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GUIDE TO

BUILDING A BIGGER PENSION POT

How to ensure you fully exploit the benefits and allowances available to you

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Welcome to our *Guide to Building a Bigger Pension Pot*. As we embark on the 2024/25 tax year, this guide looks at the opportunities to revitalise and boost your pension savings strategy, setting a solid foundation for future financial stability. Early attention to your private pension at the onset of the fiscal year is not just about cultivating beneficial saving habits; it's also about ensuring you fully exploit the benefits and allowances available to you.

Delaying until the end of the tax year might seem convenient, yet acting early and promptly in this new tax year allows your investments more time to grow. Leveraging the power of compound growth can significantly bolster your pension pot and, by extension, your retirement prospects.

Maximising your Annual Allowance

The annual pension allowance represents the maximum sum that your employer and any external parties can contribute to all your pension schemes within a tax year without triggering a tax charge. As established last year, this cap is set at £60,000 or 100% of your annual earnings, depending on which is lower.

However, this limit may decrease for high earners or those without earnings, and individuals who have commenced withdrawals from their pension funds might face the Money Purchase Annual Allowance, lowering their allowance to £10,000. If your financial situation permits, maximising your pension contributions early in the tax year enables you to fully utilise the annual allowance and potentially reduce your tax liability.

Securing extra savings through tax relief

Tax relief stands as a compelling incentive, rendering pension plans amongst the most tax-efficient vehicles for retirement savings. For the majority of UK taxpayers, this equates to a government top-up of 20% on pension contributions, effectively reducing the cost of a £100 addition to your pension to just £80 from your pocket.

Higher and additional rate taxpayers may be entitled to further relief, though claims beyond the basic rate require a self-assessment tax return. It's worth noting that some workplace pensions may apply tax relief differently, such as through salary sacrifice schemes, so it's advisable to verify the specifics with your employer.

Leveraging workplace pension schemes

Workplace pension schemes significantly enhance your ability to save for retirement, with compulsory contributions from both you and your employer. A minimum total contribution of 8% of your qualifying earnings is required, including at least a 3% contribution from your employer.

Many employers are willing to match your contributions up to a certain level, potentially doubling the investment in your retirement fund. Investigating whether increasing your contributions could lead to higher employer contributions is an astute strategy for maximising your pension growth.

Leveraging bonus sacrifice for pension enhancement

In the realm of financial planning, particularly regarding retirement savings, the concept of bonus sacrifice stands out as a strategic manoeuvre. Employees who receive work bonuses have the opportunity to allocate a portion or the entirety of these bonuses directly into their pension schemes.

This approach can lead to substantial savings on both tax and National Insurance contributions, effectively allowing more of the bonus to contribute towards long-term retirement savings.

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Optimising tax-free Personal Allowance

The tax year 2024/25 offers individuals a tax-free Personal Allowance of £12,570, a crucial figure in personal finance management. However, this allowance decreases by £1 for every £2 of income above £100,000, ultimately disappearing once income surpasses £125,000.

By strategically contributing to your pension, you can lower your taxable income and potentially reclaim any lost personal allowance. This results in receiving tax relief at an effective marginal rate of 60%, a significant advantage for your pension contributions.

Securing Child Benefit through pension contributions

Adjustments announced in the March 2024 Spring Budget have positively impacted the High-Income Child Benefit Charge threshold, now raised to £60,000. With the complete cancellation threshold also increased to £80,000, fewer families will find their Child Benefit reduced or nullified.

Enhancing pension contributions can effectively diminish taxable income for those with earnings within these brackets, thereby retaining Child Benefit entitlements. Even for earners above £60,000, applying for Child Benefit to accrue National Insurance credits remains beneficial, which is vital for the State Pension.

READY TO DISCUSS HOW TO ENHANCE YOUR PENSION?

Navigating the complexities of pension contributions and tax benefits requires careful consideration and professional financial advice. We are here to assist if you need further clarification or wish to explore more personalised financial strategies to enhance your pension. Please do not hesitate to contact us for support and guidance to help you achieve a secure and prosperous retirement.

THIS GUIDE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

TIME TO GIVE YOUR PENSION SAVINGS A BOOST?

If you want guidance on making smarter retirement planning decisions, regardless of where you stand on your financial journey, we can help devise a strategy to achieve your goals.

To find out more, please get in touch with us today – we look forward to hearing from you.

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