IFA CONNECT



PENSIONS AND RETIREMENT · 2026/27

The Complete Retirement Guide 2026/27

For anyone with £500,000 or more in pensions and investments who is approaching retirement or already there.

IMPORTANT

This guide is information, not financial advice. IFA Connect Ltd is not authorised or regulated by the Financial Conduct Authority (FCA). Advice on your own circumstances should be taken from an FCA-authorised independent financial adviser.

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About this guide. Figures are for the 2026/27 tax year (6 April 2026 to 5 April 2027) and apply in England, Wales and Northern Ireland unless stated. They were checked against GOV.UK, HMRC and FCA sources on 5 November 2026. The small numbers in the text refer to the sources at the back. Calculations and illustrations marked as IFA Connect's use those figures and make no assumption about investment returns.

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Key figures for 2026/27

Full new State Pension £241.30 a week (£12,547.60 a year) [2]

State Pension age 66, rising to 67 between 2026 and 2028 [5]

Earliest private pension access 55, rising to 57 from 6 April 2028 [6]

Tax-free cash usually 25% of each pension, capped at £268,275 in total (the lump sum allowance) [3,7]

Personal allowance £12,570, reduced by £1 for every £2 of adjusted net income over £100,000 [3,4]

Income tax 20%, 40% and 45%: higher rate from £50,271, additional rate over £125,140 [3,4]

ISA allowance £20,000 [3,12]

Capital gains tax 18% and 24%; annual exempt amount £3,000 [3,13]

Dividend allowance £500; dividend tax 10.75%, 35.75% and 39.35% [3,14]

Personal savings allowance £1,000 (basic rate), £500 (higher rate), £0 (additional rate) [3,15]

Money purchase annual allowance £10,000 once flexible income is taken [3,10]

Most unused pensions count towards the estate for inheritance tax from 6 April 2027 [18]

Checked 5 November 2026. England, Wales and Northern Ireland unless stated.

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1 What a comfortable retirement actually costs

The most widely used yardstick for spending in retirement is the Retirement Living Standards from Pensions UK (formerly the PLSA). They price three lifestyles from real household budgets and assume the home is owned outright. The figures are spending, not gross income, so income tax comes on top [1].

Lifestyle	One person, a year	Couple, a year
Minimum	£13,900	£22,500
Moderate	£32,700	£45,400
Comfortable	£45,400	£62,700

Source: Pensions UK Retirement Living Standards, 2025 [1].

Minimum covers the basics with some left over for social life. Moderate adds a holiday abroad and running a car. Comfortable adds more travel, regular home updates and help for family [1].

The State Pension's share

The full new State Pension is £241.30 a week in 2026/27, or £12,547.60 a year, for someone with 35 qualifying years of National Insurance. At least 10 qualifying years are needed to get any State Pension at all [2]. Set against the standards, it leaves a gap for pensions and other savings to fill.

Lifestyle	Gap for one person after a full State Pension	Gap for a couple after two full State Pensions
Minimum	£1,352	None: covered
Moderate	£20,152	£20,305

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Lifestyle	Gap for one person after a full State Pension	Gap for a couple after two full State Pensions
Comfortable	£32,852	£37,605

IFA Connect calculation: the Pensions UK spending standard less the full new State Pension for 2026/27, before income tax [1,2].

Tax comes on top

Because these are spending figures, income tax is paid on top of them on any taxable income. In 2026/27 the full State Pension uses all but £22.40 of the £12,570 personal allowance, so most pension income drawn on top of it is taxable [2,3].

Retiring before State Pension age

State Pension age is 66, rising to 67 between 2026 and 2028 [5]. Most private pensions can be taken from 55, rising to 57 from 6 April 2028 [6]. Anyone who stops work before State Pension age is paying for all of their spending from savings in those years, not just the gap in the table.

Why this guide gives no pot size

Turning a yearly gap into the size of pot needed means deciding how much to draw each year and making assumptions about investment returns, inflation and how long the money has to last. None of those is known in advance, and the value of investments can fall as well as rise. Advisers usually work this through with a cash-flow model built on your own figures and a range of assumptions, rather than a single number.

What an adviser looks at: what you actually spend now and what will change when work stops, your State Pension forecast, the years before State Pension age, and every pension, ISA and saving you hold.

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2 The 25% tax-free lump sum, and why it is not all-or-nothing

Most defined contribution pensions let you take 25% of what you take out free of income tax. All the tax-free lump sums you take, across every pension, count towards one limit, the lump sum allowance, which is £268,275 in 2026/27 [3,7]. At 25%, that limit is reached when pensions total £1,073,100.

Total pension savings	Maximum tax-free cash	Remainder, taxed as income when drawn
£250,000	£62,500	£187,500
£500,000	£125,000	£375,000
£750,000	£187,500	£562,500
£1,073,100	£268,275	£804,825
£1,500,000	£268,275	£1,231,725

IFA Connect calculation from the 2026/27 rules: 25% tax-free, up to the £268,275 lump sum allowance. Assumes no protected allowance and no tax-free cash already taken [3,7].

A second limit, the lump sum and death benefit allowance of £1,073,100 in 2026/27, covers tax-free lump sums paid in life and certain lump sums paid on death together [3,8]. Anyone who took pension benefits before 6 April 2024 usually has a lower lump sum allowance, because part of the old lifetime allowance they used is deducted. A transitional certificate can correct this where less was taken [8].

When it can be taken

From 55 for most personal and workplace pensions, rising to 57 on 6 April 2028 [6]. Some schemes have a protected pension age that allows earlier access. Defined benefit (final salary) schemes usually offer a

lump sum in exchange for giving up some yearly pension, at the scheme's own rate.

Why it is not all-or-nothing

The tax-free part can be taken in one go or in stages, and the choice affects both the tax on what follows and how much can be paid into pensions later.

Way of taking it	How it works	Tax-free part	Does it cut the annual allowance to £10,000?
Tax-free cash up front (pension commencement lump sum)	Up to 25% is taken at once; the rest moves into drawdown or buys an annuity	Up to 25% at the start	No, unless taxable drawdown income is also taken
In stages (uncrystallised funds pension lump sum, UFPLS)	Each withdrawal comes from money not yet accessed	25% of each withdrawal	Yes, from the first withdrawal
Phased drawdown	Part of the pot is moved into drawdown at a time	25% of each part moved	Only when taxable income is taken
Annuity	Up to 25% is taken tax-free and the rest buys a guaranteed income	Up to 25% at the start	No, for a lifetime annuity that cannot go down

Sources: HMRC Pensions Tax Manual [9,10].

Taking only the tax-free cash leaves the annual allowance unchanged. Taking flexible income, through a UFPLS or drawdown income, triggers the money purchase annual allowance, which limits future contributions to defined contribution pensions to £10,000 a year in 2026/27 [3,10].

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How the other 75% is taxed

The taxable part is added to your other income for the tax year in which it is taken and taxed at your income tax rates [7]. In England, Wales and Northern Ireland the 2026/27 rates are:

Band	Taxable income	Rate
Personal allowance	Up to £12,570	0%
Basic rate	£12,571 to £50,270	20%
Higher rate	£50,271 to £125,140	40%
Additional rate	Over £125,140	45%

Sources: GOV.UK [3,4]. The personal allowance falls by £1 for every £2 of adjusted net income over £100,000. Scotland sets its own bands for this income [16].

Each tax year is assessed on its own, so how much is taken in a given year decides which bands it falls into. Advisers look at the timing of withdrawals alongside your other income for that reason.

Emergency tax on a first withdrawal

Pension providers often have no tax code for you when you make your first flexible withdrawal, so they use an emergency code on a month 1 basis, which can deduct more tax than is due. The overpayment can be reclaimed from HMRC with form P55 if you have taken part of a pension and will not take more that tax year, P50Z if you have taken all of it and have no other income, or P53Z if you have taken all of it and have other income. Otherwise HMRC corrects it after the tax year ends [11].

Is it changing?

The Budget on 28 October 2026 left the 25% rule unchanged, and the lump sum allowance stays at £268,275 for 2027/28 [3]. Rules can change, so they are worth checking before acting.

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What an adviser looks at: whether tax-free cash is needed now or later, how it fits with the income you will draw in each tax year, whether you still pay into a pension, and any protected allowances from before April 2024.

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3 The order you draw from

Most people approaching retirement hold money in more than one place: one or more pensions, ISAs, perhaps a general investment account, and cash. The same pound of spending can be taxed in different ways depending on which of these it comes from. This chapter sets out how each is treated when money comes out in 2026/27, and what advisers look at when they plan the order. It describes how the rules work. What suits any one person depends on their circumstances.

How each pot is taxed when money comes out

Where the money comes from	What is taxed	2026/27 rules
Defined contribution pension	The taxable part of each withdrawal, as income for that tax year	Usually 25% tax-free within £268,275; the rest at 20%, 40% or 45% [3,7]
Defined benefit pension or annuity	The income paid	Income tax at your rates [3,7]
State Pension	The income paid	£12,547.60 a year at the full rate, using most of the personal allowance [2,3]
ISA	Nothing: withdrawals are not taxable income	No income tax or capital gains tax on interest, income or gains inside the ISA [12]
General investment account	Gains on what you sell, plus dividends and interest each year whether or not they are taken out	Gains above £3,000 at 18% or 24%; dividends above £500 at 10.75%, 35.75% or 39.35% [3,13,14]

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Where the money comes from	What is taxed	2026/27 rules
Cash savings	Interest as it is paid; taking out the money itself is not taxed	Personal savings allowance £1,000 (basic rate) or £500 (higher rate) [3,15]

Savings income is taxed at 20%, 40% and 45% in 2026/27, rising to 24%, 44% and 49% from 2027/28 [3].

Two features stand out. A withdrawal from an ISA adds nothing to taxable income [12]. A sale from a general investment account is taxed only on the gain, not on the whole amount, and gains up to the £3,000 annual exempt amount are free of capital gains tax in 2026/27 [3,13]. Pension withdrawals beyond the tax-free part are taxed as income in full [7].

Why drawing only from the pension is a common default

For many people the pension is the largest pot, and a drawdown plan can pay a regular income through PAYE, with the 25% tax-free part alongside it. Taking all income from the pension is often the simplest arrangement, and it is where many retirement plans start.

There has also been an inheritance tax reason to treat the pension differently from other savings. Until now, most unused defined contribution pensions have sat outside the estate for inheritance tax, while ISAs and other investments have counted towards it. From 6 April 2027 most unused pension funds come into the estate as well [18]. Chapter 7 covers that change.

When a mixed order is discussed

Advisers look at drawing from a mix of sources, rather than the pension alone, in situations like these:

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- When pension withdrawals on their own would take income above £50,270, where the rate on the next pound rises from 20% to 40% in 2026/27 [3,4].
- When income would pass £100,000 of adjusted net income, where the personal allowance starts to be withdrawn [4]. Chapter 5 explains how.
- When ISA savings could provide part of a year's spending without adding to taxable income [12].
- When gains in a general investment account could be taken within the £3,000 annual exempt amount [13].
- When a spouse or civil partner has unused personal allowance or basic rate band, because each person is taxed on their own income [4].
- When someone still paying into a pension would trigger the £10,000 money purchase annual allowance by taking flexible income [10].
- When the April 2027 inheritance tax change alters which assets a family would prefer to pass on [18].

The answer can change from year to year as other income starts and stops, such as earnings, rental income or the State Pension.

The personal allowance and the higher rate threshold

In 2026/27 the first £12,570 of income is covered by the personal allowance, income from £12,571 to £50,270 is taxed at 20%, and income from £50,271 to £125,140 at 40% [3,4]. The full State Pension uses all but £22.40 of the personal allowance [2,3], so most pension income on top of it starts in the basic rate band.

As an illustration, someone whose State Pension and other taxable income come to £45,000 in 2026/27 has £5,270 of income left in the basic rate band before the 40% rate applies. IFA Connect illustration

using the 2026/27 thresholds for England, Wales and Northern Ireland [3,4]; Scotland's bands differ [16].

Money that is not taxable income, such as the tax-free part of a pension withdrawal and ISA withdrawals, does not use up these bands [7,12]. That is the interaction advisers look at when they plan how much comes from each source in a given year.

What an adviser looks at: your income from every source for each tax year, which bands it falls into, the gains and allowances in each account, a partner's position, whether you still contribute to a pension, and who you would like to inherit.

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4 State Pension timing and deferral

The State Pension is paid for life, and when to start it is a choice.

What it pays

The full new State Pension is £241.30 a week in 2026/27 (£12,547.60 a year), for people who reach State Pension age on or after 6 April 2016 with 35 qualifying years of National Insurance. At least 10 qualifying years are needed to get any, and people who were contracted out usually need more than 35 years for the full rate [2]. A State Pension forecast, and the National Insurance record behind it, can be checked on GOV.UK [2].

When it starts

State Pension age is 66, rising to 67 between 2026 and 2028 [5]. The State Pension does not start by itself: it has to be claimed, and people approaching State Pension age are usually sent an invitation to claim [2].

Deferring

Not claiming at State Pension age, known as deferring, increases the weekly amount when it is eventually claimed. Under the new State Pension it rises by 1% for every 9 weeks deferred, which works out at just under 5.8% for every 52 weeks [17]. On the full rate in 2026/27, deferring for 52 weeks adds £13.99 a week [17]. GOV.UK notes that it takes over 15 years to get back 52 weeks of deferred full new State Pension [17].

Other points from GOV.UK on deferring [17]:

- The extra amount is taxable income.
- It cannot build up while you or your partner get certain benefits.

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- Once the State Pension is claimed, the extra amount usually rises each year in line with the Consumer Prices Index.
- When the State Pension is claimed, the deferred amount can be taken as increased regular payments, or as a one-off arrears payment together with increased regular payments.

How timing interacts with other income

Because the State Pension is taxable, its start date affects how much of each year's personal allowance and basic rate band is left for other income [3,4]. Someone still working, or drawing a large amount from a pension in the years after State Pension age, will have a different picture from someone with little other income.

Deferring is a personal decision. Health, other income and whether a higher weekly amount later or the money sooner matters more all come into it.

What an adviser looks at: your State Pension forecast and any gaps in your National Insurance record, your other income in the years around State Pension age, and how the start date fits with the order of drawing in Chapter 3.

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5 How retirement income interacts with the personal allowance

The personal allowance, the income you can have before paying income tax, is £12,570 in 2026/27. It is reduced by £1 for every £2 of adjusted net income above £100,000, so it has gone completely at £125,140 [3,4].

Why the band between £100,000 and £125,140 matters

Within that band, each extra £2 of income removes £1 of allowance, and that £1 then becomes taxable too. With the 40% rate, income in this band is taxed at an effective rate of 60% in 2026/27. That is how the two rules combine: there is no separate 60% rate in the legislation [3,4].

What counts as adjusted net income

Adjusted net income is total taxable income before any personal allowance, less certain reliefs such as the grossed-up amount of pension contributions that received basic rate relief at source and of Gift Aid donations [25]. For someone in retirement it includes:

- the taxable part of pension withdrawals, including UFPLS and drawdown income [7]
- annuities and defined benefit pensions [7]
- the State Pension [2]
- earnings, rental income, savings interest and dividends.

The tax-free part of a pension withdrawal and money taken out of an ISA are not part of it [7,12].

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Where retirement income can reach the band

People with large pensions most often meet the £100,000 line in a single year: a large lump sum taken as a UFPLS, or a year when drawdown income, rental income, consultancy fees and the State Pension coincide. Because each tax year is measured on its own, the size and timing of taxable withdrawals decide whether income enters the band [4,7]. This is one of the main reasons advisers plan withdrawals year by year rather than once.

Scotland

Scotland sets its own income tax bands and rates on earnings and pension income, so the thresholds above differ for Scottish taxpayers. The personal allowance is the same £12,570 and is not available once income passes £125,140. Savings interest and dividends are taxed at the same rates as in the rest of the UK [16].

What an adviser looks at: every source of taxable income in each tax year, any one-off amounts such as a large lump sum or the sale of a property, and whether pension contributions or Gift Aid change your adjusted net income.

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6 Using ISAs and general investment accounts alongside a pension

ISAs

In 2026/27 you can pay up to £20,000 into ISAs [3,12]. Interest, income and gains inside an ISA are free of income tax and capital gains tax, and they do not need to be declared on a tax return [12]. Unlike a pension, an ISA other than a Lifetime ISA can be drawn on at any age, and there is no tax-free proportion to work out [12].

General investment accounts

Investments held outside an ISA or a pension are taxed in three ways in 2026/27 [3,13,14,15]:

- **Dividends.** The first £500 a year is covered by the dividend allowance. Dividends above it are taxed at 10.75%, 35.75% or 39.35%, depending on your income tax band.
- **Interest.** The personal savings allowance covers £1,000 of interest for basic rate taxpayers and £500 for higher rate taxpayers, and none for additional rate taxpayers. People with other income below £17,570 can also use a starting rate for savings on up to £5,000 of interest.
- **Gains.** When an investment is sold or given away for more than it cost, the gain above the £3,000 annual exempt amount is subject to capital gains tax.

How capital gains tax works on investments

In 2026/27, gains are added to your taxable income to set the rate: the part that falls within the basic rate band is taxed at 18% and the part above it at 24% [3,13]. Only the gain is taxed, not the whole sale proceeds,

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and allowable losses can be deducted from gains [13].

Using them alongside a pension

Because ISA withdrawals add nothing to taxable income, and only gains are taxed when investments are sold from a general account, these pots behave differently from pension income in any one tax year [7,12,13]. Advisers look at:

- how much of a year's spending could come from ISAs without changing the income tax position
- whether investments in a general account could be sold within the annual exempt amount, and whether money from a sale is then paid into an ISA, sometimes called bed and ISA, which uses that year's ISA allowance
- the dividends and interest a general account produces each year, whether or not money is taken out
- which assets a family would prefer to pass on, in the light of the April 2027 change in Chapter 7.

What an adviser looks at: the gains built up in each holding, your income tax band in each year, ISA allowances still available, and how the accounts fit with the order of drawing in Chapter 3.

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7 What happens to an unused pension on death, including the April 2027 change

Until April 2027

Most defined contribution pensions pay death benefits at the discretion of the scheme's trustees, which has kept unused pension funds outside the estate for inheritance tax. That is changing [18].

From 6 April 2027

For deaths on or after 6 April 2027, most unused pension funds and pension death benefits will be included in the value of a person's estate for inheritance tax. Personal representatives, usually the executors, will be responsible for reporting and paying any inheritance tax due on them, and will be able to direct pension schemes to withhold benefits and to pay the tax [18].

Two kinds of benefit are excluded from the change [18]:

- death in service benefits payable from registered pension schemes, whether or not the scheme is discretionary
- dependants' scheme pensions from a defined benefit or collective money purchase arrangement.

Pension benefits left to a spouse or civil partner remain exempt, as other assets passing to them are [18].

The rates and allowances

In 2026/27 inheritance tax is charged at 40% on the estate above the available allowances, or 36% where at least 10% of the net estate is left to charity. The nil rate band is £325,000. The residence nil rate band, for a home passed to direct descendants, is £175,000, and it is reduced for estates worth more than £2 million [3].

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Income tax for beneficiaries still applies

Inheritance tax is an additional layer. The income tax rules for inherited pensions are unchanged [19]:

- If the pension owner dies before 75, most lump sums are paid free of income tax unless they are above the owner's lump sum and death benefit allowance (£1,073,100 in 2026/27), and an annuity or money from a drawdown fund set up from 6 April 2015 is usually paid tax-free [3,19].
- If the pension owner dies at 75 or over, lump sums, annuity payments and drawdown are taxed as the beneficiary's income [19].

How the two taxes can combine

From April 2027 both taxes can apply to the same pension. As an illustration: an estate is already above its allowances, and a parent dies at 78 leaving a £400,000 pension to a daughter who pays income tax at 40%. Inheritance tax at 40% takes £160,000 first, leaving £240,000 in the pension. As she draws it, income tax at 40% takes a further £96,000, leaving £144,000. IFA Connect illustration using the 2026/27 rates [3,18,19]. The same pension left to a surviving spouse would pay no inheritance tax on the first death [18].

What an adviser looks at: who the beneficiaries are and the nomination or expression of wishes held by each scheme, whether the estate is near the thresholds once pensions are included, the order of drawing in Chapter 3, and a list of every pension so that executors can contact each scheme promptly.

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8 Where an independent adviser fits, and how to check one on the FCA register

This guide explains how the rules work. Applying them to one person's pensions, investments, tax position and family is what regulated financial advice is for. An adviser looks at your whole situation and gives a personal recommendation, and regulated advice comes with access to the Financial Ombudsman Service and, if a firm fails, the Financial Services Compensation Scheme [22,23,24].

What independent means

Under FCA rules, a firm can describe its advice as independent only if it assesses a sufficient range of relevant products available on the market, sufficiently diverse in type and provider, and not limited to products from the firm itself or from firms closely linked to it. A restricted adviser recommends from a narrower range. Both are regulated by the FCA [20].

When advice is required by law

Advice from an FCA-authorised adviser is a legal requirement before transferring defined benefit (final salary) pension rights, or other safeguarded benefits, worth more than £30,000 [21].

How to check an adviser on the FCA register

1. Search for the firm, and the individual adviser, on the FCA's Financial Services Register [22].
2. Check the firm has permission for the work you need, for example advising on pension transfers [22].
3. Avoid firms marked as no longer authorised, and check that the phone number and website match the Register, to avoid clone firms

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[22].

4. Ask for the adviser's charges in writing before you agree to anything.

If something goes wrong	Limit
Financial Ombudsman Service award limit, for complaints about acts on or after 1 April 2019	£455,000 (from 1 April 2026) [23]
Financial Services Compensation Scheme, investment advice from a firm that has failed	£85,000 per person per firm [24]

How IFA Connect fits

IFA Connect is not authorised or regulated by the FCA and does not give advice. A member of our team talks through what you need and introduces you to one independent, FCA-regulated financial adviser. The introduction is free and there is no obligation. Advisers pay to be part of the IFA Connect network. You never pay us, and what we are paid makes no difference to the fees you agree with your adviser or to which adviser we introduce you to. Advisers explain their fees before you commit to anything.

Tax rules can change, and their effect depends on your circumstances. The value of investments, and the income from them, can fall as well as rise, and you may get back less than you put in.

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Tax rules and allowances can change, and their effect depends on your circumstances. The value of pensions and investments, and the income from them, can fall as well as rise, and you may get back less than you put in.

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