

How to boost your p

The Turner Report on pensions and a large number of subsequent surveys have all reached the same conclusions: in order to achieve a comfortable retirement, most people need to save much more than they do currently. The main alternative to this, which many will find unpalatable, or indeed not possible, is to retire later, allowing a bigger pension to be paid but for a shorter time period.

Although many readers will be members of final salary schemes, which may provide excellent benefits, it is now rare for a person to work for one company and remain in one pension scheme for their whole career. Usually, people will have had a number of jobs during their working lifetime and may not always have had access to a good company pension scheme – or any scheme at all for that matter.

So how can you increase the potential pension you will receive?

You could pay Additional Voluntary Contributions (AVCs) which as the name suggests are extra contributions you can choose to pay on top of what you must pay to be eligible to join your employer's pension scheme.

The benefits from your AVC fund can be taken as an additional pension, paid with your main scheme pension. However, provided scheme rules allow it, anyone retiring now is usually entitled to take up to 25% of their AVC fund as a tax-free lump sum – all The Pensions Trust's schemes allow this. Previously, the option to take a tax-free lump sum from AVCs was only available for members who started paying them



before 8 April 1987. The other major change in relation to AVCs is that until 2006 Inland Revenue rules imposed strict limits on how much members were allowed to pay in and how much they could receive once they had retired. These rules have been relaxed and simplified.

Provided you are not a very high earner (over £150,000 a year) you can now pay up to the whole of your salary as pension contributions, tax-free. So if you currently pay 7% of your salary to your company scheme, you now have the scope to pay up to 93% of your salary as tax-free AVCs (under the previous limits, this would have been restricted to just 8%).

Although very few people will want to pay a large proportion of their salary as AVCs on a long-term basis, others may have had a break in

their employment, perhaps to raise a family, or due to unemployment, which results in a lower than anticipated pension at retirement. Also there are those who simply want a bigger pension to allow them to retire earlier or in more comfort.

The Pensions Trust provides the facility to pay AVCs in all the schemes we administer. You will have a choice of between one and four AVC options depending on your employer. The options are the Growth Plan, the Unitised Ethical Plan, the Flexible Retirement Plan (which contains several different fund options) and 'added years' AVCs for those in some final salary schemes. Your employer will be able to tell you which options are available to you or further information is available from The Pensions Trust.

pension pot

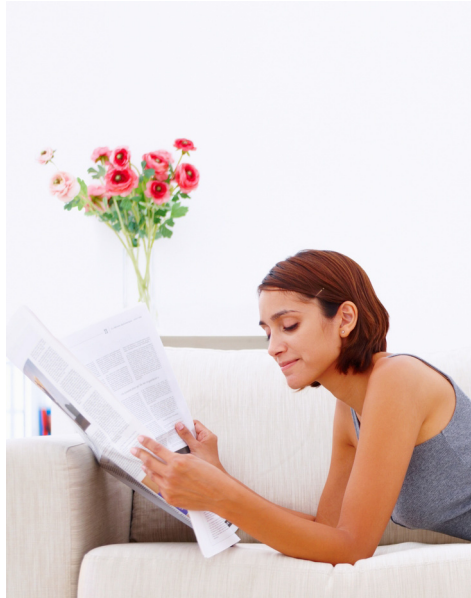
Since 6 April 2006, it has been possible to pay pension contributions to any number of pension schemes at the same time. As an alternative to AVCs, you are now able to arrange a personal pension contract with a provider of your choice to make additional provision for your retirement.

It is important to note that AVCs are used solely to provide extra pension benefits during retirement, and that you cannot start to receive these benefits before age 50 at present, rising to age 55 from April 2010 for those who joined their main scheme after April 2006. However, apart from the 'added years' option, you have total flexibility over how you make the additional contributions, i.e. they can be started, stopped, increased or decreased at your request.

Ultimately, pensions are just one way of saving for retirement; the Directgov website www.directgov.gov.uk has further information on how to boost your income in retirement. From the homepage go to the following link for further useful information:

Money, tax and benefits > Pensions (pensions and retirement planning section) > Planning for retirement > Saving for retirement.

The 2006 rules also give scope to pay in sizeable lump sums with the benefit of tax relief. If you pay these lump sums to a Pensions Trust scheme you will have to arrange for the payments to be made via your employer's payroll. If you pay a lump sum to a personal



pension or stakeholder policy you will be able to claim the tax back. Either way, in net terms, it costs a basic rate taxpayer 80 pence for each £1 paid as AVCs, and only 60 pence for each £1 for higher rate taxpayers (but refer to the 2009 Budget proposals opposite if you are a very high earner).

The 2006 rules have, in fact, removed all previous restrictions on the amount you can pay into, and receive from, pension schemes for the vast majority of individuals.

It is only those whose pensions increase in value by more than the Annual Allowance (£245,000 for 2009/10), or whose total pension benefits exceed the Lifetime Allowance (£1.75 million for 2009/10) in overall value that will pay tax on the excess contributions or benefits.

Other than those high earners affected by the Annual or Lifetime Allowances, in general the only tax charge that will apply to pensions will be income tax on pensions in payment, which remains unchanged.

Paying extra pension contributions is not always possible, due to other, often more pressing financial matters. But not saving enough for your retirement may mean that your standard of living when you finally stop working doesn't meet your expectations.

The following websites provide some useful information and reading:

- www.directgov.gov.uk
- www.thepensionservice.gov.uk
- www.pensionsadvisoryservice.org.uk
- www.moneymadeclear.fsa.gov.uk

High earners – 2009 Budget proposals to limit tax relief

The 2009 Budget contained proposals to restrict higher rate tax relief on pension contributions for those with incomes over £150,000. This will be effective from 6 April 2011. Details of how exactly this will work aren't yet clear, but it seems that for incomes above the £150,000 level, the value of pensions tax relief will be tapered down until it is 20% for those on incomes over £180,000. Legislation will also be introduced to prevent individuals from taking advantage of pensions tax relief while it is still available to them at a higher rate. If you have never earned in excess of £150,000 you are not affected by the proposals. If you earn £150,000 or more then you can continue to receive tax relief in full on your current regular pattern of contributions. However, if you plan to start paying AVCs, or to increase your AVCs, you are likely to be affected by the changes.