

INSIGHT

ISSUE 8

2025

NEW RULES OF INHERITANCE TAX ON BUSINESSES AND LAND

What families need to know and how
to plan for the future

PLANNING AND PREPARING FOR RETIREMENT

Why reaching our 50s and 60s often
brings retirement into sharper focus

HAVE YOU LOST TRACK OF YOUR PENSION POTS?

Step-by-step guide to help you
reclaim your lost pensions

DO YOU FALL INTO THE 60% TAX TRAP?

Making additional pension contributions
could mean lowering your effective tax rate



Insight 2025 Introduction

In this issue of Insight, over the next few years, significant changes to pensions and Inheritance Tax (IHT) rules are anticipated to transform the UK's financial planning landscape. For individuals and families, proactively adapting to these changes is critical to protecting your wealth and ensuring your legacy benefits your loved ones. This article on page XX breaks down the key elements of IHT, the changes set to take effect from April 2027, and practical strategies to help mitigate their impact. By planning ahead, you can safeguard your estate while navigating this shifting terrain.

Retiring abroad offers the opportunity to explore new cultures, enjoy a slower pace, and lower living costs. For UK citizens, careful planning is essential. Moving overseas involves more than packing; it requires understanding changes to finances, healthcare, and legal responsibilities. On page XX, we provide an overview to help you prepare for a smooth transition.

Reaching our 50s and 60s often brings retirement into focus, marking a well-earned break from years of work. For many, retirement is seen as a long holiday, with time for travel, hobbies, and family. However, achieving this vision requires careful financial planning. On page XX, we discuss how longer life expectancies and economic changes make a sound financial plan essential for maintaining your lifestyle without stress.

Losing track of an old pension pot is easier than many realise. Life changes like new jobs, moving, or name changes can complicate tracking retirement savings. An estimated £26 billion in unclaimed pensions awaits rightful owners in the UK. The good news? With effort and the right tools, finding them is possible. On page XX, we offer a step-by-step guide to help you reclaim lost pensions and secure your future. A full list of the articles featured in this issue appears opposite.

DISCOVER NEW POSSIBILITIES IN FINANCIAL PLANNING

Financial planning can feel complex, but it doesn't have to be overwhelming. Whether you're focused on securing your future, growing your wealth, or protecting what matters most, we're here to offer a fresh perspective on what's achievable. If you're ready to explore your options or simply want more information, we'd love to hear from you. Call us at 01925 765821 or email us at enquiries@mgpeb.co.uk to start the conversation.

www.mgpeb.co.uk/financial_guides

www.mgpeb.co.uk/factsheets

Source Data: [1] 'Lost Pensions 2022: What's the scale and impact?', PPI Briefing Note Number 134, Pensions Policy Institute, October 2022.

05



06



10



12



Contents

03 TEN YEARS OF PENSION FREEDOMS

Research reveals worrying trends among savers

08 PLANNING AND PREPARING FOR RETIREMENT

Why reaching our 50s and 60s often brings retirement into sharper focus

04 NEW RULES OF INHERITANCE TAX ON BUSINESSES AND LAND

What families need to know and how to plan for the future

12 DO YOU FALL INTO THE 60% TAX TRAP?

Making additional pension contributions could mean lowering your effective tax rate

06 INCOME PROTECTION INSURANCE

Cover if you're unable to work due to illness or injury



MGP (Employee Benefits) Limited

16 The Courtyard

Common Lane

Culcheth

Warrington WA3 4HA

Tel: 01925 765821

Fax: 01925 764871

Email: enquiries@mgpeb.co.uk

Web: www.mgpeb.co.uk

Mattinson Ginty & Partners (Employee Benefits) Limited

Authorised and regulated by the Financial Conduct Authority

Please note that INSIGHT magazine does not accept unsolicited contributions. Editorial opinions expressed in this magazine are not necessarily those of MGP (Employee Benefits) Limited, and MGP (Employee Benefits) Limited does not accept responsibility for the advertising content.

Ten years of pension freedoms

Research reveals worrying trends among savers

TEN YEARS AGO, PENSION FREEDOMS REVOLUTIONISED HOW PEOPLE ACCESS THEIR RETIREMENT SAVINGS. THESE CHANGES OFFERED SAVERS OVER 55 GREATER OPTIONS TO WITHDRAW AND MANAGE THEIR PENSION POTS. HOWEVER, A DECADE LATER, RESEARCH INDICATES THAT MANY INDIVIDUALS ARE MAKING CRITICAL FINANCIAL DECISIONS WITHOUT SEEKING ADVICE OR FULLY UNDERSTANDING THE TAX IMPLICATIONS^[1].



concerns about the long-term impact of these decisions. Over two in five (42%) people aged 50 or above admitted they fear running out of money during retirement. ■

NEED PROFESSIONAL ADVICE TO TAKE CONTROL OF YOUR PENSION DECISIONS?

Making the right choices regarding your pension is essential for ensuring a comfortable retirement. Whether you are considering taking a tax-free lump sum, planning for future income or are simply unsure where to begin, professional guidance can help you make informed decisions that align with your unique circumstances. Don't leave your financial future to chance. Contact us to discuss your pension options.

The survey of UK adults aged 50 and older found that only 37% of individuals with defined contribution (DC) or personal pensions considered how a lump sum withdrawal might impact their tax rate or could potentially push them into a higher tax bracket. Additionally, only 39% of respondents consulted a financial adviser before withdrawing money from their pension.

MAKING RASH DECISIONS AT 55

Worryingly, the research highlights a trend of individuals hastily accessing their pension funds as soon as they reach the minimum qualifying age of 55. Nearly 1 in 12 (8%) withdrew their tax-free lump sum within six months of their 55th birthday.

Since the introduction of pension freedoms in April 2015, retirees have been able to choose from a variety of options. These options include taking lump sums directly, withdrawing the entire pension pot, drawing a continuous income through income drawdown or purchasing an annuity for guaranteed lifetime income. Many even combine these choices to suit their circumstances. However, with so many possibilities, deciding on the best approach can be a daunting and complex task.

ALLURE OF TAX-FREE LUMP SUMS

The allure of tax-free cash remains compelling, as over half (55%) of eligible individuals choose to take the maximum 25% permitted. However, questions emerge regarding how this money is being utilised. The research found that 32% of those withdrawing tax-free sums used the funds to clear debts, including 15% who paid off a mortgage and 18% who tackled other borrowing, such as credit card balances or car finance.

Others took a more cautious approach, with 26% depositing their lump sum into a savings account or bank account. On the other hand, some chose to spend their money on home improvements (19%) or to support family members (8%).

COMPLEXITIES OF RETIREMENT PLANNING

One of the most striking revelations is how few people seek financial guidance when making these significant decisions. Alarming, 18% of those eligible to withdraw from their pension did so without consulting anyone – not even family or friends. Meanwhile, only 20% of those aged 50 or over with a DC or personal pension utilised the government-backed Pension Wise service for advice.

The research also uncovered widespread

Source data:

[1] Survey data collected between 17–19 December 2024 by YouGov plc on behalf of Royal London. All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,012 adults aged 50+, of which 311 have done something related to their workplace defined contribution pension or Personal pension/ SIPP. Fieldwork was undertaken between 17–19 December 2024. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. 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. THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.



Far-reaching consequences for retirement planning

A new era for pension funds following a significant shift in tax policy

OVER THE NEXT FEW YEARS, SIGNIFICANT CHANGES TO PENSIONS AND INHERITANCE TAX (IHT) RULES ARE ANTICIPATED TO TRANSFORM THE UK'S FINANCIAL PLANNING LANDSCAPE. FOR INDIVIDUALS AND FAMILIES, PROACTIVELY ADAPTING TO THESE CHANGES IS CRITICAL TO PROTECTING YOUR WEALTH AND ENSURING YOUR LEGACY BENEFITS YOUR LOVED ONES.

This article breaks down the key elements of IHT, the changes set to take effect from April 2027, and practical strategies to help mitigate their impact. By planning ahead, you can safeguard your estate while navigating this shifting terrain.

PENSIONS AND IHT REFORM: WHAT YOU NEED TO KNOW

NEW RULES WILL ALTER HOW PENSION FUNDS ARE TAXED

Significant reforms set to take effect will fundamentally change how pension funds and death benefits are treated for inheritance tax purposes. Historically, pensions have been a tax-efficient way to transfer wealth to future generations, with unused funds generally exempt from IHT.

From April 2027, however, any unused pension funds will be regarded as part of the deceased's estate for IHT purposes. This change has significant implications for estate planning, especially for individuals with substantial pension savings, business assets, or agricultural properties.

POTENTIAL CONSEQUENCES OF THE REFORMS

Including pension funds in IHT calculations

can raise the total estate value, potentially surpassing the IHT threshold. Anything above this threshold will be liable for a 40% tax, which might have significant financial consequences for your beneficiaries.

Additionally, the new rules cause delays in accessing pension funds. With HM Revenue & Customs (HMRC) involved in assessing these funds as part of the estate, beneficiaries may face months of waiting for the probate process to be completed. For complex estates, this period could last even longer.

CHALLENGES POSED BY DELAYED PENSION FUND ACCESS

INCREASED ADMINISTRATIVE DEMANDS ON PENSION SCHEME ADMINISTRATORS

Under the revised system, pension scheme administrators must determine the value of pension funds at the time of death and include these valuations in the IHT calculation. This process will make estate administration more complicated and could extend the settlement period, leaving beneficiaries in financial uncertainty.

Documentation must also be kept current. Beneficiary forms, Wills, and other estate planning documents need to accurately reflect the deceased's wishes to prevent complications and delays.

POTENTIAL CASHFLOW ISSUES FOR BENEFICIARIES

The delays in accessing pension funds could prove particularly challenging for beneficiaries who rely on these funds for immediate expenses. Costs such as care fees, mortgage repayments, or living expenses may become difficult to manage.

Spouses and registered civil partners will continue to be exempt from IHT, but for couples, careful estate planning will still be necessary to minimise tax exposure and preserve wealth for future generations.

KEY STRATEGIES TO MINIMISE THE IMPACT OF IHT

EVALUATE THE TOTAL VALUE OF YOUR ASSETS

To effectively manage the potential implications of these changes, start by

TRUSTS CAN OFFER CONSIDERABLE FLEXIBILITY IN ESTATE PLANNING BY REMOVING CERTAIN ASSETS FROM THE TAXABLE ESTATE.

analysing the total value of your estate, including pensions, properties, and investments. Gaining a comprehensive understanding of your financial position will help you identify opportunities for tax-efficient planning.

Lifetime gifts are another highly effective way to manage IHT. Gifts made more than seven years before your death are typically exempt from IHT, as are regular gifts out of excess income if they do not reduce the overall capital of the estate.

CONSIDER TRUSTS AS A PLANNING TOOL

Trusts can offer considerable flexibility in estate planning by removing certain assets from the taxable estate. For example, creating a trust can help shield these assets from IHT, reducing the potential burden on your beneficiaries.

Business Relief investments, which qualify for 100% IHT relief after two years, can also form an integral part of a diversified financial plan. Including assets such as these in your portfolio can reduce liabilities and provide more wealth for future generations.

WHY TIMELY PLANNING IS ESSENTIAL

ENSURE DOCUMENTATION IS COMPREHENSIVE AND UP-TO-DATE

Given the complexities introduced by these reforms, ensuring clear and thorough documentation is a vital step. Wills, pension beneficiary forms, and Powers of Attorney should all reflect your current preferences to prevent delays and eliminate ambiguity.

Additionally, regular family discussions can promote transparency and reduce conflict in more complex family arrangements. These conversations are particularly important for families with multiple beneficiaries, blended households, or business interests.

SEEK PROFESSIONAL ADVICE

Estate planning is inherently complex, and the forthcoming changes only add another layer of difficulty. A financial adviser or estate planner can provide personalised guidance tailored to your individual circumstances, helping you fine-tune your plan in light of these new rules.

SECURE YOUR LEGACY TODAY

Protecting your wealth for future generations has never been more important. With significant changes to pension and IHT rules on the horizon, now is the time to take action. By reassessing and optimising your financial and estate plans, you can mitigate potential tax liabilities and ensure that your legacy endures. ■

WANT TO DISCOVER HOW THESE REFORMS COULD AFFECT YOUR RETIREMENT AND ESTATE PLANNING?

If you'd like to discuss your specific requirements or learn more about how these reforms might impact your retirement and estate planning, don't hesitate to get in touch. Contact us today for professional advice designed to safeguard your financial future.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL 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.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAX PLANNING.



Income Protection Insurance

Cover if you're unable to work due to illness or injury

SAFEGUARDING YOUR FINANCIAL STABILITY IS MORE CRUCIAL THAN EVER IN THE UNPREDICTABLE JOURNEY OF LIFE. INCOME PROTECTION INSURANCE IS PIVOTAL IN A COMPREHENSIVE FINANCIAL STRATEGY, OFFERING YOU AND YOUR FAMILY A SAFETY NET DURING UNEXPECTED LIFE EVENTS. IT'S INSURANCE THAT WORKS WHILE YOU CAN'T. KNOWING THAT YOUR INCOME IS SECURE SHOULD UNFORESEEN CIRCUMSTANCES ARISE PROVIDES PEACE OF MIND.

Understanding the importance of income protection insurance can transform your approach to financial planning. It ensures that your family's needs are met despite adversity and that you maintain your lifestyle.

Exploring the options available can seem daunting but the benefits are significant. Whether you're employed or self-employed, income protection is a long-term insurance policy designed to ensure you receive a regular income until you either retire or are fit to return to work.

Surprisingly, according to research, only a small fraction of the UK population – less than one in ten, to be precise – has this type of cover in place^[1]. This is despite the alarming statistic that 42% of UK adults are concerned about their household's ability to cope financially if they cannot work^[2].

GENDER PROTECTION GAP

There is also a notable gender protection gap. A significant 29% of women surveyed indicated that they couldn't afford protection, in contrast to 23% of men. Moreover, over a quarter of women admitted they would have to rely on their partner's income if they found themselves unable to work. This reliance underscores the importance of personal financial independence and protection planning.

REPLACE A PORTION OF YOUR INCOME

Income protection insurance offers regular payments that replace a portion of your earned income. These payments are made until you can return to work, retire, pass away or reach the end of the policy term – whichever happens first. Typically, the policy covers between 50% and 65% of your income, addressing a wide range of illnesses that may prevent you from working, both in the short and long term.

CLAIM AS MANY TIMES AS NECESSARY

A significant advantage of this type of insurance is its flexibility. You can claim as many times as necessary during the policy's lifespan. However, it's important to note that there is often a pre-agreed waiting, or 'deferred', period before payments commence. Typical waiting periods range from four weeks up to a year, with longer waiting times generally resulting in lower monthly premiums.

IS IT RIGHT FOR YOU?

Income protection insurance might only be necessary for some, yet understanding its potential benefits is crucial for financial security. For some individuals, the safety net provided by sick pay or a comprehensive employee benefits package covering a year or more might suffice. Others might find government benefits ample to cover their essential expenses.

SAVINGS MUST BE SUSTAINED

Additionally, those with substantial savings could rely on their financial reserves, though it is wise to remember that savings must be sustained over potentially extended periods. Some might have the option of early retirement or the support of a partner or family whose income can cover all necessary expenses.

FEW EMPLOYERS OFFER EXTENDED SUPPORT

It's crucial to differentiate income protection from critical illness insurance, which provides a one-off lump sum upon diagnosis of a specified serious condition. When unable to work due to illness or an accident, many people assume their employer will continue to provide some income support. The reality

is that employees often transition to Statutory Sick Pay within six months, with few employers offering extended support beyond a year.

EVALUATING YOUR EMPLOYER'S SUPPORT

It's essential to verify what support your employer offers if you become incapacitated. The loss of income can quickly erode savings and make it difficult to cover essential household bills, especially if you're self-employed and lack sick pay benefits. This is where income protection insurance becomes invaluable, providing the peace of mind that your financial obligations are met, even in the face of adversity.

UNDERSTANDING THE COSTS

When considering income protection insurance, the cost is a key factor. Monthly premiums can vary significantly based on several personal factors and the policy's details. These include your age, occupation, smoking status and the portion of income you wish to cover. Further, as mentioned, the waiting period before the policy begins to pay out and the scope of illnesses and injuries covered play a role. Your current health, weight and family medical history are also considered.

TYPES OF PREMIUMS

The type of premium chosen affects both cost and predictability. A standard premium may increase over time, introducing potential financial uncertainty. Conversely, a guaranteed premium remains fixed for the policy's duration, providing peace of mind regarding future costs, though it might be higher initially. Many opt for the guaranteed premium for the stability it offers.

NAVIGATING THE PURCHASE

Securing the appropriate income protection insurance involves assessing varied premiums and insurer criteria. As such, professional financial advice becomes invaluable. We can guide you through many available policies, ensuring you select one tailored to your unique needs and circumstances. ■

DO YOU NEED TO ENSURE YOUR FAMILY'S FINANCIAL SECURITY WITH INCOME PROTECTION INSURANCE?

Don't leave your family's future to chance. If you are concerned or want to explore income protection insurance further, seeking professional advice is essential. Contact us today to discover how income protection insurance can be a cornerstone of your financial resilience.



Source data:

[1] The survey data was collected and analysed by Censuswide Research. The total sample size was 4,043 UK adults, including 1,000 self-employed and 1,000 private renter respondents. Fieldwork was undertaken between 17 – 29 April 2024. The survey was carried out online. The figures have been weighted and represent all UK adults (aged 18+).

[2] The survey data was collected and analysed by YouGov plc. The total sample size was 2,059 adults. Fieldwork was undertaken between 2 – 8 February 2024. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL, OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.



Planning and preparing for retirement

Why reaching our 50s and 60s often brings retirement into sharper focus

AS WE NAVIGATE LIFE, REACHING OUR 50S AND 60S OFTEN BRINGS RETIREMENT INTO SHARPER FOCUS. THIS PHASE HERALDS A WELL-EARNED RESPITE FROM YEARS OF DEDICATION AND HARD WORK. FOR MANY, RETIREMENT IS ENVISIONED AS THE MOST EXTENDED HOLIDAY OF THEIR LIVES, OFFERING OPPORTUNITIES TO TRAVEL, ENGAGE MORE DEEPLY WITH HOBBIES OR SPEND CHERISHED MOMENTS WITH FAMILY AND FRIENDS. HOWEVER, REALISING THIS IDYLIC VISION REQUIRES THOUGHTFUL FINANCIAL PLANNING.

Ensuring your financial affairs are in order as you approach retirement is crucial. With longer life expectancies and an ever-evolving economic landscape, having a sound financial plan ensures you can maintain your desired lifestyle without financial stress. This planning involves understanding your income sources, managing your savings and anticipating future expenses.

DETERMINE YOUR RETIREMENT TIMELINE

Deciding when to retire is a pivotal step in your financial planning journey. Unlike a one-size-fits-all approach, the choice of retirement age is profoundly personal and depends on various factors, including your financial readiness, health and lifestyle aspirations. Understanding these elements can help you make an informed decision that aligns with your long-term goals.

ROLE OF FINANCIAL READINESS

One of the most significant determinants of retirement age is financial readiness. Many individuals cannot retire until they can draw from their pension schemes or are eligible for the State Pension. Assessing your finances, including savings, investments and expected pension income, is crucial in determining when you can comfortably retire without compromising your standard of living.

UNDERSTANDING PENSION OPTIONS

Different pension types come with varying retirement age rules. Workplace pensions, mainly defined contribution schemes, and older defined benefit plans often set a retirement age, typically around 65. However, these can differ based on the specific terms of your pension plan. Knowing the details of your pension arrangements allows you to plan effectively for retirement.

ACCESSING PERSONAL PENSIONS EARLY

For those with personal pensions, there's often more flexibility. Currently, personal pensions can be accessed from age 55, although this threshold is set to increase to 57 by 2028. This earlier access can provide opportunities for phased retirement, allowing you to transition gradually from full-time

work to retirement while supplementing your income with pension withdrawals.

CONSIDERATIONS FOR EARLY RETIREMENT

Choosing to retire early can have significant financial implications. Early access to pensions means smaller annual payouts, as your pension pot needs to sustain you for a longer retirement. Additionally, retiring before reaching State Pension age means you will need to bridge the income gap until those benefits become available.

BALANCING LIFESTYLE AND FINANCIAL SECURITY

Deciding when to retire should balance your desired lifestyle with financial security. Some may continue working part-time to maintain an active lifestyle and financial health, while others prioritise leisure and personal pursuits. Evaluating your priorities and consulting with us will help clarify the best path forward.

UNDERSTANDING YOUR RETIREMENT INCOME SOURCES

Planning for retirement is crucial to ensuring a comfortable and secure future. One of the most important aspects of retirement planning is understanding your potential sources and values of retirement income. This involves gathering comprehensive details about your pensions, savings and investments. Once you

have these details, obtaining estimates from each source will help you gauge the total income you might expect upon retirement.

ESTIMATING INCOME FROM SAVINGS AND INVESTMENTS

Begin by compiling information on all your savings and investment accounts. This includes personal savings accounts, stocks, bonds and any other investment vehicles you own. Understanding this will help you strategise effectively for your future financial needs.

CHECKING YOUR STATE PENSION

The State Pension is a foundational element of retirement income for many. Regularly requesting a State Pension forecast will enable you to track what you've accumulated over the years. You can request this information online, by phone or via post, provided you're aged 16 or over and at least 30 days from reaching the State Pension age.

ASSESSING DEFINED BENEFIT PENSIONS

Defined benefit pensions, often called 'final salary' or 'career average' schemes, provide a retirement income based on your salary and tenure within the scheme. These schemes are typically found in the public sector or older workplace pension arrangements. Your provider should send you an annual benefit statement. If not, don't hesitate to request

one. This statement will outline your potential pension and may include assumptions about any tax-free cash you might take.

EVALUATING DEFINED CONTRIBUTION PENSIONS

Defined contribution pensions work differently, accumulating a pot of money you can use for retirement income. The value of this pot depends on contributions from you and your employer, investment returns and tax relief. Insurance companies or master trust providers might manage these pensions, or you might be part of an individual scheme through your employer. Your annual statement will estimate your pot's value at retirement and potential income options, such as an annuity.

EXPLORING ADDITIONAL INCOME STREAMS

Beyond pensions, consider other assets that might provide income during retirement. These could include cash deposits, share-based investments or rental income from property. Obtaining statements or projections for these assets is beneficial, as they can significantly enhance your retirement income portfolio.

WHERE ARE YOUR PENSION SAVINGS INVESTED?

Understanding the investment of your pension savings is crucial. Individuals can influence how their money is invested when it comes to personal pensions, stakeholder pensions or self-invested pension plans (SIPPs). Pension providers typically offer a range of investment funds designed to manage your investments over the years leading up to retirement. Often, there's a default option that invests across various funds to cater to a broad audience.

UNDERSTANDING FUND OPTIONS

Fund options can vary significantly. You might encounter funds that specialise in specific assets, such as those focusing exclusively on shares in European companies or funds that invest in a diversified mix of assets, including global shares and government bonds. Diversifying your investments is a prudent strategy for managing risk, as it spreads your potential exposure across different asset classes.



FLEXIBILITY OF SIPPS

SIPPs are particularly versatile, offering access to various assets and granting investors greater control over their investment decisions. However, this flexibility is best suited for those with substantial financial knowledge and the confidence to make their own investment choices.

DETERMINING THE RIGHT PENSION FUND

Choosing the right pension fund requires careful consideration. It's generally advisable to allocate your investments across different assets, sectors or regions rather than concentrating all your resources in one area. Basic managed funds can achieve this diversification for you. However, if you prefer a hands-on approach, evaluate how your investments spread risk across various options.

ASSESSING INVESTMENT STYLE

Your investment style is crucial in determining your fund choices. If you are cautious, you'll likely lean towards lower-risk assets. Conversely, those with a high risk tolerance might opt for higher-risk assets, expecting potentially greater returns. A balanced approach includes a mix of both high- and low-risk assets.

EXPLORING INVESTMENT FUND TYPES

In the UK, investors can access thousands of investment funds with diverse options and risk levels. These include:

Asset type funds: Investing in equities, fixed interest, property or cash.

Geographical funds: Targeting specific countries or regions.

Risk-adjusted funds: Tailored to match particular risk profiles or investment styles.

Combination funds: Mixing different sectors, such as managed funds.

Lifestyle funds: Adjust risk profiles as you approach a target retirement date.

ACTIVE VS PASSIVE FUNDS

A significant debate in investment circles is the choice between active and passive funds. Active funds rely on fund managers to select shares believed to outperform the market, while passive funds, or trackers, follow a



market index. Passive funds often have lower costs due to minimal management, which some investors find appealing as charges can erode returns over time.

DECIDING ON PENSION FUND CHANGES

As you plan for retirement, your fund choice should align with your stage in life. Young professionals or those with a higher risk appetite might select different portfolios than those nearing retirement, who may prefer stability and the certainty of an annuity. If retirement is less than 15 years away, consider reallocating some investments from shares to bonds and cash to reduce risk.

Many pension plans offer lifestyle funds that automatically adjust investments towards safer options as retirement approaches. If your pension isn't in such a fund, you can manually switch to lower-risk options, though checking for any associated fees is important.

INVESTING IN MULTIPLE FUNDS

Most defined contribution pension schemes permit investment in a variety of funds. Your provider should offer comprehensive information about available options in a fund fact sheet. A Key Investor Information Document (KIID) should also be provided to detail the fund's objectives, charges and other vital information.

PLANNING YOUR RETIREMENT INCOME

Evaluate whether the combined income from your pensions and State Pension will suffice for your desired retirement lifestyle. Generally, you may need around two-thirds of your pre-retirement salary after tax to maintain your lifestyle, though individual needs vary.

BOOSTING YOUR PENSION CONTRIBUTIONS

Planning for retirement involves more than just setting aside a portion of your income; it requires strategic thinking about maximising your pension contributions. If there's a likelihood of a shortfall in your future pension income, it's prudent to consider increasing your pension savings now. Even minor adjustments to your contributions can have a notable impact on your pension pot, thanks to the power of compounding interest.

UNDERSTANDING THE IMPACT OF CONTRIBUTIONS

Many individuals adhere to the minimum contribution levels set by auto-enrolment schemes. While these minimums provide a good foundation, contributing more than the baseline can significantly enhance your financial security in retirement. The carry-forward rules further support this strategy, allowing you to utilise unused allowance from the previous three years to



TAX RELIEF ON PENSION CONTRIBUTIONS ACTS AS AN INCENTIVE FROM THE GOVERNMENT TO ENCOURAGE RETIREMENT SAVINGS.



maximise your contributions where you have sufficient relevant UK earnings to support the contribution and obtain tax relief.

MAXIMISING TAX BENEFITS ON CONTRIBUTIONS

Another crucial aspect of boosting your pension is understanding the tax relief available on pension contributions. For higher rate taxpayers, this can be particularly advantageous. By using self-assessment, you can reclaim higher rate tax relief, which effectively increases the amount of your contributions that benefit from tax incentives.

TAKING FULL ADVANTAGE OF TAX RELIEF

Tax relief on pension contributions acts as an incentive from the government to encourage retirement savings. Basic rate taxpayers have their contributions automatically increased by 20%, while higher rate taxpayers can claim an additional 20% and additional rate taxpayers an extra 25% depending on the amount of the contribution. This relief makes contributing to your pension a savings act and a financially astute decision.

STRATEGISING FOR OPTIMAL CONTRIBUTIONS

To maximise these benefits, reviewing your current contributions and assessing whether you are optimising the available tax relief is essential. Consulting with a financial advisor can provide insights into how best to structure your contributions to align with your retirement goals. They can also help ensure you fully use the carry-forward rules and other available strategies.

PLANNING FOR YOUR DEPENDENTS' FUTURE

When strategising for a secure retirement,

it's crucial to consider your dependents' financial wellbeing. Considering them in your retirement plan can help to ensure they are cared for even after you're gone. One effective method of passing on wealth is through pensions, which can offer significant benefits in terms of inheritance.

PENSIONS AS A WEALTH TRANSFER TOOL

Pensions are particularly advantageous in estate planning because they usually fall outside your taxable estate. This means that they can be passed on to beneficiaries without attracting Inheritance Tax, which can otherwise substantially reduce the amount your dependents receive. Structuring your pension wisely can ensure that a considerable portion of your wealth remains intact for your loved ones.

UNDERSTANDING TAX IMPLICATIONS

However, it's essential to know the potential tax implications of passing on a pension. While pensions generally avoid Inheritance Tax, beneficiaries may face Income Tax liabilities depending on when the pension is inherited. If you pass away before age 75, beneficiaries can usually withdraw from the pension tax-free. However, if you die after reaching 75, they may need to pay Income Tax on withdrawals, mirroring the tax rates applicable to their income.

STRATEGIES FOR MINIMISING TAX LIABILITIES

Consider discussing your options with us to manage these potential tax liabilities. We can guide you in structuring your pension to maximise benefits and minimise tax burdens for your beneficiaries. Options such as setting up a trust or designating specific beneficiaries can be explored to optimise the transfer of wealth.

ENSURING A SMOOTH TRANSITION

Additionally, it's prudent to regularly review your pension arrangements and ensure that your beneficiary nominations are up to date. This ensures that your dependents can access the funds with minimal legal hurdles. Clear documentation and communication about your intentions can prevent potential disputes and ensure a smooth transition. ■

READY TO TAKE PROACTIVE STEPS IN YOUR RETIREMENT PLANNING?

Secure your financial future by taking proactive steps in your retirement planning today. If you need expert guidance or want to explore your pension options further, we are here to assist you. Contact us to confidently navigate this crucial journey, ensuring that your retirement plans meet your long-term goals. Let us support you in making informed decisions for a secure and comfortable retirement.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL 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.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE ESTATE PLANNING, TAX ADVICE, WILL WRITING OR TRUSTS.

WILL WRITING, TAX ADVICE, TRUSTS, AND INHERITANCE TAX/ESTATE PLANNING ARE NOT REGULATED BY THE FINANCIAL CONDUCT AUTHORITY.

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP.

Do you fall into the 60% tax trap?

Making additional pension contributions could mean lowering your effective tax rate

FOR MANY EARNERS IN ENGLAND, WALES OR NORTHERN IRELAND, THE HIGHEST INCOME TAX RATE IS 45%. HOWEVER, WHILE 45% IS THE HIGHEST 'OFFICIAL' RATE, SOME INDIVIDUALS EFFECTIVELY PAY A TAX RATE OF 60% ON PART OF THEIR INCOME. THIS PHENOMENON, COMMONLY CALLED THE '60% TAX TRAP,' AFFECTS THOSE EARNING OVER £100,000 AND APPLIES TO THEIR INCOME BETWEEN £100,000 AND £125,140.

To understand why this is the case, it is essential to grasp how Income Tax is structured and why the treatment of tax-free personal allowances is so significant. In this discussion, we will break down the mechanics of this trap and explore how pension contributions can effectively manage it.

HOW IS INCOME TAX CALCULATED?

Most individuals in the UK are entitled to a standard personal allowance of £12,570 each year, which represents the portion of their annual income that is exempt from tax. However, for higher earners, this allowance gradually decreases once their income surpasses £100,000.

For every £2 earned over the £100,000 threshold, the personal allowance decreases by £1. Once your income reaches £125,140 or more, the personal allowance is entirely eliminated. This tapering mechanism imposes a significant financial burden by subjecting income within this range to an effective tax rate of 60%.

IMPACT ON HIGHER EARNERS

For those earning between £100,000, the tapering of the personal allowance leads to an effective tax rate on income between £100,000 and £125,140, which is considerably higher than the standard rates. For instance, consider an individual earning £110,000—£10,000 above the £100,000 threshold. They would incur £4,000 in tax on this portion of income (at 40%), in addition to an extra £2,000 due to the loss of the personal allowance. The total tax of £6,000 on £10,000 equates to a 60% effective tax rate.

The situation is even more pronounced in

Scotland, where the Advanced tax rate applies. Here, taxpayers within this band face an effective rate of 67.5% due to the increased tax rates on the lost personal allowance.

ROLE OF PENSION CONTRIBUTIONS

Fortunately, there is a fairly straightforward strategy to alleviate the effects of the 60% tax trap: making pension contributions. This method enables individuals to reduce their adjusted net income, restore their personal allowance and thereby lower their effective rate of tax.

For example, a taxpayer earning £110,000 could make a gross pension contribution of £10,000. This would bring their adjusted net income down to £100,000, thus restoring the full personal allowance and resulting in a potential tax relief of 60% (or 67.5% in Scotland). In addition to the immediate tax benefits, this strategy boosts an individual's pension pot, which could lead to compounded investment growth over time.

THINGS TO CONSIDER WHEN CONTRIBUTING TO YOUR PENSION

It's important to note that tax-efficient pension contributions are capped each financial year by the pension annual allowance. For most individuals, the tax-efficient limit is the lower of £60,000 (less any employer contributions and plus any carry forward) or 100% of their relevant UK earnings. However, for high earners with an adjusted income exceeding £260,000, the pension annual allowance may be reduced.

If your contributions exceed the annual allowance, you may incur an annual allowance

charge that effectively cancels out the tax relief on the excess contribution. There can be some variation on this. For example, if the 'scheme pays' system is used, the tax is paid out of the pension plan, or if they are employer contributions, corporation tax relief would still be kept. If you're uncertain about your allowance or worried about surpassing the limit, obtaining expert financial advice is crucial. ■

ARE YOU READY TO REFINE YOUR TAX PLANNING STRATEGY?

Understanding tax regulations, such as the 60% tax trap, can be overwhelming. The complexities of these rules, coupled with frequent changes to tax policies, make managing your financial planning challenging. We can assist you in staying informed, streamlining your tax strategy and designing a long-term plan that aligns with your financial goals. So, if you're worried about falling into the 60% tax trap or require professional advice to optimise your financial planning, please contact us.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. 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.

MGP (Employee Benefits) Limited

16 The Courtyard, Common Lane, Culcheth, Warrington WA3 4HA

Tel: 01925 765821 **Fax:** 01925 764871 **Email:** enquiries@mgpeb.co.uk **Web:** www.mgpeb.co.uk