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A photograph of a man and a woman sitting at a desk, looking at a laptop. The man is on the left, wearing a light blue button-down shirt and black-rimmed glasses. The woman is on the right, wearing a white top and black-rimmed glasses, with her hand resting on her chin. A small potted plant and a colorful ball are on the desk in the foreground.

**Pensions: why they're
making news now**

Planning for the future is always important, and for most people, this means thinking about pensions.

Current developments push pension planning even higher up the rankings than usual.

Why now?

At one end of the spectrum, the government is extending the reach of Inheritance Tax (IHT), so that most unused pension funds and death benefits will come within scope of IHT from 6 April 2027.

At the other end of the spectrum, a report this summer painted a bleak picture of projected income for future retirees. It noted those retiring in 2050 could have 8% less private pension income than those retiring today, and that almost half working-age adults – including over three million self-employed people – currently save nothing towards retirement.



Knowledge is key

Making the right decisions about something as major as your retirement can seem daunting. In this publication, we unpack the pension headlines and highlight practical points to empower you to make decisions – whatever your expertise, and wherever you sit on the pension spectrum.

Please note that information provided here relates to money purchase pension schemes. These are now the most common type of workplace pension, and are also available to the self-employed.

Tip: Enhanced information coming

New legislation is expected to bring changes, including pensions ‘dashboards’, giving a picture of all pension provision, in one place, online. It’s hoped more transparent information will also help savers reconnect with lost pension pots. A further measure will consolidate pension pots worth £1,000 or less into one pension scheme, delivering better value.

Planning for your future: the basics

A double benefit

Saving into a pension is beneficial because a pension provides for your future. But the benefits go much further than this. Pension saving is also one of the most tax efficient forms of saving available. Contributions typically attract tax relief at your marginal rate, and in addition, investment income and capital gains accrue within the scheme largely free of tax.

At present there are no limits on the maximum you can invest in a pension scheme, or on the total value within pension funds. Tax relief is available on personal contributions up to the higher of 100% of earned income, or £3,600 (gross) in any tax year, subject to an annual limit (below).

Using salary sacrifice arrangements

A salary sacrifice arrangement can be an extremely efficient way to make pension contributions. It works like this. You decide on a percentage contribution to make from your salary, and agree to sacrifice this sum from your contractual pay. Rather than putting this amount in your pay, the employer puts the equivalent sum in your pension scheme, in addition to their normal employer pension contributions.

Tip: Salary sacrifice gives additional value

- you save National Insurance contributions on the amount of salary sacrificed – and so does your employer. Some employers pass on this saving by making enhanced employer pension contributions
- there's no benefit in kind charge on the employer pension contribution
- your PAYE gets based on the salary after the sacrifice – providing a saving
- if you pay tax at higher rates, getting tax relief should involve rather less admin than if you made contributions outside a salary sacrifice arrangement.

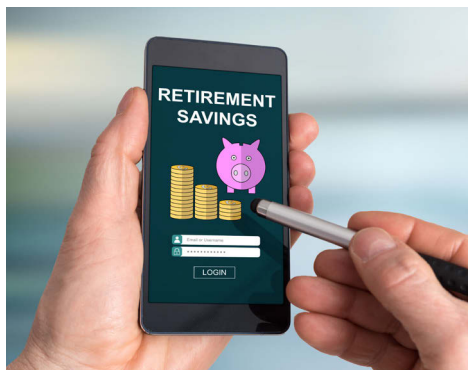
Change coming?

Following on from HMRC research into employer attitudes to using salary sacrifice arrangements for pensions, there is currently considerable speculation as to whether the government will restrict reliefs available for such arrangements in the Autumn Budget.

It is probably safe to say that it will be worth taking stock of salary sacrifice arrangements whatever the contents of the Autumn Budget, and we would recommend that you review these before 6 April 2026 to ensure optimal efficiency and compliance.

Restrictions on tax relief

Tax relief is restricted for pension contributions above what is known as the annual allowance, currently £60,000.



If you don't use all the annual allowance in one year, you can carry it forward for three years. This can be especially useful if you have an uncertain income stream, or if you or your employer have fluctuating profits. It gives flexibility, allowing you to make higher contributions in a particular tax year, as circumstances permit.

Tip: What does this mean for 2025/26?

You can bring forward unused allowance from 2022/23, 2023/24 and 2024/25 – provided you were a member of a registered pension scheme at some time during the relevant brought forward tax year. Note, that the annual allowance available for 2022/23 was only £40,000. Please talk to us for more advice.

Contributions above the annual allowance

Contributions (including contributions made by an employer) above the annual allowance are potentially charged to tax as the top slice of your income.

A lower annual allowance, known as the tapered annual allowance, applies for those with higher levels of income. It comes into play where both 'adjusted' and 'threshold' income goes above certain limits. The rules are complex, but broadly speaking, threshold income is your net income less personal pension contributions; adjusted income is net income plus any pension contributions, including those made by the employer. The threshold income level is currently £200,000, and the adjusted income threshold £260,000. For every £2 of adjusted income over the adjusted income threshold, the annual allowance is reduced by £1, until it reaches the £10,000 minimum.

Tip: In most cases, it is preferable to keep out of the charging regime by restricting pension saving.

Accessing pension benefits

Access is permitted from age 55 (rising to age 57 in April 2028), with a variety of

options including:

- a tax free lump sum of 25% of the fund value
- purchase of an annuity with the remaining fund, or
- income drawdown.

The total available as a tax free lump sum, whichever option is chosen, is generally limited to £268,275 (with some exceptions, where previous protections apply). Other income withdrawn from a fund is taxable as income.

You can continue to save into a pension, even after starting to access pension savings. But for obvious reasons, there are restrictions on the tax relief available. The Money Purchase Annual Allowance (MPAA), a reduced annual allowance of £10,000, may apply in these circumstances. The MPAA cannot be carried forward where not used in-year.

Taking the lump sum allowance

Whilst many people access the tax free lump sum as soon as they are able, we would always recommend taking stock before any major withdrawal is made.

Tip: Deciding when to access funds

Accessing a significant lump sum will immediately reduce the overall value of the fund, restricting the opportunity for future growth. It's also important not to underestimate the number of years of retirement you may need to provide for.

According to recent data from the Financial Conduct Authority, the 25% lump sum is currently being accessed by record numbers of savers, and expert commentators suggest the rush to make withdrawals stems from general fears over change to the tax rules on pensions, especially the new rules on IHT.

However, accessing the lump sum may not always be the best option, and we examine this in more detail below.

Understanding the new rules on Inheritance Tax

Current rules

The IHT regime at present is very favourable, and beneficiaries can usually inherit unused funds in a money purchase scheme free of IHT.

This means that those who have sufficient alternative assets to fund retirement have been able to leave unused pension funds in their estate at death, and pass them on without a charge to IHT.



The changes

Autumn Budget 2024 announced that for deaths on or after 6 April 2027, most unused pension funds and death benefits will be included in the value of the estate at death. The government's stated aim is to remove the incentive to use pensions as a tax planning vehicle, rather than as financial provision to fund retirement.

This is a major change, and means that where there is an IHT liability, pension assets will be exposed to IHT at 40%.

Since the Autumn Budget, it has also been confirmed that:

- personal representatives, rather than pension scheme administrators, will be liable to report and pay IHT
- all death in service benefits payable from registered pension schemes, and dependant's scheme pensions from defined benefit arrangements, or collective money purchase arrangements, are excluded from the changes

- some benefits, therefore, currently within scope of IHT, such as NHS and other public sector schemes, will no longer be in scope of IHT from 6 April 2027.

Will this impact me?

It should be remembered that IHT only affects a minority of estates. In the most recently published statistics, only 4.62% of UK deaths resulted in an IHT charge. And even with the change to the pension rules, significant IHT reliefs continue to apply, such as the nil rate band, which charges the first £325,000 of your estate to IHT at 0%.

Importantly, too, there is normally no IHT to pay if assets - including pensions - are left to a spouse or civil partner.

But it is the case that these changes will put forward planning on the radar for more people than previously.

Government estimates suggest that in 2027/28, 10,500 estates will be liable for IHT which would not have been before, and that some 38,500 estates will face a higher IHT bill. Clearly the changes add another layer of complexity to financial planning.

New rules: Who should consider action?

You may need to reconsider your overall planning if:

- you have significant pension saving
- and you had intended to use part, or all, of this to pass to your loved ones on death.

What are my options?

Deciding how wealth is to be passed on; working out how funds are withdrawn from investments; which investments are used; when they are accessed; and in what order, take on new importance.

With IHT due within six months of the date of death, and typically before probate is granted, liquidity is another consideration.

Actions you may want to consider include:

- making lifetime gifts to reduce the value of your estate, with all the implications for your personal finances, and tax, that this may involve
- accessing pension funds, noting the consequences this may have
- reviewing overall investment and retirement funding strategies. Traditional advice in the past has been to use non pension assets (ISAs, cash savings and other investments) before pension assets, but these strategies may now change
- purchasing life insurance to provide a lump sum on death to settle any IHT liability. Ensuring this is written in trust will keep it outside your estate for IHT and give your beneficiaries the liquidity they need before probate is granted. This is a complex area, where further advice will be needed
- checking that your will is up to date, and an appropriate beneficiary is nominated for your pension.



Here to help

Pension planning is complex and we have only been able to cover some of the headline issues in this publication. For an optimal outcome, there is no substitute for individual advice.

We invite you to get in touch for an in-depth discussion, and look forward to helping you further.

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