Green Financial Advice Limited
Bective House,
10 Bective Place,
London, SW15 2PZ

Tel: 0800 170 7400
Email: info@iangreen.com
Web: www.iangreen.com

FACTSHEET

Your money, your choice

Supporting your future financial requirements

You can pay into as many pension schemes as you want; it depends on how much money you can set aside. There are several different types of private pension to choose from, but in light of recent government changes the tax aspects can require careful planning. So what do you need to consider?

BUILDING UP A SUBSTANTIAL PENSION POT

The UK Government currently places no restrictions on the number of different pension schemes you can be a member of. So, even if you already have a workplace pension, you can have a personal pension too, or even multiple personal pensions. These can be a useful alternative to workplace pensions if you're self-employed or not earning, or simply another way to save for retirement.

Any UK resident between the ages of 18 and 75 can pay into a personal pension – although the earlier you invest, the more likely you are to be able to build up a substantial pension pot. However, ignoring any unused annual allowance that may be available to carry forward, the maximum that can normally be contributed to all your pensions during the tax year and receive tax relief (known as the 'annual allowance') is £40,000. Some people who are high earners with 'threshold income' above £110,000 and 'adjusted income' of £150,000 or more will be subject to tapering and have a reduced Annual Allowance.

TAX RELIEF ON PENSION CONTRIBUTIONS

A private pension is designed to be a tax-efficient savings scheme. The Government encourages this kind of saving through tax relief on pension contributions.

In the 2018/2019 tax year, pension-related tax relief is limited to either 100% of your UK earnings, or £3,600 per annum – whichever is highest. Contributions are limited by the current annual (£40,000) and lifetime allowance (£1,030,000) for most people, but not all, so it will be worth checking how you are affected with your financial adviser.

PENSION TAX RELIEF RATES:

- Basic-rate taxpayers will receive 20% tax relief on pension contributions
- Higher-rate taxpayers also receive 20% tax relief, but they can claim back up to an additional 20% through their tax return
- Additional-rate taxpayers again receive 20% tax relief, but they can claim back up to a further 25% through their tax return
- Non-taxpayers receive basic-rate tax relief, but the maximum payment they can make is £2,880, to which the Government adds £720 in tax relief, making a total gross contribution of £3,600

ANNUAL ALLOWANCE

The annual allowance is the maximum amount that you can contribute to your pension each year while still receiving tax relief. The current annual allowance is capped at £40,000, but may be lower depending on your personal circumstances.

In April 2016, the Government introduced the tapered annual allowance for higher earners. For individuals with 'threshold income' above £110,000 and 'adjusted income' of £150,000 or more, the standard £40,000 annual allowance will be reduced by £1 for every £2 of 'adjusted income' they have over £150,000. However, the maximum reduction will be £30,000 – taking the highest earners' annual allowance down to £10,000.

Any contributions over the annual allowance won't be eligible for tax relief, and you will need to pay an annual allowance charge. This charge will form part of your overall tax liability for that year, although there is the option to ask your pension scheme to pay the charge from your benefits if it is more than £2,000 and contributions to that scheme exceeded £40,000. It is worth noting that you may be able to carry forward any unused annual allowances from the previous three tax years in order to reduce, or eliminate, any annual allowance charge payable.

LIFETIME ALLOWANCE

The lifetime allowance (LTA) is the maximum amount of pension benefit that can be drawn without incurring an additional tax charge, currently £1,030,000. What counts towards your LTA depends on the type of pension you have:

Defined contribution – personal, stakeholder and most workplace schemes The amount of money in your pension pots that goes towards paying you, however you decide to take the money

Defined benefit – some workplace schemes Usually 20 times the pension you get in the first year plus your lump sum – check with your pension provider

Your pension provider will be able to help you determine how much of your LTA you have already used up. This is important because exceeding the LTA will result in a charge of 55%

Green Financial Advice Limited
Bective House,
10 Bective Place,
London, SW15 2PZ

Tel: 0800 170 7400
Email: info@iangreen.com
Web: www.iangreen.com

Green
FINANCIAL ADVICE LIMITED

FACTSHEET

on any lump sum and 25% on any other pension income such as cash withdrawals. This charge will usually be deducted by your pension provider before you start getting your pension.

PENSION PROTECTION

It's easier than you think to exceed the LTA. If you are concerned about exceeding your LTA, or have already done so, it's essential to obtain professional financial advice. It may be that you can apply for pension protection. This could enable you to retain a larger LTA and keep paying into your pension – depending on which form of protection you are eligible for. We can assess and review the options available to your particular situation.

ALTERNATIVE SAVINGS

In addition to pension protection, if you have reached your LTA (or are close to doing so), it may also be worth considering other tax-effective vehicles for retirement savings, such as Individual Savings Accounts (ISAs). In the current tax year, individuals can invest up to £20,000 into an ISA.

The Lifetime ISA launched in April 2017 is open to UK residents aged 18 or over but under 40, and will enable younger savers to invest up to £4,000 a year tax-efficiently –any savings you put into the ISA before your 50th birthday will receive an added 25% bonus from the Government. After your 60th birthday, you can take out all the savings tax-free, making this an interesting alternative for those saving for retirement.

PENSION BENEFICIARIES

There will normally be no tax to pay on pension assets passed on to your beneficiaries if you die before the age of 75 and before you take anything from your pension pot – as long as the total assets are less than the LTA. If you die aged 75 or older, the beneficiary will typically be taxed at their marginal rate. ■

WHERE ARE YOU ALONG YOUR RETIREMENT JOURNEY?

There is no one-size-fits-all tax-efficient solution when it comes to planning for your retirement. So wherever you are in your retirement journey, we're here to support you, whether it's starting a pension, saving more into your plan or helping with your options for retirement. To review your unique situation, please contact us.