FORMAT

Basics of Pensions - Clive Cass

Advanced aspects of pensions & SSAS - Richard Mattison

Q&A

Close by 9.30

Pensions

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Clive qualified in 1982 and after several years in each of a large then small accountancy practice as well as in a Telecoms company he set up his own practice in 1991. He has over 30 years of managing the accountancy and tax requirements of hundreds of different clients across dozens of industries and has a reputation for resolving client's problems and in many cases preventing them arising. Clive's focus is always on how to maximise his clients personal and family wealth by minimising tax, maximising profit and pro active tax planning with a long term strategy.

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PERSONAL PENSIONS

- The terms ‘private pensions’ or ‘personal pensions’ usually refer to pensions set up by an individual, rather than through an employer or workplace.
- A private or personal pension is a way to save money for your retirement. You save regular or lump sums with a pension provider and receive tax relief on top – giving your savings pot an extra boost.
- Your money will usually be invested in stock market-linked funds and locked away until you reach the age of 55 (expected to rise to 57 from 2028).
- You then have several options, including withdrawing up to 25% tax free or buying an annuity which will give a regular income for the rest of your life.
- Most private pensions are flexible and portable so if you move jobs or become self-employed you can continue contributing to the same plan. You’ll also have flexibility when it comes to deciding what to do with your pension pot – either taking some as a lump sum, leaving it to build further or taking an income (annuity) from it.

PERSONAL PENSIONS

- People can contribute to personal pensions up to the lower of:
  - £60,000
  - 100% of their pensionable earnings

- Pensionable earnings include
  - Wages and Salaries
  - Profits from trading activities in personal names ie self employments

- Pensionable earnings exclude
  - Investment income including dividends
  - Property income

TAX RELIEF ON PERSONAL PENSIONS

- Money saved into a personal pension is subject to tax relief up to a maximum permitted limit.
- Pensions tax relief is paid at the highest rate of income tax that you pay, determined by your income. So either (basic rate) 20%, (higher rate) 40% or (additional rate) 45%.
- This means that if basic rate taxpayers pay £80 into a pension it will be topped up to £100 through the tax relief (at 20%). Higher rate taxpayers would earn even more, but would need to claim with a self-assessment tax return. Non-taxpayers can still get the 20% tax relief.
- There is a cap on pension tax relief, which currently stands at 100% of your income with a maximum of £60,000 of contributions per tax year. There is currently no lifetime allowance (LTA) if you haven't started pension drawdown before 6th April 2023.
- You can take the proceeds from a personal or private pension from age 55 (this is expected to rise to 57 from 2028). The money can be taken as a lump sum (but only 25% can be taken tax free), or you can use the cash to buy an annuity – which will pay out a regular income for life.
- Alternatively, you can keep your pensions pot invested to withdraw later or keep some invested while withdrawing a flexible income.

PERSONAL PENSIONS FOR DIRECTORS THROUGH THEIR OWN LIMITED COMPANIES

- Directors can contribute directly from their company, as an employer contribution, although they will not get personal tax relief at any rate the company will get tax relief on the contributions paid.
- The director also avoids paying Income Tax and Employees NI and the company also avoids paying Employers NI so it is a great way to shift profits from the company to a pension fund.
- Contributions are limited to £60,000 and this is not affected by earnings if lower than £60,000.
- If the full £60,000 is not used you may be able to utilise carry forward which allows you to maximise your allowances for the previous 3 tax years (provided you first maximise the current tax year's allowance).

SIPPs

- A SIPP is a self-invested personal pension. This is a type of private pension that gives you more autonomy over which assets to invest in. It's often thought of as a tax-efficient wrapper within which you can save, invest and build up wealth for your retirement.
- You can choose and manage the investments yourself or with the help of a financial adviser who provides a 'discretionary management service' where, for a fee, they make the day-to-day investment decisions for you, based on your stated aims.
- The type of investments you can choose include bonds, shares and funds, exchange-traded funds, open-ended investment companies (OEICs), unit trusts and even commercial property and land.
- You can get tax-relief if you're under 75 and you're a UK resident. Basic-rate tax relief from the government is 20% of contributions. If you pay higher-rate tax (40%) you can claim up to a further 20% in tax relief through your tax return. Additional-rate taxpayers (45%) can claim back up to a further 25% - so 45% in total
- You can access the money in your SIPP from the age of 55 (this is due to rise to 57 from 2028). You can take your cash either as a lump sum, draw it down gradually or use it to buy an annuity – which will provide you with a regular income.
- The maximum amount you can contribute in total from all sources each tax year is usually £60,000. If you haven't used your full allowance from previous years, you might be able to carry it forward
- The lifetime tax-free allowance – the total amount you can have in all your pensions together over your life without incurring a tax charge – is currently uncapped, as long as you haven't started pension drawdown before 6th April 2023.

WORKPLACE PENSIONS EMPLOYER PENSIONS

- Workplace pensions are offered by employers and typically the employee and employer make set contributions, with the money invested in a range of assets.
- **Final salary or defined benefit schemes.**
- Your pension is linked to your salary and based on your pay at retirement and the number of years you've been in the scheme. It doesn't rely on the performance of investments.
- You pay a percentage of what you earn, and your employer pays the rest.
- They offer an inflation linked and guaranteed income for life.
- They also offer a tax free lump sum which can often be varied in amount although this then does then cause a variation in the annual pension.
- A spouse will normally inherit a proportion, usually around 50%, of your pension on death but otherwise cannot be inherited by anyone else eg children unless minors or in care etc.
- They are generally only available from national retirement age and there can be a penalty for taking it earlier. Unlike personal pensions which can be taken from age 55 to 57.
- Final salary schemes are now rare, and most employers no longer offer them as they are very expensive for companies to run

WORKPLACE PENSIONS EMPLOYER PENSIONS

- **Money purchase or defined contribution schemes.** The money you pay in is invested (usually in the stock market through equity funds) and your pension is based on how the underlying investments perform. You'll usually pay a percentage of your wages into the scheme and your employer also pays in a regular amount. Your employer may also have to offer you automatic enrolment into a workplace pension, in which case they will be obliged to make contributions

WORKPLACE PENSIONS AUTO ENROLLMENT

- Pension auto-enrolment is a government initiative to make sure that companies provide pension opportunities for as many employees as possible.
- Each company in the UK must provide a pension scheme that is more opt-out than opt-in. This means you'll be automatically enrolled if you're aged between 22 and state pension age and earn at least £10,000 per year.
- With an auto-enrolment pension, the total minimum contribution is 8% with the employer's minimum contribution being 3%. In some schemes, if the employer agrees to pay more, then you can pay less.
- You can pay as much as you like into your pot, but the maximum you can pay into all of your pension plans combined before being taxed is £60,000 for the 2023/2024 tax year or 100% of your salary (whichever is lower).
- The Employers contributions do not attract any tax relief at basic or higher rates but are an otherwise "free" contribution from your employer who themselves do get tax relief in their own accounts

WORKPLACE PENSIONS AUTO ENROLLMENT

There are certain rules that govern how workplace pensions are run. These include:

- Your employer cannot refuse if you want to join their pension scheme
- Your employer does not have to contribute to the pension if you earn less than £520 a month
- The employer must pay any minimum contributions on time
- you can choose to opt out of a workplace scheme at any time, but because of the employer contributions and tax benefits you should seriously consider whether it would be the right choice.
- If you do opt out and want to rejoin, your employer must offer you the option to rejoin within a year. They must also enrol you back in at least every three years if you've opted out and you're still eligible for automatic enrolment.

WORKPLACE & PERSONAL PENSIONS PENSIONS - STAKEHOLDER PENSIONS

Stakeholder pensions must meet minimum standards set by the government. These include:

- A legal limit on charges – 1.5% a year of the value of your pension pot in the first ten years, then 1% a year (but if an employer is using a stakeholder pension to meet their automatic enrolment duties there will be a charge cap of 0.75%)
- Charge-free transfers
- Being able to stop or re-start contributions at any time, without penalty
- Low minimum contributions of no more than £20
- A default investment fund – your money will be invested in this if you don't want to choose
- Your pension provider will claim tax relief at the basic rate and add it to your pension pot.
- If you're a higher rate taxpayer, you'll need to claim the additional relief through your tax return.

WORKPLACE & PERSONAL PENSIONS PENSIONS - STAKEHOLDER PENSIONS

WORKPLACE STAKEHOLDER PENSIONS

- Stakeholder pensions or group personal pensions are similar to private pensions. Your employer organises the scheme, but your contract will be directly with the pension provider.
- The main difference from arranging a personal pension yourself is that with a stakeholder scheme the investment choices may be made for you by the provider. Your employer may contribute, but they are not obliged to do so. This type of pension could be an option if you are not eligible to be automatically enrolled into your workplace pension scheme.

PERSONAL STAKEHOLDER PENSIONS

- Stakeholder pensions are a type of individual pension. Some employers offer them as mentioned above but you can also start one yourself so are ideal for self employed or those who want a very simple and flexible solution.

STAKEHOLDER PENSIONS

- So that people who otherwise might not be able to make pension contributions because of their age, status eg unemployed and with no business or earnings etc can make contributions they can use a stakeholder pension.
- People in this category can contribute up to £2,880 (£3,600 with tax top up)
- People over age 75 can also contribute but they do not get the tax top up

HIGHER RATE TAX RELIEF ON YOUR WORKPLACE PENSIONS

- How do you know if you are getting higher rate tax relief on your workplace pensions
- If you do a self assessment how do you know whether to include your workplace pension on it and risk:
    - Getting additional tax relief you are not entitled to as you have already had it or
    - Not getting higher rate tax relief you have not had and are entitled to and can only get through self assessment
- The only way to answer this is to find out what sort of pension scheme your employer is using as it is not easy to know without doing so although some employers payslips have enough detail on them to identify the answer

HIGHER RATE TAX RELIEF ON YOUR WORKPLACE PENSIONS

- There are 2 methods used by employers to calculate the tax they deduct on wages one of which provides both basic and higher rate tax relief at source and the other only provides basic rate. Do you know which scheme your employer uses ?
- RELEIF AT SOURCE SCHEME - In this case you receive a basic rate tax top up to your contributions by way of the pension company applying to HMRC to request the basic rate tax credit which they then add to your pension pot. If your employer uses this scheme then I will need to add your pension contributions to your self assessment to extend the basic rate tax band and obtain the higher rate tax relief for you.

- NET PAYMENT SCHEME - This is where an employer, normally larger ones apply to HMRC to use a Net Pay Scheme in which case you effectively agree to a salary sacrifice of the amount of the pension contributions and as such your total tax bill is reduced even by the higher rate tax and so you effectively receive higher rate tax relief at source and do not have to claim it on your self assessment. For example if your salary is £2,500 a month and your pension contribution is £100 your gross will be reduced to £2,400 and your employer will send the £100 to the pension company. By the way this also saves both you and the employer the Employees and Employers NI so is very popular.

ANNUITIES

- A pension annuity is a product that converts your pension pot into guaranteed regular income for the rest of your life, no matter how long you live. With a pension annuity, you'll know exactly how much you're getting for ever.

- Annuities can be purchased with cash or using funds from any defined contribution pensions including SSAS, SIPP, stakeholder etc and their main features are:

  - Guaranteed income for life or preferred fixed period
  - Higher values quoted when interest rates are high
  - Elevated values for those with medical conditions and simply as we get older
  - Can be written with inflation linking and partial spousal inheritance
  - Guaranteed periods can be set e.g. if you pass away in first 10 years funds are returned etc

- Income taxable
  - Not flexible – cannot be amended e.g. for tax efficiency et
  - No participation in investment growth

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Richard was raised in the West Country before attending the University of Reading. He commenced his career in life insurance in 1988 before starting in the SSAS business in 1990. Since then he has specialised in the field of SSAS and SIPP and has managed, launched, operated and sold award-winning pension products for many years. He is an enthusiastic music lover with a special affection for Elvis Presley.