PRESS RELEASE

Retirement savings under threat: Investors seek to drawdown pensions early or reduce pension contributions following Reeves' pension changes

- Just over a quarter (26%) of DIY Investors say that following Reeves' Budget, they plan to drawdown money from their pension as early as they can to use it more tax-efficiently
- 21% plan to drawdown money from their pension and gift it to their family, therefore not incurring any additional tax on their pension savings in the event of their death
- 18% plan to spend their pension pot faster to remove it from their estate

Following the Chancellor's Autumn Budget, just over a quarter (26%) of DIY investors say that they plan to draw down money from their pension as early as they can to use it more tax-efficiently.

The new research from Charles Stanley Direct sheds light on how the shake-up to the inheritance tax (IHT) regime will change how savers interact with their pensions. It was announced in the Budget that pensions will be subject to inheritance tax from 2027, meaning that pensions - including defined contribution, personal pensions, and SIPPs - will be included in the value of an individual's estate when they die.

The pension changes are significant and could mean that, depending on whether inheritors are basic, higher, or additional rate payers, they will pay a combined 52, 64 or 67 per cent IHT and income tax on inheriting an individual's pension provided the combined assets are over the IHT "nil-rate band" of £325,000.

As a result of these changes, a fifth (21%) of investors plan to draw down money from their pension and gift it to their family, therefore not incurring any additional tax on their pension savings in the event of their death. A further 18% plan to spend their pension pot faster to remove it from their estate.

Naturally this sparks concerns that more individuals could eventually run out of money as they take control of their long-term savings - one of the major pension drawdown risks.

Since the Chancellor's announcement, the appeal of pensions as an investment vehicle has been brought into question by some. The research reveals that 17% of DIY investors say they will reduce their SIPP or personal pension contributions now to divert to a more tax-efficient vehicle. 16% say they will reduce their workplace pension contributions now to divert to a more tax-efficient vehicle.

Not all investors surveyed are sure they will be impacted by the changes. Almost a third (30%) of investors say they want to talk to a financial adviser before they make any decisions regarding their pension, while 11% say their estate is unlikely to be eligible for IHT so it won't impact them. 7% say they simply don't understand how pension changes will impact them - concerningly, this rises to 10% of Baby Boomers (age 60-78), who are most likely to be affected.

Rob Morgan, Chief Investment Analyst at Charles Stanley Direct, comments: "The Chancellor's decision to include pensions within the inheritance tax umbrella is affecting investor behaviour already, two years before the changes come into effect. With IHT tax thresholds frozen until 2030, it's natural that families consider how to best protect their wealth as a greater proportion of estates become liable to the tax.

"However, clear risks arise when pensions are drawn down prematurely or contributions are reduced. Decisions made without forensic attention to detail and consideration of all long-term outcomes can lead to unfortunate consequences in retirement. With each individual having their own desired outcome for their estates, it's vital that professional financial advice is sought so that they can have the right plan in place."

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Methodology

The research was conducted by Censuswide with 1,000 DIY Investors across the UK Research conducted between 08.11.2024 - 12.11.2024. Censuswide abide by and employ members of the Market Research Society which is based on the ESOMAR principles and are members of The British Polling Council.

Generational divides are as follows: Gen Z (18-27), Millennial/ Gen Y (28-43), Gen X (44-59), Baby Boomers (60-78), Silent Generation (79+). Responses were not high enough in the Silent Gen to be statistically significant.

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