INVESTMENTS • ADVICE • PLANNING

Power of Pensions

Pension types

Defined Contribution (DC) schemes: also known as a 'money purchase scheme', the benefit (or 'pension') is based upon the value of the plan at retirement. The future value is determined by the amount paid over the lifetime of the plan and the performance of the chosen investment funds.

Defined Benefit (DB) schemes: commonly known as 'final salary', these schemes build a guaranteed income at the retirement age, based upon years of service and salary, though new schemes are generally a rarity.

Workplace pensions: All employers must offer a workplace pension by law and automatically enroll employees, to enable pension contributions to be paid by the employee, the employer and the government. These are commonly set up as a 'DC' scheme.

Tax benefits

Contributions to pension schemes, where meeting certain criteria, can reduce your taxable earnings and therefore your marginal rate of tax, with basic rate tax relief applied within the pension, and tax relief at higher or additional rates being reclaimed via your tax return (unless paying via your workplace pension with a net pay arrangement or 'salary exchange', in which case no tax return is required).

Growth within a pension is free from both capital gains tax and income tax, resulting in 'gross roll-up', a positive impact on growth of growth already achieved.

Now, for tomorrow

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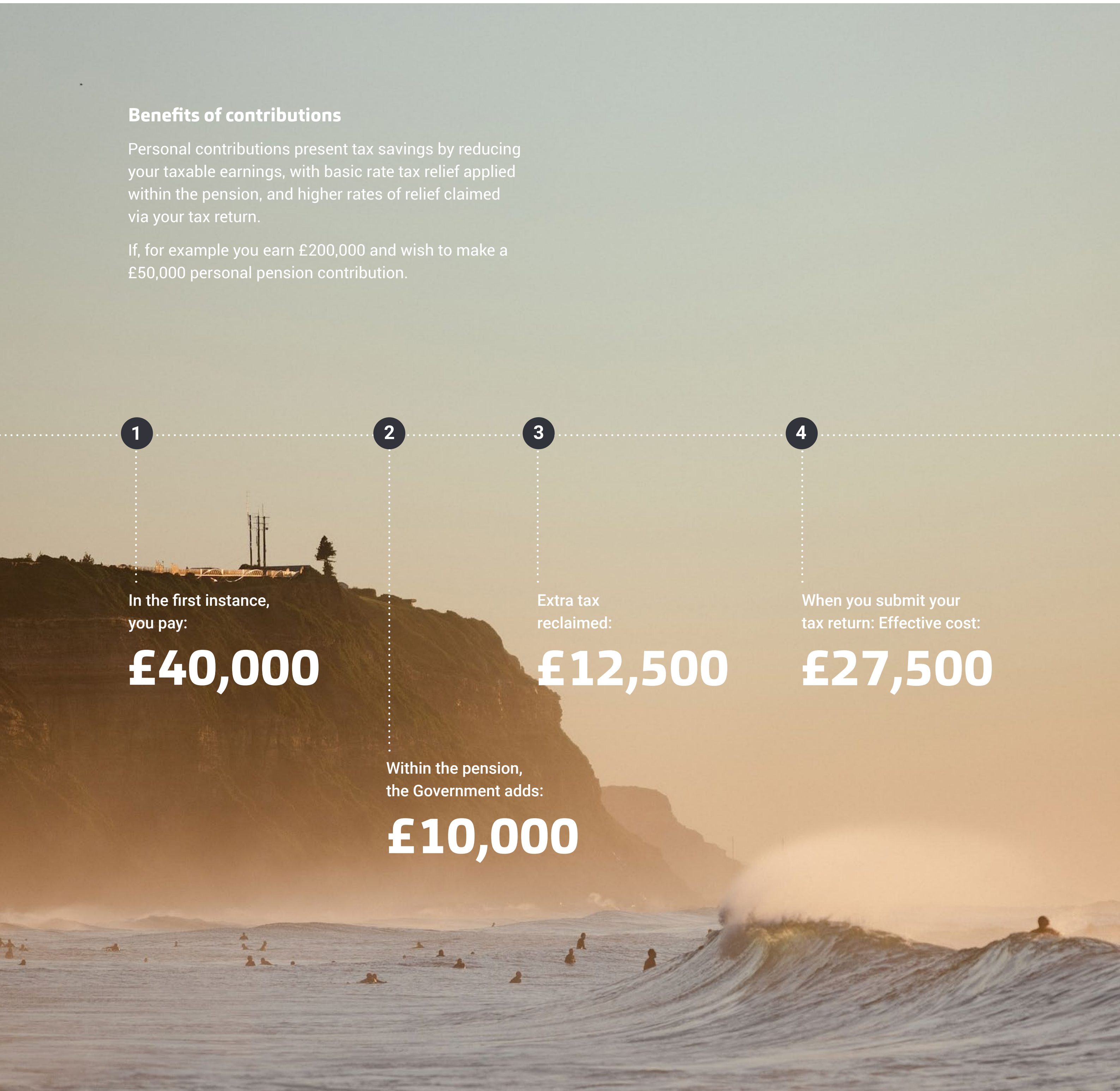
Growing your Defined Contribution pension fund

Various investments can be held within a pension.

For typical pensions set up by workplaces, or group personal pensions, a range of funds are available to choose from – though often limited. Some will be sector or asset class specific, and some will be risk-rated funds.

Some pension contracts are structured as Self-Invested Personal Pensions (SIPPs), whereby a greater range of underlying investments can be held, including direct shares and potentially commercial property.



Benefits of contributions

Personal contributions present tax savings by reducing your taxable earnings, with basic rate tax relief applied within the pension, and higher rates of relief claimed via your tax return.

If, for example you earn £200,000 and wish to make a £50,000 personal pension contribution.

1. In the first instance, you pay: **£40,000**
2. Within the pension, the Government adds: **£10,000**
3. Extra tax reclaimed: **£12,500**
4. When you submit your tax return: Effective cost: **£27,500**

Slightly higher rates of tax relief on contributions can also be achieved if your employer will allow you to exchange your salary into a pension, reducing your gross earnings and what is assessable for National Insurance.

Pension annual allowance

You can technically pay as much into a pension as you want, but the amount of tax relief is limited to a gross pension contribution based on the lower of your UK relevant earnings, or £60,000 per tax year (2024/25).

If you have no employment earnings, you are restricted to £3,600 gross. Where your earnings are higher than £260,000 (adjusted Income) in a tax year, the £60,000 annual allowance is reduced by £1 for every £2 of earnings in excess, to a maximum contribution of £10,000 where earnings are in excess of £360,000.

It's also possible, in some cases, to 'carry forward' unused pension allowances from the previous 3 tax years.

Rules for company owners

As part of a limited company, Directors can choose to make pension contributions for themselves, as well as their employees. Making contributions as a Director to your own pension is a very tax efficient way of extracting capital from the business.

Pension contributions are deemed to be allowable expenses where made 'wholly and exclusively' for the purposes of the business, therefore reducing corporation tax.

It's important to remember that Director contributions are still restricted to the pension annual allowance of £60,000 (2024/25).

Key considerations

1. Pension contributions are generally a very tax efficient way to save for retirement.

2. When accessing your pension, 25% of the fund is currently available as 'tax free cash'. The remainder can be withdrawn, taxable at marginal rates of income tax, potentially giving a degree of control as to how much tax you pay in retirement if you also have other sources of income.

3. You can use your pension assets to purchase a guaranteed income, called an 'Annuity', so to avoid relying on investment returns to produce a sustainable income in retirement.

4. Pensions above the historic lifetime allowance may be subject to additional tax charges on death. Given the benefit of pensions tax relief, and with contributions being made by an employer, it can however potentially still be worth making further contributions and breaching this, though it is worth consulting a financial adviser for guidance specific to your personal situation.

5. Whilst the same tax rules generally apply to most pension contracts (aside from some older pensions that have protections or guarantees in place), other features such as investment range, the ways in which they can be accessed, cost and administration, do differ greatly between providers. It is therefore worth reviewing these with a financial adviser to check whether the pension best meets your needs.

6. At the time of writing, pensions are outside of the estate for Inheritance Tax (IHT) purposes, and for those with larger estates, it may be beneficial to limit the use of assets within a pension and, instead, first disinvest assets that would otherwise be assessable for IHT.

Risk considerations

Key Risks: Capital at risk. Past performance is not a guide to future performance. The value of an investment and the income generated from it can go down as well as up, and is not guaranteed, therefore you may not get back the amount originally invested.

Investment markets and conditions can change rapidly. Investments should always be considered long term.

This Information represents our understanding of current law and HM Revenue & Customs practice as at 01/09/2024. Tax assumptions and reliefs depend upon an investor's particular circumstances and may change if those circumstances or the law change.

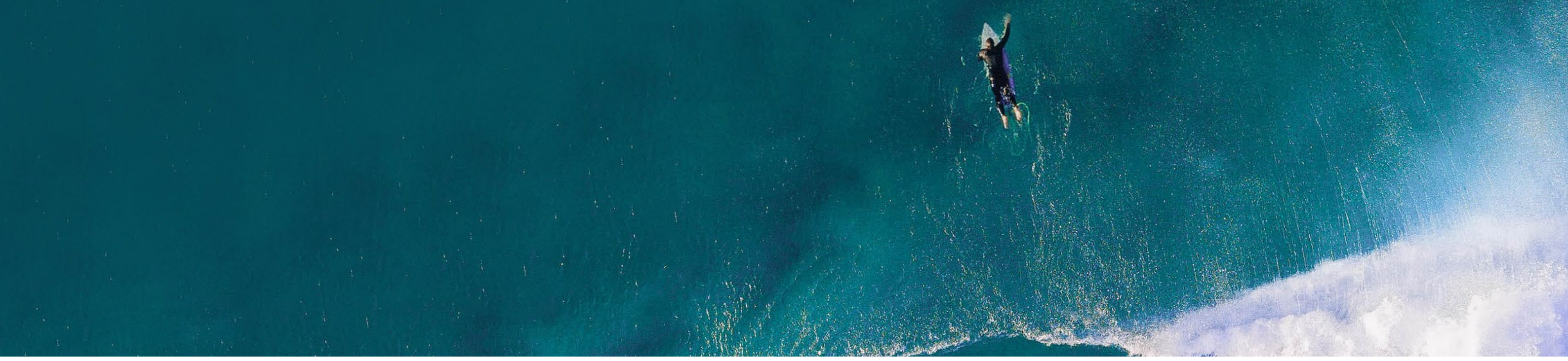
In particular, the information provided will not address your personal circumstances, objectives, and attitude towards risk. Therefore, you are recommended to seek professional regulated advice before taking any action.

Past performance is no guarantee of future returns. The price of units and the income from them can fall as well as rise.

This investment is intended as a long-term investment and under current HM Revenue & Customs' practice it's not normally possible to access the fund(s) prior to the age of 55.

The minimum age will increase to 57 from 2028 with further increases expected as the State Pension Age goes up.

Please be aware that there may be occasions when an individual fund or funds may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined funds being recommended is still designed to meet your stated tolerance. Tax rules are subject to change.



Risk Warnings

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