

Helpsheet

Money Purchase Pension Scheme

Money purchase pension schemes are offered by some employers.

Employers' pension contributions are subject to high maximum contribution levels and allowable as a deduction against corporation tax. Typically, contributions are based on a percentage of salary typically anything between 5% and 10%.

Employees may make personal contributions which will attract income tax relief at the highest rate of income tax the member pays. This can therefore be anything between 20% and 50%.

Contributions paid may be invested in one or more of a range of investment funds which should be matched to a member's attitude to investment risk. Typically the range of investment funds available will be run by the sponsoring insurance company but some insurance companies also offer access to funds managed by city based fund managers.

Money Purchase Pension Schemes, like all UK authorised pension funds, grow free of all taxes. It is important however to bear in mind that any tax deducted at source cannot be reclaimed.

A pension may be drawn at anytime between a member's 55th and 77th birthdays. A member of staff does not have to leave employment to draw his pension but he may forfeit the right to further pension contributions and may also lose other staff benefits if he chooses to do so.

When a policyholder decides to draw his pension he has the option to draw up to 25% of the value of the fund free of all taxes. The balance of his pension may be drawn as income and will be subject to income tax at his highest rate. The pension and tax free cash lump sum that an employee may receive is based on the sum of the contributions paid and investment returns achieved whilst the member's pension fund remains in the scheme. Importantly, there are no guarantees of the size of pension a member may ultimately receive.

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