Symphony
FINANCIAL ADVISERS

Why top up my Pension

April 2018

Pensions are a tax-efficient way to save for your retirement. The addition of tax relief boosts the money you pay in to your pension and can help your pension pot grow further. All pensions benefit from tax-efficiency but how they get that tax benefit depends on the type of pension you have.

Maximising how much you pay in to your pension in the years before retirement can immediately boost the size of your fund with the addition of tax relief. Even more so, if you are a higher-rate taxpayer, as the following example illustrates:

1. A higher-rate taxpayer contributes £80 into their pension.
2. The government adds £20 tax relief which boosts the total contribution to £100. The taxpayer can also claim a further £20 of higher-rate relief through a tax return, effectively reducing the overall cost of the £100 gross contribution to just £60.

If you're a UK taxpayer, in the tax year 2018/19 the normal rule is that you'll get tax relief on your pension contributions of up to 100% of your earnings or a £40,000 annual allowance, whichever is lower.

- For example, if you earn £20,000 per year but put £25,000 into your pension pot you'll only get tax relief on £20,000.
- If you earn £50,000 and want to put that amount in your pension scheme in a single year, you'll normally only get tax relief on £40,000. Any contributions you make over this limit will be subject to Income Tax at the highest rate you pay.

Money purchase pensions which includes personal and stakeholder pensions are called 'defined contribution pensions' and these aim to build up a pot to pay you a retirement income based on contributions from you and/or your employer and through investment returns.

There is an exception to the normal rule of paying £40,000 in to your pension. If you have a defined contribution pension, the annual allowance reduces to £10,000 in some situations. The £40,000 annual allowance will be reduced if you have an income of over £150,000, including pension contributions.

You can carry forward unused pension contribution allowances from the previous three years, as long as you were a member of a pension scheme during those years.

As there is a limit on the contributions you can pay into your pensions each year that qualify for tax relief it is important we discuss this with you.

You normally can't take your money out until you reach the age of 55 (age 57 from 2028). Please think of all the top-ups you'll receive from the taxman over the years that will be paid into your pension!

Laws and tax rules may change in the future. The information here is based on our understanding in April 2018. Your personal circumstances also have an impact on tax treatment.

Remember with any investment including pensions values can go up or down and could be worth less than what was paid in.