

What income can I safely withdraw from my Pension?

Until the recent pension freedoms were announced, pension income options were very limited. For those that chose a traditional annuity the rate of return was set at outset and for clients in "Drawdown" the government set maximum withdrawal rates.

Even with the old restrictions, some Drawdown clients have done serious damage to their pension pots that will impact their future incomes.

The new rules have opened Pandora's Box and unless managed carefully they will result in some clients running out of money. In Australia where flexibility has been available for some years, apparently, 25% run out of money at age 70 and 40% by age 75 due to unsustainable withdrawals.

Average life expectancy in the UK is now 83 males - 86 females. This is the overall average and for those that live in more affluent areas i.e. around here, the norm is 89 males - 93 females.

So what is a safe withdrawal percentage? William Bengen in 1994 calculated that 4% ignoring charges was relatively sustainable. This year an analysis by Morning Star reduced the rate to 2.5% (assumes 1% portfolio fee). In America income withdrawals are running at an astounding 8%! At this rate with no growth £100,000 disappears in 12 years

You need a large pension pot for 2.5% to generate a worthwhile income. Fortunately, most clients we meet have a variety of pensions and other capital assets, taking the pressure off the Drawdown plan as the sole means of providing income.

Planning is everything at the start of the retirement journey. If it is possible to guarantee clients essential living costs through the use of other pensions such company and state pensions and/or annuities, it can provide the freedom to manipulate the Drawdown plan to suit their needs.

So what is a safe amount you can withdraw? Well there is no "Safe" amount because any amount could be too much if your investments fail!

Lifestyles vary and how your other assets can interact with your drawdown pension will determine the optimum level of withdrawal for your personal circumstances. The optimum level will change as your circumstances and investment returns will alter throughout retirement, hence the need to review your finances regularly.

Retirement for most is an emotional experience; having a helping hand from an experienced IFA to guide you through the complex financial decisions initially and ongoing can take away the worry and let you concentrate on your retirement!

