

Pensions and retirement planning



Introduction

Planning for retirement is essential to ensure financial security later in life. The UK pension system offers several options, from state pensions to workplace and private pension schemes. This guide explains the key types of pensions, recent legislative changes, and tax implications to help individuals make informed decisions.

The State Pension

The State Pension is a government-provided pension based on your National Insurance (NI) contributions.

Key Features:

- **Weekly Amount:** As of April 2025, the full new State Pension is £230.25 per week, following a 4.1% increase in line with the triple lock mechanism.
- **Qualifying Years:** You need 35 qualifying years of NI contributions for the full amount.
- **Minimum Requirement:** A minimum of 10 qualifying years is necessary to receive any State Pension.
- **State Pension Age:** Currently 66, rising to 67 by 2028.

How to Check Your State Pension Entitlement

Use the government's online State Pension Forecast Tool to check your expected pension. If you have gaps in your NI record, you can buy back missing years to boost your pension.

Workplace Pensions (Auto-Enrolment)

Under auto-enrolment, most UK employees are automatically enrolled into a workplace pension scheme.

Key Features:

- **Employee Contributions:** Typically 5% of salary (before tax).
- **Employer Contributions:** Minimum of 3%.
- **Tax Relief:** Contributions receive tax relief at the individual's marginal rate.

Opting Out vs. Staying In:

Employees have the option of opting out of the Workplace Pension. For most employees this is not advised, as opting out means losing employer contributions and tax relief. Staying in builds long-term retirement savings with employer support.

Private & Self-Invested Personal Pensions (SIPPs)

Private pensions are individual plans offering greater control over investments.

Key Features:

- **Annual Allowance:** You can contribute up to £60,000 per year or 100% of your salary, whichever is lower.
- **Tax Relief:** Contributions receive 20%-45% tax relief, depending on income.
- **Tax-Free Lump Sum:** From age 55 (rising to 57 in 2028), 25% of the pot can be withdrawn tax-free.
- **SIPPs (Self-Invested Personal Pensions)**
- Offer more investment flexibility, allowing investment in stocks, funds, and bonds.
- Suitable for self-employed individuals or those wanting control over their pension investments



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Tax benefits of pension contributions

Currently basic rate taxpayers receive 20% tax relief from personal pension contributions. Higher-rate taxpayers 40%; and additional-rate taxpayers 45% relief on contributions.

Employers can also pay directly into employee's pensions. These contributions are exempt from National Insurance and a deductible expense for Corporation Tax purposes.

Historically, pensions were outside your estate for IHT purposes. However, from April 2027, most pension death benefits will be included in the deceased member's estate for IHT purposes.

Accessing Your Pension

From age 55 (57 from 2028), you can access your pension savings. Options include:

- Lump Sum Withdrawal: 25% tax-free; the remainder taxed as income.
- Income Drawdown: Keep funds invested and take regular income.
- Annuity Purchase: Convert savings into a guaranteed income for life.

Once accessed there may be tax and other restrictions on future pension contributions

Pension planning top tips

- Start early. To quote Einstein "The most powerful force in the Universe is compound interest"
- Maximise employer contributions. Take full advantage of any matching schemes or company contributions from your own company
- Regularly review investments: Ensure your pension funds align with your retirement goals
- Seek professional advice: A registered financial advisor can help optimise your pension strategy, particularly in light of recent legislative changes