quarter of 2016, over half of all withdrawal rates were less than 1%, whereas fewer than 1 in 23 had withdrawal rates of 10% or more.

Perhaps unsurprisingly, the media took a rather different approach, with headlines such as “Insurers warn that some people may be plundering pension pots too soon, raising concern money will run out”

There is no doubt that for some people, the money will run out, but that is not necessarily a disaster. What is forgotten in this welter of numbers is that pension flexibility means just that and it can be used in a variety of ways. For example, if you have final salary pension which starts to pay out at age 65, but you choose to retire at 60, you could bridge the five-year income gap by running down your other pension savings over that period.

One point is crucial however, and that is expert advice. The level of withdrawals needs to be tailored to your personal circumstances and its appropriateness reviewed regularly. Although the possibility is not often considered, those who take too cautious an approach to withdrawals can end up suffering a lower living standard than they could have enjoyed. Their heirs may benefit, but is that what they wanted? Advice can help mitigate such situations.

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. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.