PENGUIN



Should I Spend My Pension First Now?

Why the April 2027 changes do not automatically mean turning your Financial Plan upside down

For years, many people were told some version of this: Spend the ISA. Spend the Investments. Leave the Pension until last.

There was logic behind it. Pensions had attractive Tax treatment and, in many cases, unused Pension wealth could pass outside the Estate for Inheritance Tax.

From April 2027, that second part changes.

So should everybody now reverse the order and spend the Pension first?

No. Or, more accurately: not necessarily.

General information only. This is not personalised Financial Advice or Tax advice. The right withdrawal strategy depends on individual circumstances.



1. The old rule of thumb had a reason

A Pension is not simply a savings account with a different label. Money inside it can grow in a Tax-advantaged environment, withdrawals have their own Income Tax treatment and historically the Estate Planning treatment made preserving Pension wealth attractive for some families. So using ISAs, cash or taxable Investments before drawing heavily from a Pension could make sense.

But a rule of thumb is not a Financial Plan. Even before 2027, the best withdrawal order depended on income needs, Tax bands, Investment risk, allowances, family circumstances and what the money was ultimately for.

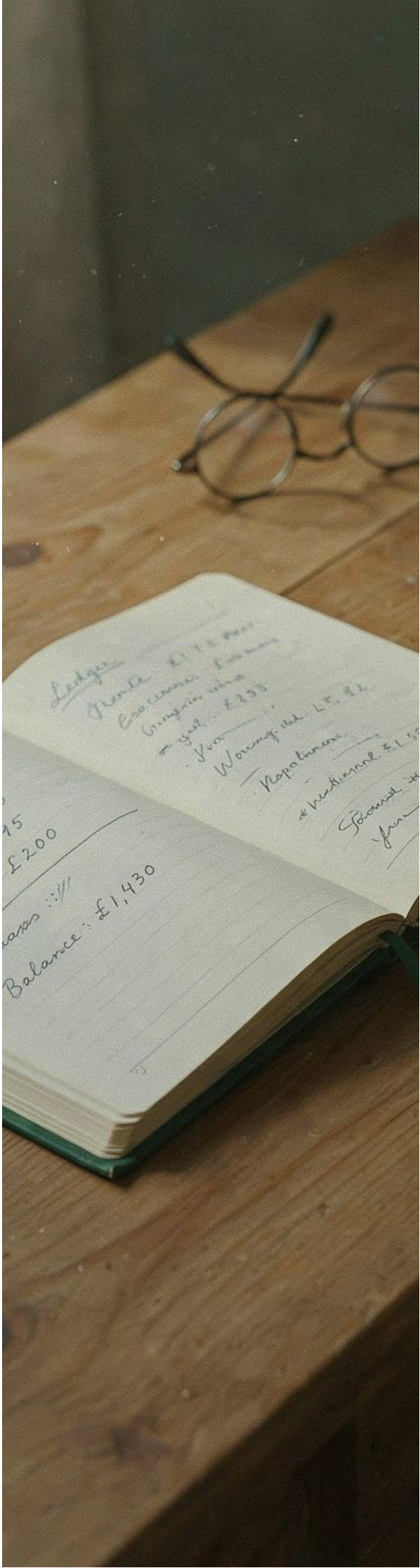
2. What changes in April 2027?

For deaths from 6 April 2027, most unused Pension funds and relevant Pension death benefits will be included in the Estate for Inheritance Tax. That removes one of the reasons some families deliberately preserved the Pension for as long as possible.

It does not remove all the other reasons. And it certainly does not mean the Pension suddenly becomes the worst place to hold money.

The temptation

> If a Pension may face Inheritance Tax later, it can feel logical to withdraw it now. But what happens next matters more than the withdrawal itself.



3. Taking money out does not make it disappear

Imagine you withdraw £50,000 from your Pension. Depending on your circumstances, some or all of that withdrawal may be taxable as income. You then put the remaining money into your bank account and leave it there.

1

Pension Withdrawal

You take money out of your Pension.

2

Income Tax

Some or all may be taxable as income depending on your circumstances.

3

What happens next?

Spend it · Gift it · Invest it · Bank it

The better question

What is the money going to do after I withdraw it? Fund the lifestyle I actually want? Be gifted to family? Pay for a major purchase? Move into another planning structure where appropriate? Sit in cash indefinitely? The destination matters.

What have you achieved? Potentially, you have paid Income Tax to move money from one asset in your Estate to another asset in your Estate. That may still be sensible for other reasons. But it is not automatically an Inheritance Tax strategy.

4. Your Financial Plan has more than one Tax

A strategy designed only around Inheritance Tax can accidentally create more Income Tax. A strategy designed only around Income Tax can leave more wealth exposed to Inheritance Tax. A strategy designed around neither can leave you short of money later.

> This is why Financial Planning is a balancing exercise rather than a Tax-minimisation competition.

Things that need to work together

- Pension withdrawals and Income Tax
- ISA withdrawals
- Taxable Investments and Capital Gains Tax
- Cash reserves
- Gifting
- Retirement income
- Future care or later-life needs
- Investment risk
- Estate Planning
- The lifestyle you actually want

5. Three people, three different answers

Same legislation. Different Financial Plans.

Person A: needs the Pension for Retirement

Their Pension is a major part of the income they expect to need over the next 25 years. Draining it early to reduce a possible future IHT bill could compromise their own Financial Independence.

Likely answer: security first.

Person B: has more than they are likely to spend

Cashflow modelling shows substantial surplus wealth even under cautious assumptions. They may reasonably explore drawing more, spending more, gifting or changing how different assets are used.

Likely answer: there may be planning opportunities, but model them.

Person C: withdraws it and leaves it in the bank

They pay Income Tax on withdrawals but make no gifts and do not increase spending. The cash remains in the Estate.

Likely answer: they may have created Tax without solving the problem they thought they were solving.

6. What about spending more?

> This may be the most underused Estate Planning strategy of all. If your Financial Plan shows you have more than enough, you are allowed to enjoy it.

Travel. Experiences. Family time. The kitchen you keep putting off. The ridiculous upgrade on the holiday that you will remember for years.

Spending purely to avoid Tax is not much of a life philosophy. But refusing to spend money you can comfortably afford because you are determined to preserve the maximum inheritance can be equally questionable.

The purpose of building wealth was presumably not to become its full-time security guard.





7. What about gifting?

If you have more than you need, lifetime gifting can also become part of the conversation. That might mean helping children or grandchildren with a first home, education, childcare, a wedding, a business or simply something that matters now.

There are Inheritance Tax exemptions that can apply to certain gifts, and larger outright gifts can potentially fall outside the Estate if the relevant conditions are met and sufficient time passes.

> But Tax comes second to affordability. Once an outright gift has genuinely been made, you should plan on the basis that the money is no longer yours.

The first question is not 'How much can I give away?' It is 'How much can I give away and still live my own life with confidence?'

8. A better withdrawal framework

Instead of asking which pot comes first, ask these questions in order:

01

What do I need?

How much income and capital do I need to live the life in the plan?

02

What is each pot good at?

Consider Tax treatment, accessibility, Investment strategy, guarantees and Estate Planning.

03

What Tax am I creating today?

Model Income Tax and Capital Gains Tax rather than looking only at future IHT.

04

What happens to money I withdraw?

Spend it, gift it, invest it elsewhere or leave it sitting in the Estate?

05

What happens if I live to 95?

The plan has to survive you surviving.

06

What do I actually want the money to do?

Security, experiences, family help and legacy may all matter.



Your "Should I Spend the Pension?" checklist

- [ ] I know whether my Estate is likely to have an IHT problem after April 2027.
- [ ] I know how much of my Pension I may need for my own Retirement.
- [ ] I understand the Income Tax cost of taking larger withdrawals.
- [ ] I know what I would actually do with money withdrawn.
- [ ] I have modelled using ISAs, Investments and Pensions in different orders.
- [ ] I have considered lifetime gifting only after testing affordability.
- [ ] I have allowed for living longer than expected and later-life costs.
- [ ] I am making the decision because it improves my overall plan, not because of one headline.

The answer

Should you spend your Pension first now? Maybe. For some people, drawing more Pension will become sensible. For others, preserving it will still make sense. For many, the answer will change gradually over time.

> The rule changed. Your life did not suddenly become a rule of thumb.

Penguin Perspective

Tax is a cost, not the purpose

There is a strange thing that can happen when people become successful at building wealth. They spend decades creating choices, then become frightened to use them. The conversation becomes entirely about preserving the biggest possible number for the Estate. That is not automatically good Financial Planning.

Protect future you

Your plan should protect future you.

Allow present you

It should allow present you to enjoy life.

Pass wealth thoughtfully

And it should help you pass wealth on thoughtfully where that matters to you.

The best withdrawal strategy is the one that balances all three. Not Pension first. Not Pension last. Plan first.



PENGUIN

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