

✦ Guides

10 Strategies for a Tax-Efficient Retirement

For those with £500k or more in pensions and savings



Why structure matters more than size

Two people. Same £500,000 pot. Same £40,000 income needed. One draws everything from their pension and pays over £5,000 a year in income tax. The other spreads withdrawals across pensions, ISAs, and other accounts and could pay considerably less, or even nothing at all.

Same income. Same pot. Potentially a very different tax outcome. Just because of how withdrawals were structured.

How much tax you pay in retirement depends on the types of account you hold, your total taxable income each year, and your individual circumstances. The strategies below explain how structuring your withdrawals carefully can make a substantial difference.

Before you read on

Several strategies here are complex and we recommend you get regulated financial advice to implement. We have flagged these clearly. This guide helps you understand what is possible in order to ask better questions. It does not replace professional advice. The information and examples in this guide are for the 2026/27 tax year.



10 strategies to reduce the tax you pay

1. Build a multi-account strategy

⚠ **Advice recommended**

Spread your wealth across different types of accounts to reduce the tax you pay when you take money out.

Different accounts are taxed in different ways. Pensions benefit from income tax relief when you pay money in, meaning the government tops up your contributions. ISAs, general investment accounts (ordinary investment accounts with no special tax status), and investment bonds do not.

Each type of account is also taxed differently when you take money out. Drawing manageable amounts from several accounts in any given year, rather than everything from one, could reduce your overall tax bill considerably.

⚠ **Watch out**

This is the most impactful strategy available to large portfolios, but due to complexity you should consider taking financial advice.

2. Take your tax-free cash in portions

*Most people can take 25% of their pension tax-free. Taking it **gradually** rather than all at once keeps your tax bill lower each year.*

Most people can take up to 25% of their pension completely free of tax, subject to a lifetime limit of £268,275. Some older pension schemes have protected entitlements at higher levels, so it is worth checking.

If your pension fund continues to grow while you are drawing it down, taking your tax-free cash in stages could also mean more total tax-free money overall, provided you stay within the limit.

⚠ **Watch out**

This is the most impactful strategy available to large portfolios, but due to complexity you should consider taking financial advice.

Income source	Person A (4 wrappers)	Person B (2 wrappers)
State Pension	£12,548	£12,548
Pension drawdown (taxable)	£5,589	£20,589
Pension Drawdown (Tax-Free Cash)	£1,863	£6,863
ISA withdrawals (tax-free)	£17,000	£0
VCT dividends (tax-free)	£3,000	£0
Total income	£40,000	£40,000

Tax calculation	Person A	Person B
Total Taxable Income	£18,137	£33,137
Personal Allowance Used	£12,570	£12,570
Income taxed at 20%	£5,567.00	£20,567.00
Income tax bill	£1,113.40	£4,113.40
Net Income	£38,886.60	£35,886.60

Difference: £3,000.00

This example does not assume whether the level of withdrawals taken will be sustainable, the withdrawal of income from the pension will trigger the Money Purchase Annual Allowance (MPAA), limiting you to £10k of pension contributions per year. It is based on the 2026/27 tax year, assumes no other income, that the person is a UK resident and aged 68. This should not be considered advice and you should consult a financial adviser about your individual circumstances.

3. Draw from ISAs alongside your pension

ISA withdrawals are completely free of tax. Using them alongside your pension keeps your taxable income lower.

Money taken from an ISA is free of both income tax and capital gains tax (a tax on profit when you sell an investment that has gone up in value).

Combining ISA withdrawals with pension withdrawals in the same year lets you take a meaningful income while keeping the taxable portion lower.

Watch out

Factor in any large one-off costs you know are coming. Once you use up your tax-free entitlement, it is gone.

4. Stay below the higher rate tax threshold

Income above £50,270 is taxed at 40% rather than 20% for the 2026/27 tax year. Careful planning can keep you in the lower band.

Everyone has a personal allowance, the amount you can receive each year before paying any income tax, which is £12,570 in 2026/27. Income above that is taxed at 20%. Once your income exceeds £50,270, you pay 40% on everything above that level.

Rules are subject to change; therefore, the most tax-efficient strategy will need constant adjustment in line with changes in order to remain optimal.

Not everything you receive counts as taxable income in the same way. Certain withdrawals from investment bonds may be treated as a return of the money you originally put in, and profits from selling investments in a general investment account may be subject to capital gains tax rather than income tax.

Watch out

A regulated adviser can help you understand which of your income sources are taxable and at what rate.



5. Avoid the £100,000 trap

Once taxable income exceeds £100,000, you lose your personal allowance. The effective tax rate hits 60%. Most people do not see it coming.

For every £2 you earn above £100,000, you lose £1 of your personal allowance. By £125,140 it is gone entirely. This creates an effective tax rate of 60% on taxable income between those two figures.

Structuring withdrawals to keep taxable income below certain thresholds could save tens of thousands over a retirement.



Watch out

Pension contributions, if you are still making them, can also bring your taxable income below this level.

6. Coordinate with your partner

Two people means two sets of allowances. Using both efficiently can cut your combined tax bill considerably.

You each have your own personal allowance, your own lower tax rate band, your own ISA allowance, and your own annual capital gains tax allowance.

By spreading withdrawals across both of you, particularly if one partner has a lower income, you can make use of twice as many allowances and pay less tax overall.

7. Use investment bonds for tax deferral

⚠️ **Advice recommended**

Investment bonds let growth build up without an annual tax charge. You can also withdraw up to 5% a year without an immediate tax bill.

An investment bond is a type of investment product, offered by insurance companies, that holds investments on your behalf. Growth made within a GIA (General Investment Account) may be subject to tax when you sell or dispose of the investment. The tax treatment of an investment bond depends on whether it is an onshore or offshore bond.

Onshore bonds pay 20% internal tax, which is treated as basic-rate tax paid, although further tax may arise on a chargeable event. Offshore bonds usually pay no internal tax, but the bondholder may face tax when a chargeable event occurs.

One useful quirk: the 5% allowance rolls over. If you don't use it in year one, you can take 10% in year two, 15% in year three, and so on, up to a maximum of 100% of your original investment. The longer you wait, the more you can withdraw without triggering an immediate tax charge.

Bonds can also be transferred to another person, such as an adult child in a lower tax bracket, without a tax charge arising at the point of transfer, which can make them useful for passing on wealth.

⚠️ **Watch out**

Whether an onshore or offshore bond is more suitable depends entirely on individual circumstances.

Regulated advice is essential.



8. Make pension contributions in high-income years

Still earning? A pension contribution can reduce your tax bill now and shelter money for later.

If you are still earning through consultancy or part-time work, a pension contribution can reduce the amount of that income subject to tax.

If your taxable income is above £50,270, a contribution can bring it back below that level, meaning you pay 20% rather than 40% on that portion.

Watch out

Once you have started taking taxable income from your pension, the amount you are allowed to pay back into a money purchase pension each year is permanently reduced to £10,000. This is called the Money Purchase Annual Allowance.

9. Consider venture capital trusts (VCTs)

 **Advice recommended**

VCTs offer 30% tax relief on what you invest, plus tax-free dividends. High risk, but powerful for the right investor.

A VCT is a fund that invests in small, early-stage UK companies. Because these investments carry high risk, the government offers generous tax incentives. These include 30% income tax relief on income tax relievble contributions of up to £200,000 a year, meaning for every £100 you invest you could receive £30 back as a reduction in your income tax bill. Dividends paid by VCTs are also tax-free.

For those with taxable income above £100,000, VCT contributions can help bring taxable income down, which may help protect the personal allowance.

Watch out

VCTs are high-risk, your capital is at risk, and they are difficult to sell quickly. Suitable only for experienced investors who can afford to lose what they put in.

We recommend a consultation with a financial adviser.

10. Plan around the 2027 inheritance tax change

⚠️ **Advice recommended**

From April 2027, unspent pension pots are expected to be subject to inheritance tax at 40%. The rules are changing and action may be needed.

Previously, pensions were one of the most tax-efficient assets to pass on to family. That is expected to change. From April 2027, unspent pension pots are expected to be included in the calculation of someone's estate for inheritance tax (a tax paid on the value of assets left when someone dies, currently at 40% above certain thresholds).

Your pension was exempt from that calculation, making it one of the most effective ways to pass money to family. From April 2027, that loophole is expected to close. Unspent pension pots will likely be counted as part of your estate, exposing them to the same 40% charge.

For those with large pension pots they do not expect to spend, it may now be worth drawing down more during their lifetime, making gifts from income, moving money into ISAs for heirs, exploring trusts, or taking out a whole of life insurance policy.

With the right setup, a whole of life policy pays out a lump sum when you die that your family can use to cover the inheritance tax bill directly, meaning they do not have to sell assets to pay it. Written into a trust, the payout sits outside your estate entirely, so it is not itself subject to the 40% charge.

⚠️ **Watch out**

This change is subject to final confirmation. Regulated advice is strongly recommended before making any decisions.

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Disclaimer: This guide is for educational purposes only and does not constitute personal financial advice. Tax treatment depends on individual circumstances and rules may change. Investment bonds and VCTs carry specific risks and are not suitable for everyone. VCTs are high-risk and you may lose capital invested. When investing, your capital is at risk and the value of investments can go down as well as up. The 2027 inheritance tax changes are subject to final confirmation. Always seek regulated financial advice before implementing these strategies. FCA register: fca.org.uk/register.

◆ YOUR NEXT STEP

**Reading this is a great start.
Doing something about it is
what changes things.**

On average, people who take regulated financial advice retire with £40,000 more than those who don't. This call is 30 minutes. The difference is significant.

These strategies only work when they are applied to your numbers. Drawing from the right accounts, staying under the right thresholds, getting ahead of the 2027 change. That is exactly what the health check covers.

Source: International Longevity Centre

The 10 strategies at a glance

1. Build a multi-account strategy
2. Take tax-free cash in portions
3. Draw from ISAs alongside your pension
4. Stay below the higher-rate threshold
5. Avoid the £100,000 trap
6. Coordinate with your partner
7. Use investment bonds to defer tax
8. Top up your pension in high-income years
9. Consider venture capital trusts (VCTs)
10. Plan around the 2027 inheritance-tax change

Disclaimer: This guide is for general information only and is not personal financial advice or a recommendation. Tax treatment depends on your individual circumstances and the rules may change. A pension health check is an informal, no-obligation conversation to understand your situation — it is not regulated advice. Where it could help, we may introduce you to an FCA-authorised financial adviser, and the relevant regulatory information will be provided beforehand.



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