

An introduction to _____



Pension _____

choices

Navigate the new freedoms
with confidence

Introduction



Retirement planning looks very different today than it did even ten years ago. With shifting rules and greater freedoms, there are more ways to shape your future than ever. A clear understanding of your options can help you make plans that are aligned with the life you want to lead. This guide helps you navigate those choices with confidence.

Freedom brought choice – but also challenges

When pension freedoms arrived in 2015, they changed how people could use their pension pots. But this came at a time when many defined benefit schemes (where your pension is based on your salary and years of service) had closed or frozen, and the Pension Protection Fund was dealing with schemes that couldn't pay what they'd promised. Higher earners who might have joined generous final salary schemes now faced a different reality – they'd be in defined contribution schemes where their pension depends on investment performance, not their final salary. This meant making important decisions about how much to save, and it marked the end of the guaranteed pension security many high earners once enjoyed.

Meanwhile, in the world of entrepreneurs

Not all high earners work within large organisations. Many are executives or directors of long-standing family firms, or entrepreneurs running businesses they've built themselves. These companies rarely adopted final salary schemes, with their long-term commitment to paying defined benefits. Instead, they tended to favour defined contribution arrangements such as group personal pensions, where members shoulder the impact if investments underperform.

Much of the innovation in pensions has come from this part of the market. The needs of smaller companies helped drive the rise of small self-administered schemes (SSASs) some 40 years ago, offering a wider choice of investments that appealed to entrepreneurial thinking. The arrival of SIPP (Self-Invested Personal Pensions) in 1989 and stakeholder pensions in 2001 expanded the options further. And from 2012, auto-enrolment brought many more employees into workplace pensions – though it added new costs for employers along the way.

Reforms brought new flexibility

The 2014 Budget marked a major shift in how people with defined contribution pensions could access their money. The government argued that as pensions are built over a lifetime of work, individuals should have the freedom to decide how and when to draw on them. This turned gradual pension evolution into something closer to a revolution, coming eight years after the 2006 'A-Day' reforms, which had tightened limits on tax-relieved contributions and capped pension drawdown (taking an income directly from your pension pot while it remains invested).

From April 2015, anyone aged 55 or over would pay only their marginal rate of Income Tax – 0%, 20%, 40% or 45% – on withdrawals from a defined contribution pension.

The intention behind these changes was clear: to encourage more people to use drawdown (rather than locking into a guaranteed income for life via an annuity) for part or all of their pension pot. For some, it also helped soften the effect of the rising State Pension age.





Annuities versus drawdown

Before 2015, about three-quarters of people with defined contribution pensions bought annuities. These gave you a guaranteed income for life, but they weren't flexible. And if you died early, the money you'd put in could be lost. The government wanted to give people more freedom to keep control of their pension savings and leave them to their family.

Pre-2015, drawdown was mainly used by higher earners. 'Capped drawdown' let you take a limited income from your pot each year, while 'flexible drawdown' let you take as much as you wanted – but only if you already had other guaranteed income. These safeguards stopped people from spending all their savings too quickly and then needing state support. After 2015, people and their advisers had more freedom, but with this came more responsibility for making the right choices.

Recent changes

In 2023, the Chancellor announced several major pension changes. These included abolishing the Lifetime Allowance from 6 April 2024 and increasing both the Annual Allowance and the Money Purchase Annual Allowance. With the Lifetime Allowance gone, the maximum amount of tax-free cash you can normally take is capped at £268,275, unless you hold valid Lifetime Allowance or lump sum protection. There is also a limit on the total lump sums you can take before your marginal rate of Income Tax applies – usually £1,073,100, again unless you have existing protection in place.

These reforms generally give you more flexibility and make it easier to build a larger pension pot without facing unexpected tax charges, something that had affected people with substantial savings or generous final salary benefits.

The choices you face today

Put simply, all your pension options remain open once you reach 55 or over (with the normal minimum pension age rising to 57 from 6 April 2028¹). You can still choose an annuity, and you don't need to use your whole pension pot to do it. For example, you might use part of it to create a steady, dependable income for everyday expenses. Whether or not an annuity features in your plans, income drawdown (taking an income while the rest stays invested) can give you more freedom, letting your income rise or fall as your needs change.

You can also take lump sums. Up to 25% of your pot — or more in certain situations — can normally be withdrawn tax-free. Anything beyond that is treated as income, so it's worth keeping an eye on your total income and tax band each year. And there's no obligation to take anything from your pension at all. If you're still working or have other sources of income, you may prefer to leave your pot invested. If you do, it can be passed on to your beneficiaries with favourable income tax and inheritance tax treatment.

From 2027, however, the rules are changing: pensions will no longer be fully exempt from inheritance tax. This means that, depending on the size of your estate, some of your pension could be subject to inheritance tax when passed on. It's a good idea to review your plans regularly and consider how these changes might affect your long-term goals.

You can continue contributing until age 75, subject to HMRC annual allowances. It's even possible to pay in after 75, although personal contributions won't receive tax relief. Employer payments, however, may still qualify for corporation tax relief.

Viewing the wider picture with us

Pension planning works best when you see it as a long-term journey. Starting early can make a meaningful difference. There are a few key areas to think about — how much you contribute, the tax relief you receive, and the investment choices that feel right for you. It can also be helpful to look at your pension alongside other parts of your financial life. For example, you may choose to place your pension in trust so it sits outside your estate for Inheritance Tax purposes.

Stepping back and considering the bigger picture with our guidance can give you more confidence in your plans and future financial wellbeing.

We're here to help

If you'd like to understand your pension options, make a change, or simply talk through your options, we're always just a call away.

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¹ <https://techzone.abrdn.com/public/pensions/minimum-pension-age-rise-to-57>



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