

Pensions Guide

For the Tax Year 2025/26

Pensions provide tax-efficient savings for retirement, with contributions benefiting from tax relief. Your pension pot grows without UK taxes on income or capital gains until you withdraw it.

What is a Pension?

A pension helps you save money for later life. It's a special account where your money grows tax-free until you retire.

A pension is a long-term savings vehicle specifically designed to help you build funds for retirement. Contributions made to a pension typically receive tax relief, and investments grow in a tax-advantaged environment until you choose to withdraw them. Pensions come in various forms, including workplace schemes, personal pensions, and Self-Invested Personal Pensions (SIPPs).

Types of Pensions

Different pension types suit different needs. From employer schemes to personal plans, each offers unique features and benefits.

- **State Pension** - Provided by the government once you reach State Pension age (currently 66, rising to 67 by 2028). To qualify for the full new State Pension, you typically need 35 qualifying years of National Insurance contributions. While valuable, the State Pension alone may not provide a comfortable retirement lifestyle.
- **Workplace Pensions** - Arranged by your employer, who usually contributes alongside your own contributions. Auto-enrolment legislation requires employers to enrol eligible employees into qualifying pension schemes.
- **Defined Benefit Pensions** - Also known as final salary or career average pensions, these promise a guaranteed income in retirement based on your salary and length of service. They're typically offered by public sector employers or older workplace schemes.
- **Defined Contribution Pensions** - With these schemes, the final pension value depends on how much is paid in and how well the investments perform. Both you and your employer can contribute.
- **Personal Pensions** - Set up individually, these allow you to contribute independently with tax relief applied to your contributions.

- **Self-Invested Personal Pensions (SIPPs)** - These offer greater control over your investment choices, suitable for those who prefer to actively manage their pension investments.

What is the annual allowance?

The annual allowance limits how much you can pay into pensions each year with tax benefits. Exceeding it may result in tax charges.

The UK government sets a limit on how much you can contribute to your pension each tax year while still receiving tax relief. For the 2025/26 tax year, the standard annual allowance is £60,000. Contributions exceeding this limit may incur a tax charge.

- **Money Purchase Annual Allowance (MPAA)** - If you access your pension flexibly, such as taking an income through drawdown, the MPAA may apply, reducing your annual allowance to £10,000 for defined contribution pensions.
- **Tapered Annual Allowance** - For high earners, the annual allowance may be reduced. If your 'adjusted income' (total income plus pension contributions) exceeds £260,000, your annual allowance will reduce by £1 for every £2 of income above that threshold, down to a minimum of £10,000. The full taper applies to those with an adjusted income of £360,000 or more. Your 'threshold income' (broadly, your taxable income excluding pension contributions) must also exceed £200,000 for the taper to apply.

Contributing to a Pension

You can add money to your pension regularly or as one-off payments. Tax relief makes your contributions go further.

Contributions can be made regularly or as one-off payments. Employers and family members can also contribute to your pension. Tax relief is limited to 100% of your relevant UK earnings, up to the annual allowance subject to carry forward and tapering rule.

Carry Forward Rules

You may be able to use unused allowances from previous years. This helps you make larger contributions when finances allow.

If you haven't used your full annual allowance in the previous three tax years, you may be able to carry forward the unused allowance and make additional pension contributions above the current year's limit — potentially exceeding £60,000. To use carry forward, you must have been a member of a registered pension scheme during the years you're carrying forward from, and your total contributions cannot exceed your earnings in the current tax year.

Who is eligible?

Most UK residents under 75 can open and contribute to pensions. Even non-taxpayers can benefit from government top-ups.

Most individuals under the age of 75 can contribute to a pension and receive tax relief, provided they are UK residents. Even non-taxpayers can contribute up to £3,600 per year (gross) and still receive basic rate tax relief.

Tax Benefits of Pensions

Pensions offer valuable tax advantages. Your contributions receive a boost through tax relief, and your investments grow free from UK taxes.

- **Tax Relief on Contributions** - Receive tax relief at your highest marginal rate, effectively boosting your pension contributions. Basic rate taxpayers get 20% relief, higher rate taxpayers 40%, and additional rate taxpayers 45%.
- **Tax-Free Growth** - Investments within your pension grow free from UK Income Tax and Capital Gains Tax, potentially significantly enhancing your returns over time.
- **Tax-Free Lump Sum** - Upon reaching the minimum pension age (currently 55, rising to 57 from 2028), you can usually withdraw 25% of your pension pot tax-free.

Accessing Your Pension

From age 55 (rising to 57), you have options for taking your pension money. You can take cash, draw an income, or buy a guaranteed income for life.

You can access your pension in various ways:

- **Lump Sum Withdrawals** - Take up to 25% tax-free; the remaining 75% is taxed as income if withdrawn.

- **Drawdown** - Withdraw funds as needed, keeping the rest invested with the potential for continued growth.
- **Annuities** - Purchase an annuity to receive a guaranteed income for life, with various options to tailor the income to your needs.

Not all pension schemes and providers will facilitate the full range of options and may be limited to only one or none at all.

Inheritance and Pensions

Pensions can be valuable for passing on wealth. The tax treatment depends on when you die and how your beneficiaries take the money.

Pensions can be passed on to beneficiaries upon death. If you die before age 75, your beneficiaries can typically inherit your pension tax-free. If you die after 75, the inherited pension is taxed at the beneficiary's marginal rate when they draw income or take lump sums.

However, pension rules are changing. From April 2027, it is proposed that unused pension funds may be included in your estate for inheritance tax (IHT) purposes. This could significantly impact how pensions are treated on death, especially for those with larger estates.

Why choose a Pension?

Pensions offer unique tax advantages and long-term benefits. They help you save for retirement while potentially reducing your tax bill.

Pensions are a tax-efficient way to save for retirement, offering benefits such as tax relief on contributions, tax-free investment growth, and flexible access options. They also play a crucial role in estate planning, allowing you to pass on wealth to your beneficiaries efficiently.

Why might a Pension not be suitable?

Pensions have some limitations. Your money is generally locked away until 55, and investment values can fluctuate.

- **Access Restrictions** - Funds are typically inaccessible until age 55 (57 from 2028), which may not suit those needing earlier access to their savings.
- **Investment Risk** - The value of investments can go down as well as up, and past performance is not a guarantee of future returns.
- **Contribution Limits** - Exceeding annual allowances can result in tax charges, potentially limiting the amount you can save tax-efficiently.

What Happens to Your Pension When You Die

Pensions offer valuable inheritance options. They can be passed to your loved ones, often with favourable tax treatment.

One of the key advantages of pensions is how they're treated upon death, both in terms of tax and the flexibility offered to beneficiaries.

Until April 2027, pensions typically sit outside your estate for inheritance tax purposes. Unlike other assets, pensions aren't generally subject to Inheritance Tax, making them a valuable estate planning tool. However, this could soon change depending on the outcome of proposed changes to pension legislation.

You can nominate anyone to receive your pension savings after your death. It's important to keep your nominations up to date to ensure your wishes are followed.

Tax treatment depends on age at death:

- **If you die before age 75** - The pension can usually be passed on tax-free to your nominated beneficiaries, provided the funds are accessed within two years.
- **If you die at age 75 or older** - Any withdrawals your beneficiaries make will be taxed as income at their marginal rate.

How beneficiaries can access the funds:

- Take a lump sum
- Draw an income (beneficiary drawdown)
- Purchase an annuity

Beneficiaries don't need to cash in immediately. They can leave the funds invested and draw an income when needed, which can help manage tax efficiency across generations.

Can I transfer an existing Pension?

Moving existing pensions requires careful consideration, and different rules apply depending on your current pension type.

Pension transfers involve moving your pension savings from one scheme to another. This may be done to consolidate multiple pensions, access different investment options, or prepare for retirement.

Transfers from Defined Benefit (DB) Schemes

Transferring from a DB scheme (with safeguarded benefits) to a defined contribution scheme carries significant risks, as you're giving up guaranteed benefits.

Mandatory advice from an authorised independent adviser is required if the transfer value of safeguarded benefits is over £30,000.

A Pension Transfer Specialist must provide or check this advice, including an Appropriate Pension Transfer Analysis and Transfer Value Comparator to help you understand the benefits, drawbacks, and risks.

Transfers from Defined Contribution (DC) Schemes

You can generally transfer a DC fund to an alternative arrangement. If your current scheme doesn't offer the income options you want (like drawdown), you may need to transfer to a more flexible arrangement.

Transfer values should be carefully assessed, along with any valuable guarantees or benefits you might lose.

Most providers allow you to transfer your existing pension investments (known as an in-specie transfer), although this is subject to their specific terms.

The transfer process typically requires completion of specific transfer forms and may take several weeks depending on the assets involved and the cooperation of the transferring provider.

Will I be charged a fee?

Pension providers typically charge fees for managing your investments and administering your pension.

If you are an existing client, your pension will be managed under your existing service agreement, our fee structure depends on the value of assets under management and the specific services provided.

What type of pension is available with Tacit?

We offer different pension options based on your investment fund size. Each provides professional management and secure administration.

At Tacit, we offer access to our investment strategies through two carefully selected pension wrappers via AJ Bell Investcentre, depending on the size of your pension fund.

- For pension funds under £200,000, we recommend the AJ Bell Investcentre Retirement Investment Account (RIA), a cost-effective, tax-advantaged pension structure designed to support flexible

contributions, investment growth, and future withdrawals.

- For pension funds over £200,000, we use the AJ Bell Investcentre Self-Invested Personal Pension (SIPP), a more comprehensive solution offering increased flexibility, control, and additional planning opportunities, and broader investment access.

This structure allows clients to benefit from Tacit's investment management expertise and disciplined strategy implementation, while leveraging AJ Bell's robust pension administration platform.

Our partnership with AJ Bell ensures your pension is held securely, administered efficiently, and remains fully aligned with current HMRC rules and retirement planning opportunities.

If you're unsure which pension option is best suited to your circumstances, your dedicated Tacit relationship manager can arrange a consultation with one of our experienced Financial Planners, who will provide tailored guidance based on your long-term objectives, contribution plans, and retirement income needs

Where are your Pension assets held?

We have strategically chosen to partner with AJ Bell Securities Ltd, a specialist Custodian, to administer the regulatory and operational aspects of our pension offering.

This deliberate separation of responsibilities offers several distinct advantages:

- **Enhanced Security** - Your assets benefit from the robust safeguarding protocols of a dedicated custodian, with assets held separately from our firm's balance sheet.
- **Specialised Expertise** - Our custodian brings focused regulatory expertise in settlement and administration, ensuring continuous compliance with evolving tax legislation.
- **Investment Focus** - This partnership allows our investment professionals to concentrate exclusively on portfolio management.

AJ Bell Securities Limited are one of the largest providers of investment platforms and stockbroker services in the UK, is a member of the London Stock Exchange and regulated by the Financial Conduct Authority.

Protection Against Pension Scams

Scammers target pension savings. Be cautious of unsolicited contact and offers that seem too good to be true.

Pension scams and mis-selling have become more common since pension freedoms were introduced. Scammers may offer 'guaranteed' high returns, early access to cash, or exotic overseas investments.

Warning signs include:

- Cold calls about your pension (these are illegal)
- Free pension reviews
- Claims of 'loopholes' to access your pension before age 55
- Pressure to act quickly
- Promises of high, guaranteed returns

If you suspect a scam, contact your pension provider immediately and report it to the Financial Conduct Authority (FCA) or Action Fraud. Remember that if an offer sounds too good to be true, it probably is.

This guide is not personal advice. If you're at all unsure of the suitability of an investment for your circumstances, please ask your usual Tacit contact for advice.

Important things to remember

All of the solutions we offer involve investment risk, and the value of your pension investments can fall as well as rise.

You may not get back the full amount originally invested, and you should regard pensions as long-term investments designed to provide income later in life.

Pensions are highly complex and governed by a wide range of rules and legislation that can change over time. Not all features mentioned in this guide will apply to all pensions, and the benefits available to you will depend on your specific pension arrangement, personal circumstances, and prevailing legislation at the time.

You are solely responsible for the management of your tax and legal affairs, including all necessary filings and payments, and for ensuring you comply with all relevant laws and regulations.

While we can provide guidance on tax-efficient structures such as pension contributions and allowances, we are not tax or legal specialists.

Pensions require careful and detailed analysis to provide meaningful and accurate advice. We strongly recommend that you seek your own independent tax and legal advice, tailored to your individual circumstances.

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