

Your options for your pensions

Outline

This factsheet outlines key aspects and tax considerations of pensions, from growing your pension to using it in retirement. A robust plan provides an overall strategy to coordinate your decisions, balance your priorities, and achieve your goals,

potentially leaving you thousands of pounds better off. It could be something as simple as consolidating old pensions, or complex matters such as making the most of tax breaks. Consider your pension options now and in the future.

What is a pension?

A pension is a long-term investment plan to provide retirement income. Pensions have favourable tax treatment, so it's important to take advantage of these benefits. There are three general types:

- **The new State Pension** provides a guaranteed income from State Pension age (now 66 and set to rise to 67 from 2028) for the rest of your life. The maximum State Pension is currently £221.20 per week, and requires 35 years of qualifying National Insurance contributions. If you have fewer qualifying years then your State Pension will be reduced on a sliding scale.
- **Defined contribution (DC)** – This is the most common form of private pension. The pension grows through regular contributions by you and your employer. The pot also grows with the

investments that you choose. Most DC pension schemes have a wide range of investment choices that can be tailored to your risk profile and goals. Switching DC pensions is simple, which makes it easy to consolidate several old pensions into one. You have flexible access to your DC pension from age 55 (57 from 2028).

- **Defined benefit (DB)** – These are much less common than DC pensions, but are still offered in the public sector. A DB pension has benefits built up over time depending on your salary and years of service. It provides benefits for life, and may include a reduced spouse's pension on death. These benefits typically end on the death of the spouse. Transferring out of a DB pension may not be suitable unless there are clear reasons for doing so.

Suitability – Is your pension aligned to your current goals?

Private defined contribution pensions have a wide range of investment options. These investment choices should be tailored to your needs based on your risk appetite, investment time horizon, and your objectives. It is important to review your pension(s) regularly to ensure it is aligned to your latest goals.

It is common for people to have a number of jobs during their career, and to have a new pension scheme with each new employer. Having several old pension plans brings additional paperwork and may also bring extra costs. Combining your pensions provides clarity, reduces hassle, and ensures you are on track to meet your goals.

What are the tax benefits of my DC pension?

There are three important tax benefits of defined contribution pensions:

- **Tax relief:** Contributions to your pension are deductible against income tax for employees, subject to certain limits and restrictions. Basic rate taxpayers save 20% tax on contributions, while higher and additional rate taxpayers save 40%/45% on their contributions. Higher earners losing the tax-free personal allowance of £12,570 pay 60% tax on a portion of their income. By making a pension contribution you can regain some, or all, of your personal allowance. Your employer will make tax-deductible contributions on top.

- **Tax-free growth:** Investments in your pension are not subject to income or capital gains tax.

- **Tax-free cash:** When drawing your pension, 25% of the total amount can be taken tax-free. This can be either as a cash lump sum, or taken flexibly at any time during your retirement. The balance of your pension will be subject to income tax at your marginal rate (but not National Insurance). Careful planning can help keep your tax bill to a minimum. For example, by using the tax-free personal allowance of £12,570 each year, and keeping your pension income within the basic rate tax band.

Restrictions and other potential pitfalls

- Private pensions currently feature outside of the estate, so can be passed on to beneficiaries tax-free. However, from April 2027 unused pension assets will form part of the estate for IHT.
- There are some other restrictions to watch out for. Most people can pay in up to £60,000 per year, but this is reduced (tapered) for those earning over £260,000.

The annual allowance can be as little as £10,000 if you have taken pension income in the past, or if your adjusted income is over £360,000.

What are my pension options in retirement?

Private DC pensions and self-invested personal pensions (SIPPs) offer flexibility in retirement:

- You can draw money at any time from age 55.
- You do not have to draw money from your pension if you do not need it. It will continue to grow tax-free until you do.
- You can take as much or as little as you need, in regular or ad hoc payments.
- You can change your payments at any time, or stop them if you don't need the income.
- 25% of your pension can either be drawn tax-free as a lump sum, or as a series of payments over time.
- You can use your pension pot to purchase an annuity from an insurance company, which will provide a guaranteed income for the rest of your life.

Top pension considerations

- Are you tracking all your pensions? Do you know all the details?
- Have your pension plans been reviewed? Are they aligned with your risk profile and goals?
- Are you maximising your pension contributions? How much tax could you save by topping up your pension?
- What options are best for your pension after retirement? Would you prefer a lifetime annuity, or flexible drawdown?
- How do your pensions stack up against your use of other tax-privileged investments, in particular ISAs?
- Are you on track for a comfortable retirement income? When can you afford to retire?
- Are you doing all that you can to minimise your tax burden?

Speak to a Lumin expert to review your current pensions and to discuss your options.

Lumin pension planning

Prudent retirement planning sets you up for the next stages of your life. There are important decisions to get right, and it is always good to plan early. Speak to a Lumin expert for professional and independent advice around State and private pensions, ISAs and investments, inheritance and tax planning, and financial protection for yourself and your loved ones.

In expert hands with Lumin

Lumin is a leading independent financial adviser headquartered in St Albans, with particular reach across London and the South East. We offer trusted and professional advice on pensions and retirement, investments, inheritance and tax planning, financial protection for individuals and businesses, and mortgages. Lumin's financial plans are geared toward growing, or protecting, wealth by optimising our clients' income, assets, tax burden and financial security. Whatever your financial ambitions, you can count on our expertise to provide peace of mind. We are backed by VZ Group, the leading independent financial services provider in Switzerland.

 **Financial advice made easy: Scan the QR code to arrange a complimentary meeting over a coffee.**

London St Albans info@luminwealth.co.uk www.luminwealth.co.uk 03300 564 446	5 Sandridge Park Porters Wood St Albans AL3 6PH	Cornwell House 21 Clerkenwell Green London EC1R 0DX	Heath House 51 Dane Street Bishop's Stortford CM23 3BT	4 Pauls Hill Penn High Wycombe HP10 8NZ
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