Case Study

Tom's pension

Basic Rate Taxpayer

The retirement rules offer freedom to manage income in the way the individual wants, but they also create some challenges. In particular, it can be difficult to work out the best way to withdraw cash from a pension. This short case study shows three potential ways that an investor, who is a 20% basic rate UK (non-Scotland) taxpayer, with a £100,000 pension pot could access their money. As you can see, the tax situation varies significantly, depending on the way the savings are withdrawn. An adviser can help identify the most tax-efficient ways for the investor to access their pension savings.

Pension Fund **£100,000**

Option 1	**Option 2**	**Option 3**
Full Encashment – Uncrystallised Funds Pension Lump Sum (UFPLS)	Partial Encashment – Uncrystallised Funds Pension Lump Sum (UFPLS)	Partial Encashment – Flexi-Access Drawdown
£100,000 lump sum withdrawal	£25,000 lump sum withdrawal	£25,000 lump sum withdrawal
Tax free cash £25,000	Tax free cash £6,250	Designates (crystallises) £100,000 into Drawdown Tax free cash £25,000
Taxable lump sum £75,000*: £1,047.50 at 0% = £0 £3,141.67 at 20% = £628.33 £7,286.67 at 40% = £2,914.67 £63,524.16 at 45% = £28,585.87	Taxable lump sum £18,750*: £1,047.50 at 0% = £0 £3,141.67 at 20% = £628.33 £7,286.67 at 40% = £2,914.67 £7,274.16 at 45% = £3,273.37	Balance £75,000*** (remains invested)
Total tax = £32,128.87** Tom receives £67,871.13 net	**Total tax = £6,816.37**** Tom receives £18,183.63 net	**Total tax = £0** Tom receives £25,000 net

Notes: The above examples are based on UK tax rates and bands for the 2025/26 tax year. For Scottish taxpayers, the Scottish Rate of Income Tax may produce a different result to the rest of the UK due to the different tax rates and bands. For Welsh taxpayers, the overall rates of income tax payable will be the same as UK taxpayers (excluding Scotland).

* Emergency Code Month 1 Basis
** Any tax overpayment can be claimed back from HMRC
*** Taxable at marginal rate as 'earned income' when withdrawn

This represents Zurich's understanding of tax law and HMRC practice. This is subject to change and Zurich does not accept responsibility for any action taken or refrained from, by any person relying on this information.

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