

Helpsheet

Personal / Stakeholder Pension Plans

Personal pension plans are offered by most UK based insurance companies. The design and cost of these plans varies greatly so securing independent financial advice is very important before deciding which plan to choose.

It is a myth that personal pensions are complicated, they are in fact nothing more than savings plans with tax advantages.

Personal contributions attract income tax relief at the highest rate of income tax a client pays. This can therefore be anything between 20% and 50%.

It is also possible for employers to make personal pension contributions on behalf of employees. These are subject to high maximum contribution levels are immediately allowable as a deduction against corporation tax.

The maximum contribution that may be paid into a personal pension varies according to income. Advice regarding maximum contributions should be taken before making large contributions so as to be certain that limits are not breached.

Contributions paid may be invested in one or more of a range of investment funds which should be matched to a client'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.

Personal pension funds, 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 policyholder's 55th and 77th birthdays. 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.

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