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INVESTMENT

The Different Ways to Take Tax-Free Cash

In Part 1 of this series we covered the basics of tax-free cash — the 25% rule and the £268,275 lifetime cap. But knowing you're entitled to tax-free cash is only half the picture. How and when you take it can make a meaningful difference to your overall tax position and the longevity of your pension. This article looks at the practical routes available.

When can you access it?

You can normally start taking tax-free cash from age 55, rising to 57 from 6 April 2028. A small number of people have a "protected pension age" that allows earlier access, but this is uncommon. Be wary of anyone offering to unlock your pension before this age — arrangements like this are almost always a scam.

Three main routes

Approach	How it works
Lump sum in one go	Take your full 25% entitlement immediately when you crystallise the pension. Simple, but the remaining 75% moves into drawdown or is used to buy an annuity, and any tax-free cash not spent loses its tax-free status once reinvested outside a pension.
Phased / drawdown	Sometimes called "tailored drawdown" — you take tax-free cash gradually, alongside a taxable income, only crystallising portions of the pot as you need them. This can reduce the taxable income you draw in any one year.
UFPLS (Uncrystallised Funds Pension Lump Sum)	Each withdrawal is automatically split — 25% tax-free, 75% taxed as income — without formally moving the rest of the pot into drawdown first.

Why phasing can be worth considering

Taking your entire tax-free lump sum in one go and investing it outside your pension means that money loses its tax-free wrapper — any future growth or income from it may then be subject to tax. Taking it in stages, only as you need it, keeps more of your pension invested for longer within its tax-efficient wrapper.

A note on defined benefit (DB) schemes

If you have a final salary or career average pension, tax-free cash works differently. Rather than a pot of money, you typically give up ("commute") some of your guaranteed annual pension in exchange for a lump sum, at a commutation rate set by the scheme. Whether exchanging guaranteed pension income for additional tax-free cash represents good value depends on the scheme's commutation terms and your individual circumstances. This is a decision worth taking advice on rather than assuming more cash is automatically better.

Watch your annual allowance

If you flexibly access taxable income from a defined contribution pension, you may trigger the Money Purchase Annual Allowance (MPAA), which limits future tax-relieved contributions to defined contribution pensions to £10,000 a year. Taking only a Pension Commencement Lump Sum does not normally trigger the MPAA. If you're still working and contributing to a pension, this is worth factoring in before drawing taxable income.

In the final article in this series, we'll look at some of the bigger-picture questions around whether — and when — taking your tax-free cash actually makes sense for you.

Every situation is different, and pension tax rules can change. Please do take the opportunity to reach out — we are only too happy to talk through your own circumstances. Contact us at **info@synergi-investment.ch**

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