Let's Talk

Police Mutual

Other Pension Schemes

September 2024

Pensions have the reputation of being confusing, but they needn't be.

In simple terms, a pension is a tax-efficient way to save for your retirement. It aims to provide you with a source of income in later life. There are a few different types of pensions but the majority of people will have a workplace pension and will also be entitled to the State Pension.

The earlier you start saving into a pension the better chance you will have of achieving the lifestyle you want in later life.

Workplace pensions

To encourage people to save for retirement the Government offers tax incentives.

If you're a UK taxpayer, in the tax year 2024 - 25 you'll get tax relief on pension contributions of up to 100% of your earnings or a £60,000 annual allowance, whichever is lower.

- **For example, if you earn £30,000 but put £35,000 into your pension pot (using money for another source), you'll only get tax relief on £30,000.**
- **Similarly, if you earn £70,000 and want to put that amount in your pension scheme in a single year, you'll normally only get tax relief on £60,000.**

Any contributions you make over this limit won't attract tax relief and will be added to your other income and be subject to income tax at the rate that applies to you. In the majority of cases you can carry forward unused allowances from the previous three years, as long as you were a member of a pension scheme during that time.

If you have no earnings or earn less than £3,600, you can still pay into a pension scheme and qualify for tax relief on your contributions up to £2,880.

There is now no overall maximum you can put into your pension however, there are limits as to how much you can exchange for a tax free lump sum.

Workplace pension schemes are provided by employers. Your pension pot is based on contributions taken directly from your wages, as well as your employer's contributions.

There are two main types of workplace pension, also known as occupational or company pension schemes. These are either a defined benefit or final salary scheme, like the police pension scheme, which provides benefits linked to your salary when you retire. Or a defined contribution or money purchase scheme, where your and your employer's contribution combine to build up a pot of money. This pot is then used to invest and provide a regularly income for you to use during your retirement.

All employers must offer a pension scheme that's subject to minimum regulatory and governance requirements. This is known as automatic enrolment. They must also contribute a set proportion of your wage to your pension pot.

You'll be automatically enrolled into a scheme if:

- **you're aged over 22**
- **you're under State Pension age**
- **you earn more than £10,000 a year**
- **you're not already in a workplace pension scheme**
- **you work in the UK**

If you've been automatically enrolled you and your employer must pay a percentage of your earnings into your workplace pension scheme.

How much you pay and what counts as earnings depend on the pension scheme your employer has chosen. Ask your employer about your pension scheme rules.

In most automatic enrolment schemes, you'll make contributions based on your total earnings between £6,240 and £50,270 a year before tax. Your total earnings include:

- **salary or wages**
- **bonuses and commission**
- **overtime**
- **statutory sick pay**
- **statutory maternity, paternity or adoption pay**

If you change jobs, you can either:

- **leave the pension in your old employer's scheme and access it once you reach the scheme's pension age or**
- **transfer money to your new workplace pension scheme. This isn't possible for all schemes so talk to your pension provider or an independent financial adviser about your options.**

If you've lost track of old pensions or you're not sure if you were enrolled in an old workplace pension scheme, there are different ways you can find them, click here for more details.

When you get to retirement age you may have pensions from previous careers, you will need to contact each provider for more details of their values and when they will be payable.

You can opt out of the pension at any time, usually by completing a form and returning it to your employer or pension provider. If you opt out, your employer will be required to re-enrol you every three years, at which time you'll need to opt out again if you don't wish to save. If you can afford to, it's a good idea to join the scheme.

The Government has created automatic enrolment to encourage people to save additional money for retirement, as the State Pension alone is a low amount to live on for most people.

Currently the minimum contribution is 8%, this includes a minimum employee contributions of 5%.

In some schemes, your employer has the option to pay in more than the legal minimum. In these schemes, you can pay in less as long as your employer puts in enough to meet the total minimum contributions.

You and your employer may agree to use 'salary sacrifice' if you do this, you give up part of your salary and your employer pays this straight into your pension. In some cases, this will mean you and your employer pay less tax and National Insurance.

How do I access my pension?

Changes introduced from April 2015 give you freedom over how you can use your pension pot(s) if you're 55 or over and have a defined contribution scheme (based on how much has been paid into your pot from you and your employer).

Whether you plan to retire fully, to cut back your hours gradually or to carry on working for longer, you can now tailor when and how you use your pension and when you stop saving into it to fit with your particular retirement journey.

Under these rules you can mix and match any of the options below, using different parts of one pension pot or using separate or combined pots.

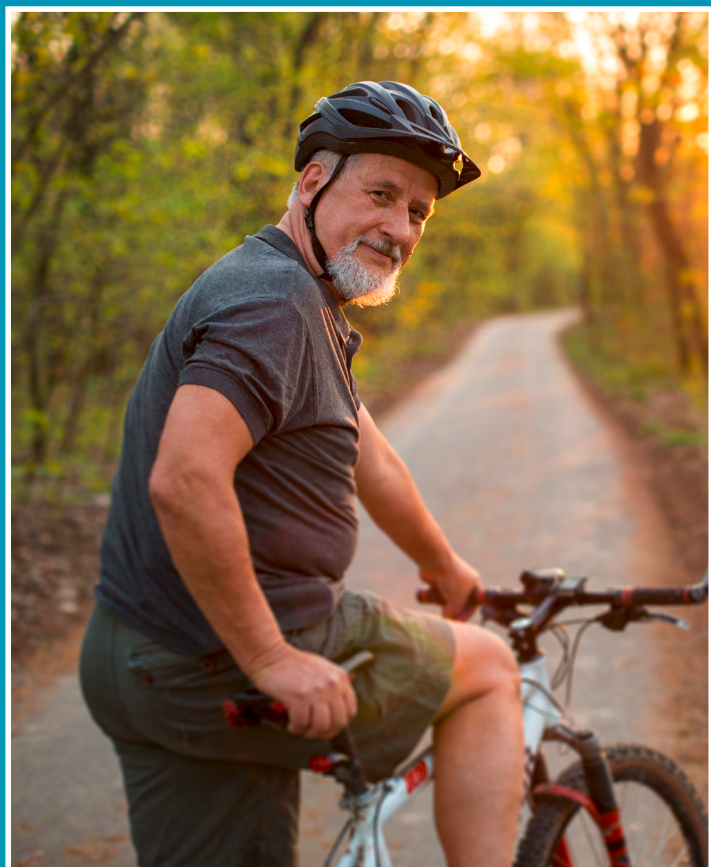
Not all pension schemes and providers will offer every option, so it's best to check with your provider, the main options are below:

- **Leave your pension pot untouched -** You might be able to delay taking your pension until a later date. Your pot will then continues to grow tax-free, potentially providing more income once you access it.
- **Use your pot to buy a guaranteed income for life (an annuity) -** You can normally withdraw up to a quarter (25%)* of your pot as a one-off tax-free lump sum then convert the rest into a taxable income for life called an annuity. There are different lifetime annuity options and features to choose from that affect how much income you would get. For example, you may want to choose to provide an income for life for a dependent after you die. For more details click **here**.
- **Use your pot to provide a flexible retirement income (pension drawdown) -** With this option you can normally take up to 25%* of your pension pot, or of the amount you allocate for drawdown, as a tax-free lump sum, then re-invest the rest into funds designed to provide you with a regular taxable income. Find out more **here**.
- **Take small cash sums from your pot -** You can use your existing pension pot to take cash as and when you need it and leave the rest untouched where it can continue to grow tax-free. For each cash withdrawal, normally the first 25% is tax-free and the rest counts as taxable income. There might be charges each time you make a cash withdrawal and/or limits on how many withdrawals you can make each year. Find out more **here**.
- **Take your whole pot as cash -** You could close your pension pot and take the whole amount as cash in one go if you wish. Normally, the first 25% will be tax-free and the rest will be taxed at your highest tax rate (by adding it to the rest of your income). There are many risks associated with cashing in your whole pot, so it's important to get financial advice before cashing in your whole pot. To find out more click **here**.
- **Mixing your options -** You don't have to choose one option when deciding how to access your pension, you can take a combination of 2 or more.

Which option or combination is right for you will depend on:

- your age and health
- when you stop or reduce your work
- whether you have financial dependents
- your income objectives and attitude to risk
- the size of your pension pot and other savings
- whether your circumstances are likely to change in the future
- any pension or other savings your spouse or partner has, if relevant

You can also keep saving into a pension if you wish, and get tax relief up to age 75.



Tax Free lump Sums

When you take your pension you will be given the option of being able to take up to 25%* of your pension fund as a tax-free lump sum payment, subject to HMRC rules.

Your Pension may not be your only source of income, especially once you reach the state retirement age. You may have also paid into other schemes in the past or even been entitled to certain benefits. Click **here** to read about what other benefits you may be entitled to.

Pension income paid to you is normally treated as earned income for income tax purposes, although National Insurance contributions are not payable. For more details on tax and pensions click **here**.

*The maximum tax free lump sum possible is currently capped at £268, 275.

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