MercerMarsh Benefits

You and your Pension Scheme

Frequently asked questions ('Pensions FAQ')

Pensions can be a complex subject which often generates lots of questions from pension scheme members. This booklet gives answers to those questions which are most frequently asked, broken down into easy to find categories.

The information within this booklet is designed for members of a Group Personal Pension or a Group Self-Invested Personal Pension. These types of pension arrangement are explained within the booklet. At the end you will also find useful information on how to obtain further information and guidance about pensions.

Please note that this booklet should be read in conjunction with information provided by your pension provider, and any literature given to you by your employer concerning your pension.

1 February 2025
Please note that the content of this booklet is based on information available as at 1 February 2025, but may be subject to change by the Government before 6 April 2025.

benefits that truly benefit

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Let's Talk About The Basics

What is a pension?

A pension scheme is a type of savings plan to help you save money for later life. It has favourable tax treatment compared to other types of investment, in that you receive full income tax relief on your contributions (provided they do not exceed limits set by His Majesty's Revenue and Customs (HMRC)), and your investments also grow largely free of taxes.

You are also usually able to take 25% of your funds tax free when you do access them (subject to a cap of £268,275 or higher if you have HMRC approval). You will pay income tax on the other 75% at your marginal rate. The amount of tax that you will pay will be based upon your total income and tax rate at that time.

You have lots of choice over how to take the funds in your pension pot. See pages 10-11 for further information.

You may currently access your funds from age 55 (increasing to age 57 from 6 April 2028) unless special circumstances apply, such as ill health or you have a protected pension age.

What is a workplace pension?

A workplace pension scheme is a way of saving for your retirement that's arranged by your employer, with contributions deducted from your pay. Examples of a workplace pension scheme are a Group Personal Pension and a Group Self-Invested Personal Pension.

What is a Group Personal Pension (GPP)?

GPPs are a type of Defined Contribution (DC) workplace pension scheme which some employers offer to their employees. As the name suggests, DC means that the employer and employee contributions are defined, usually as a percentage of your salary.

The salary used for contributions can vary and is often referred to as your 'Pensionable Pay'. For example, it could be your basic salary, or it could include overtime, commission and other items. Information on your Pensionable Pay will be provided by your employer.

Members of a GPP build up a personal pension pot which is made up of employer and employee contributions, investment returns and tax relief, less the charges on the scheme. A third party may also contribute to your pension pot. Ultimately the amount of money in your pension pot is used to provide you with benefits on your retirement.

GPPs are run by a pension provider that your employer has selected, however your pension is an individual contract between you and the pension provider. It is your personal pension. This means that it belongs to you, and you can keep it if you later leave your employer (see pages 12-13 for further information).

The information supplied by your employer and pension provider should confirm if you are a member of a GPP.

What is a Group Self-Invested Personal Pension (GSIPP)?

A GSIPP works in the same way as a GPP, however members have a wider choice of funds in which to invest, and more flexibility with the types of investments that they can choose (e.g. individual company shares). The information supplied by your employer and pension provider should confirm if you are a member of a GSIPP.

What is Automatic Enrolment?

Automatic Enrolment (AE) makes it compulsory for employers to automatically enrol all employees who meet certain criteria into an AE pension scheme. Employees not meeting this criteria may choose to join the AE scheme or another pension scheme (made available by the employer) depending upon their circumstances. Your employer should have performed an assessment of your circumstances and informed you of the outcome.

AE also sets out basic requirements for the design of the AE pension scheme. This includes overall minimum contribution levels, and how much of it must be paid by the employer. As such, your AE pension scheme will be set up to satisfy these requirements and be classed as a 'Qualifying Scheme'.

Your employer may state in your contract of employment how you may join the pension scheme and the contributions which must be paid. The terms of your contract must, as a minimum, meet the requirements of AE.

Pension Scheme Membership

How do I join my employer's pension scheme?

Your employer should have provided you with information on your eligibility to join their workplace pension scheme. You should check your contract of employment and any literature provided by your employer concerning your pension.

As a minimum, under AE, if you are aged between 22 and State Pension Age and have earnings over £10,000 in the tax year, your employer has a legal duty to automatically enrol you into an AE pension scheme. If you do not fit this criteria, you should contact your employer as, depending upon your circumstances, you may be able to request that you are enrolled into the AE pension scheme, or another pension scheme (made available by your employer).

Do I have to join the pension scheme?

You don't have to be a member of your employer's pension scheme. If your employer has a duty to automatically enrol you into the pension scheme, you can opt out if you do not want to be a member.

Please note that you may lose the value of your employer's pension contribution if you opt out of the pension scheme.

When making your decision, you should also check with your employer whether opting out has an impact on other company benefits such as death-in-service cover.

Do I have to contribute?

Most workplace pension schemes require you to pay a minimum regular contribution. AE regulations also require a minimum contribution to be paid into a member's pension. A certain amount of this must be paid by the employer, with the balance paid by the member. The contribution structure for your workplace pension scheme will be shown in the literature provided by your employer.

Can I pay extra?

Broadly speaking you can pay extra regular (and single) contributions into your pension scheme, either through your employer or, if this is not possible, directly to your pension provider.

Depending upon how you wish to do it, you should contact your employer or pension provider for further information beforehand. Provided your total annual contributions (this includes contributions to all pension schemes, any employer contributions and contributions which have been paid into your pension scheme by a third party) do not exceed HMRC limits, you are entitled to receive full income tax relief at your marginal rate of tax.

For further details please see the following section entitled "Contributions and tax relief".

Contributions and Tax Relief

How much can I pay into a pension scheme?

You can save as much as you wish into a pension scheme, however HMRC set limitations on the amount of tax relief you will receive.

In short, you can pay the greater of £3,600 or 100% of your annual earnings and receive income tax relief. Any contributions, including employer contributions, made above the Annual Allowance (AA) which have received tax relief will be subject to an Annual Allowance Charge.

The standard AA for the 2025/26 tax year is £60,000, however this can vary due to individual circumstances. Please see the following question for more information on the AA.

If you intend to pay pension contributions after starting to draw your benefits, please note that this can be complex, and we would recommend you seek advice from a regulated financial adviser.

What is the Annual Allowance?

The Annual Allowance (AA) is designed to limit the amount of tax relief an individual can receive on pension savings each tax year. It is a limit to the total amount of contributions that can be paid to DC pension schemes, such as a GPP or GSIPP, each year for tax relief purposes. The limit applies to employee and employer contributions (and any contributions made by a third party). It also applies to any benefits being earned in a defined benefit pension scheme over the year.

The standard AA for the 2025/26 tax year is £60,000, however this can vary due to individual circumstances. Application of the AA can be very complicated, especially for people contributing to more than one pension scheme each year, and for people with total taxable earnings (including employee and employer pension contributions) over £260,000 in the 2025/26 tax year, as the AA may then be reduced by tapering.

Also, if you decide to take advantage of the flexibilities available on how benefits can be taken, which allow you to draw some or all of your benefits from your normal minimum pension age (NMPA), your AA will be reduced to £10,000.This is referred to as the Money Purchase Annual Allowance, and is particularly relevant to individuals planning to draw their benefits early whilst also continuing to work (perhaps on a part-time basis) and pay pension contributions.

Please see page 10 for further information on the NMPA.

Further information on the AA and MPAA can be found in the Annual Allowance Employee Guide.

If you think you may be affected by the AA you should speak to a regulated financial adviser.

Has the Lifetime Allowance been replaced?

The Lifetime Allowance (LTA) was a limit, set by HMRC, on the total amount of pension benefits individuals could take in their lifetime before they needed to pay an additional tax charge known as the LTA tax charge. Some individuals have LTA protection from HMRC.

Testing against the standard or protected LTA happened whenever benefits were taken from a pension, such as entering into drawdown, buying a lifetime annuity, taking a lump sum, on death and on reaching 75. These events were called Benefit Crystallisation Events (BCE).

The LTA has now been abolished. From 6 April 2024, there is a limit on the total amount of lump sums and lump sum death benefits that you can receive free from income tax. These limits are the:

- Lump sum allowance (LSA) of £268,275
- Lump sum and death benefit allowance (LSDBA) of £1,073,100

A further new allowance, called the overseas transfer allowance (OTA) also applies on all overseas transfers of pensions.

If you have LTA protection in place you may have a protected right to higher limits.

Payments in excess of the LSA and LSDBA will be taxed at the recipient's marginal rate of income tax. Payments in excess of the OTA will be subject to a 25% overseas transfer charge on the excess amount.

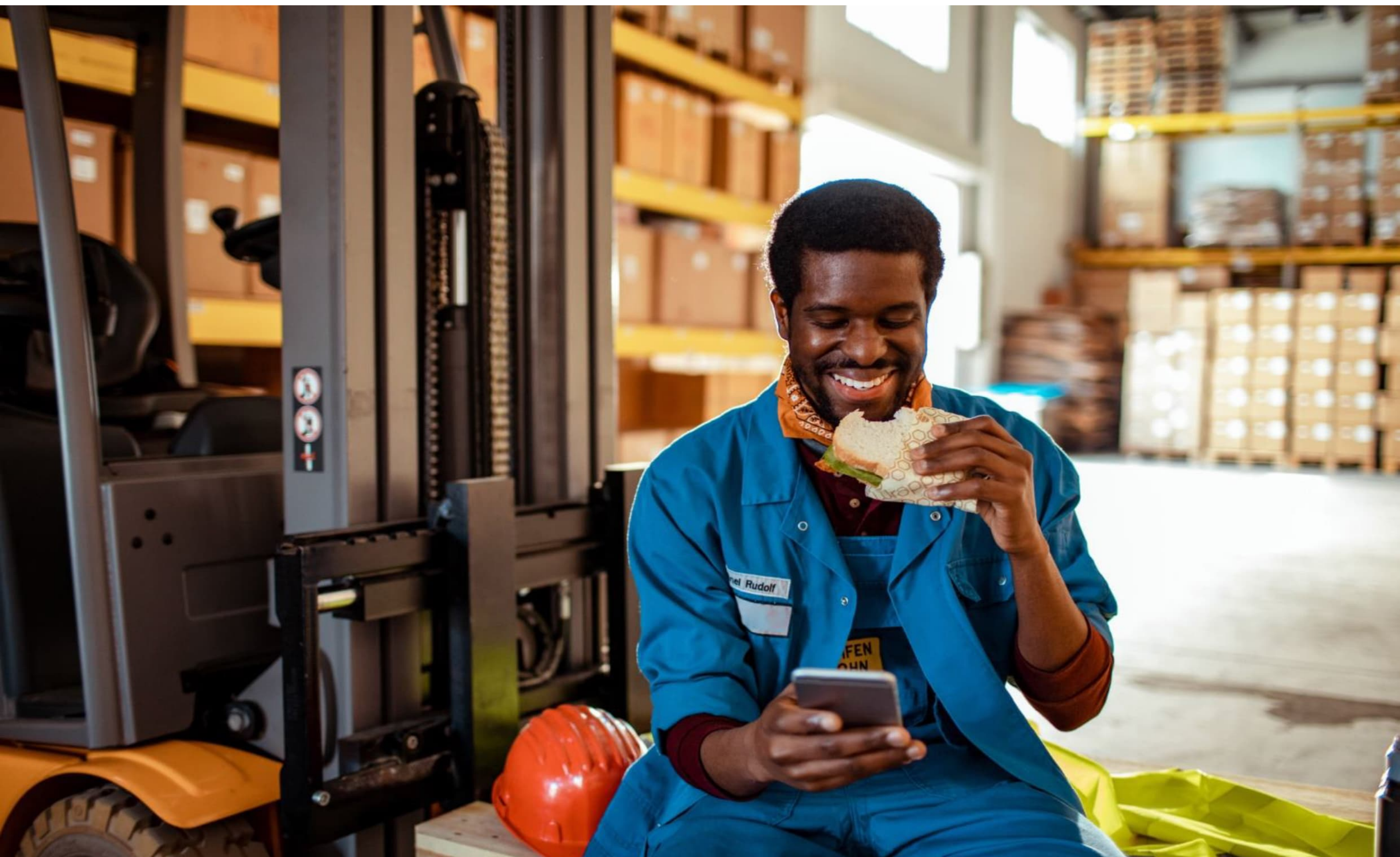
If you were previously affected by the LTA, have LTA protection from HMRC or think the total benefits payable in the event of your death may be in excess of the LSDBA, you may wish to speak to a regulated financial adviser.

Further information on the Lifetime Allowance and the new allowances can be found in the 'Lump Sum Allowances for Pensions Employee Guide'.

Please note that the Government announced in the Autumn Budget 2024 that from 6 April 2027 most unused pension funds and death benefits will form part of an individual's estate for inheritance tax purposes.

The full extent of this proposed change and wider implications is currently unclear as the Government is yet to decide how it will implement the policy. For some individuals this may mean that inheritance tax will be payable on benefits received from a pension scheme. Please speak to a regulated financial adviser if you require financial advice about the potential impact of this proposed change.

Please note that MMB are not lawyers or tax advisers and nothing in this document should be construed as legal or tax advice or relied on for this purpose.



What is the Personal Allowance?

The standard Personal Allowance for the 2025/26 tax year is £12,570. This Personal Allowance is the same for taxpayers in England and Northern Ireland, Scotland and Wales.

If you are eligible for the full standard Personal Allowance, you will pay income tax at 0% on income earned up to this amount in the tax year. Any income earned above this amount will be subject to income tax rates according to whether you are assessed for income tax in England and Northern Ireland, Scotland or Wales.

If you earn more than £100,000 in the tax year, your Personal Allowance will be reduced by £1 for every £2 earned above this threshold, until your Personal Allowance is nil. Consequently, for the tax year 2025/26, if you earn £125,140 or more, your Personal Allowance will be nil and you will pay income tax (at a rate greater than 0%) on all your taxable earnings (unless you are entitled to any other allowances).

How much income tax relief will I receive?

Provided the total amount of pension contributions paid in to all of your pension arrangements for the tax year are within HMRC limits, you are entitled to receive full income tax relief on your pension contributions at your marginal rate of tax.

How do I claim my tax relief?

GPPs and GSIPPs operate on a relief at source basis. This means that your pension contributions are taken from your pay after you have paid income tax. Your pension provider will then claim 20% basic rate tax relief on your behalf from HMRC, and add it to your pension fund. Consequently, if you are a 20% basic rate taxpayer you do not need to take any action. If you are a Scottish taxpayer only paying 19% starter rate income tax, you will still receive a 20% tax relief payment to your pension fund.

If you are a higher or additional rate taxpayer (or a Scottish taxpayer paying intermediate, higher, advanced or top rate tax) you can claim additional tax relief using one of the following methods:

Self Assessment return – at the end of each tax year you can complete your tax return by entering the amount of gross pension contributions you have paid to all your personal pension schemes. This excludes employer contributions.

Tax code adjustment – you can contact your local tax office to inform them that you are paying contributions into a personal pension scheme and would like to claim your additional tax relief by way of a tax code adjustment. HMRC will then adjust your tax code so that your tax relief is reflected in your pay.

Previous years – you may be able to claim additional tax relief for the previous four years that you had not already claimed for. A claim must be made within four years of the end of the tax year that you are claiming for. You will need to confirm the amounts and the relevant tax years to HMRC.

Please note that you do not need to claim additional tax relief if you are paying your contribution using Salary Exchange, as this will have already been taken into account in that process. Please see the later section on Salary Exchange for more information.

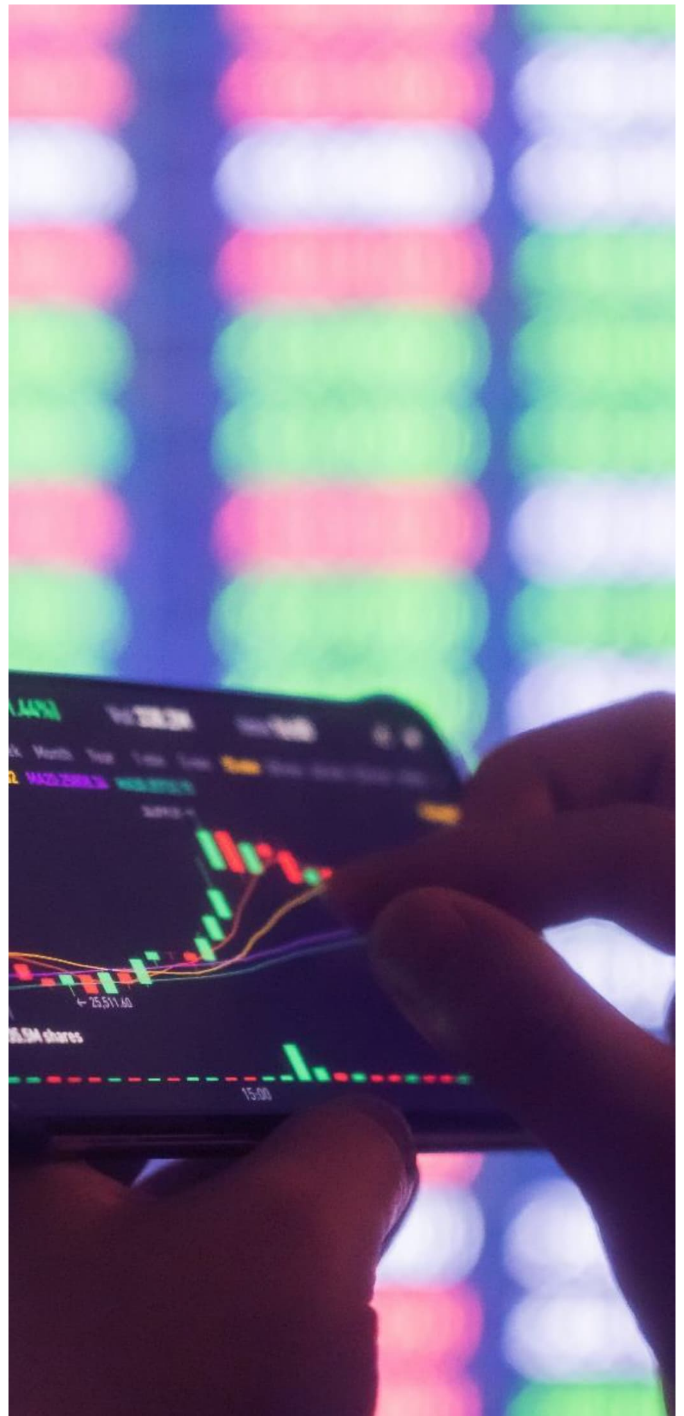
What if I am a Scottish taxpayer only paying starter rate income tax at 19%?

Currently HMRC allows your pension provider to claim 20% basic rate tax relief on your behalf and pay it into your pension pot, if you pay employee pension contributions using the relief at source method (from your net pay).

What if I'm a non-taxpayer?

Your pension provider can still receive 20% basic rate tax relief from HMRC on your behalf and pay it into your pension pot, if you pay employee pension contributions using the relief at source method (from your net pay).

Investment



Can I choose where my money is invested?

Your employer's AE pension scheme will have a default investment fund that your contributions will be invested in if you do not make a specific investment choice. Rather than a single fund however, this is likely to be a default investment strategy which also includes lifestyling, whereby your money is switched to different funds as you approach retirement to manage risk.

Details of your default investment fund/strategy will be in the pension scheme literature provided by your employer.

Please contact your pension provider if you would like more information on the default investment fund/strategy for your pension scheme, and also if you would like more information on lifestyling. Information can often be easily obtained by logging into your online account and through the provider's app.

The default investment fund/strategy may not necessarily be right for your individual circumstances, and you are free to select your own investment funds from those offered by your pension provider. You should note that different funds will carry different levels and types of risk and also different charges.

Your pension provider will be able to tell you:

- how to obtain information on the investment funds available to you (for your existing funds and future contributions); and
- how to switch between investment funds once you have chosen what to do.

Your pension provider cannot advise you on which funds are most suitable to your needs. If you are unsure of the suitability of the default investment fund/strategy for you, and are considering making your own investment fund selection, we recommend that you seek regulated financial advice.

At Retirement

Before deciding on how to access your pension savings, you may wish to receive free and impartial guidance from Pension Wise, which is part of MoneyHelper. Further details, including how to make an appointment if you are aged 50 or over, are provided at the end of this guide.

Do I have to stop working to take my benefits?

No. Due to the flexibility of how benefits can be taken, you do not need to stop working to take some or all of your benefits. This gives you the opportunity to gradually reduce your working hours and start taking retirement benefits alongside your working income, if this option is available with your employer.

If you do start taking pension benefits flexibly from this or any other pension scheme, it is important to note that, depending upon how you take your benefits, your ability to continue making pension contributions into any DC pension scheme and receive tax relief may be reduced. This is because your Annual Allowance may be reduced to the Money Purchase Annual Allowance of £10,000 per annum. The pension provider from whom you take your benefits will tell you if you are affected by this. For more information on the Money Purchase Annual Allowance please refer to the 'Annual Allowance Employee Guide'.

Can I choose when to draw my benefits?

You can usually choose to take some or all of your benefits any time from your normal minimum pension age (NMPA).

Your NMPA is the minimum age under legislation that you can access your pension benefits without incurring an unauthorised payments tax charge, unless you are retiring due to ill-health. It is currently age 55 although there are some exceptions. Your scheme rules may have a different NMPA.

The NMPA is due to increase to age 57 from 6 April 2028. However, some pension scheme members may retain a protected NMPA of 55, depending upon whether the rules of the pension scheme, and their membership, satisfy detailed criteria outlined in legislation.

Further information on the rules of your pension scheme, and the options available to you, can be obtained from your pension provider.

What is my Normal Retirement Age (NRA)?

Depending upon when your pension scheme was set up, you will have been automatically enrolled with the default NRA. This is typically age 65, although some new schemes have increased this to age 67 or 68 in line with increases to State Pension Age. The NRA for your pension scheme will be shown in the pension scheme literature provided by your employer. You may have changed your NRA by informing your pension provider.

Your NRA is a target date for your investments to mature and be taken as benefits, and is used as the target date for benefit illustrations issued to you by your pension provider each year. Your NRA is also used by your pension provider to time the issue of relevant and important communications to you as you approach retirement.

Why is my NRA important?

Although your NRA does not affect any ability to draw your benefits from your NMPA, if your investment strategy involves lifestyling, it is important to note that the switching of funds to manage risk as you approach retirement will be based on you retiring at your NRA. The default NRA may not be suitable if you actually plan to retire earlier or later.

It is therefore important to think carefully about your planned NRA, and to inform your pension provider if you wish to change it, so that your investments, benefit illustrations and other communications are kept on track.

You may find it helpful to obtain financial advice when deciding on a suitable NRA as you will need to consider what is achievable financially and any action you may need to take.

How can I take my benefits?

As a general rule you are able to take 25% of the money in your pension pot tax free (subject to a cap of £268,275, or higher if you have HMRC approval).

However, this does not have to be all at once. The remaining 75% must be taken as taxable income, but again this does not have to be all at once, so that with financial planning you can manage your income around income tax planning. There is also no longer a requirement for you to buy an annuity to receive an income, although this may still be the best option for you depending upon your circumstances.

In summary, you have the following options at retirement (or a combination of these options):

1. Leave your pension pot invested and untouched until a future date;
2. Take your whole pension pot as a lump sum in one go. 25% will be tax free and the rest will be subject to tax at your marginal rate. You should note that a large lump sum could put you in a higher tax bracket for the tax year and so may not be tax efficient;
3. Take 25% of your pension pot as tax free cash and use the remaining fund to buy an annuity to receive a guaranteed income;
4. Get an adjustable income, also known as 'flexi-access drawdown'. This involves taking 25% of your pension pot (or of the amount you allocate to drawdown) as tax free cash and investing the remaining 75% from which you draw an income. You can adjust the income you take and also when you take it.
5. Take smaller sums of cash from your pension pot until it runs out, also known as 'encashment'. With this option you do not take your full 25% tax free lump sum in one go. Instead with each payment you receive 25% tax free, and the remaining 75% is taxable at your marginal rate. You can decide how much you want to take and when to take it.

Paying pension contributions after starting to draw benefits can be complex, and we would recommend you seek advice from an authorised financial adviser.

Not all pension providers offer all of these options, and some providers also charge a fee. You should therefore check with your pension provider when planning to draw your benefits.

Your current pension provider may not offer a particular option through your scheme, but may have another product you can transfer to. If your current provider doesn't offer your preferred option, you can transfer your funds to another provider which does.

Before transferring your funds to another pension arrangement, it's important to check that it's in your best interests. There are many things to consider. Please see page 12 for further information on this. You may wish to take financial advice before transferring any benefits.

Example

Here is an example of how the flexibility may work. This is just an example for illustration purposes and not a suggested course of action. The example assumes that you are entitled to receive 25% of your pension pot tax free. At age 55, you might reduce your working hours so that you still had some part time income. If you had a fund of £100,000 you could:

1. Leave £50,000 invested in your pension fund to take at a later date.
2. Continue to contribute to your pension while you're still working, to increase the value. Once you have started taking benefits flexibly, the Annual Allowance upon which you may claim tax relief will reduce to £10,000 per year.
3. Take £50,000 out of the fund, split as follows:
    - Take a £12,500 lump sum which would be tax free (25% of £50,000).
    - Take an additional £5,000 lump sum which would be taxable at the highest rate of tax you pay.
    - Put the remaining £32,500 into a flexi-access drawdown product.

After a couple of years you might want to take an additional amount, such as £8,000, from your flexi-access drawdown fund which would be taxable at the highest rate of tax you pay. As you have only taken part of your benefits, you would still have funds available in both your flexi-access fund and your personal pension scheme that can be taken at later dates, either flexibly or by purchasing an annuity.

As you can see from this example, the flexibility available does make decision-making more complex, and you may need to seek some financial guidance or regulated financial advice before you start taking any benefits.

Leaving Service

What happens to my pension if I leave the company?

On leaving the company all contributions to your pension scheme will cease. The fund(s) you have built up in the scheme will remain invested in your chosen fund(s) or default investment approach.

Your employer will notify the provider that you have left the company and you will be sent a leaving pack which will contain details of your options.

Some or all of the following options may be available to you:

Option 1 –You may leave your pension fund invested in the scheme, where it will continue to benefit from the investment performance of your chosen fund(s) or default investment approach until retirement, and choose to make no further contributions.

Option 2 –You can continue to make contributions to your pension scheme directly to the pension provider. You should check with your pension provider if there are any limitations.

Option 3 –You may request that a transfer payment is made to your new employer's pension scheme or to an alternative pension arrangement. Please see "Can I transfer my pension fund to another pension scheme?".

Option 4 –If you are over your normal minimum pension age (currently age 55 for most people) you are able to draw some or all of your pension benefits.

You may wish to seek financial advice on the suitability of each of these options for you.

Can I continue to pay into the pension scheme once I have left the company?

In the majority of cases you can, but there may be limitations on what can be paid. Your pension provider will write to you after your last contribution is paid into the scheme from your employer's payroll, explaining your options. You can then deal directly with the provider to arrange for your future contributions to be deducted from your bank account by direct debit.

The minimum regular contribution you need to pay to continue your pension scheme is usually £20 per month gross (including basic rate tax relief), although you should check this with your provider.

Can I transfer my pension fund to another pension scheme?

Yes, you can request that your fund value be transferred to another pension scheme, either with your new employer or an individual personal pension.

Transferring your pension is a very important decision. There are many things to consider, advantages and disadvantages, which will depend upon your circumstances and the schemes in question. Some considerations are outlined below for your information, but others may apply in your case. We would always recommend that you seek regulated financial advice before proceeding with any transfer, so that you can be sure it is in your best interests to do so.

There are usually no penalties or charges for transferring your funds out of your workplace pension scheme, unless you are invested in a 'with profits fund' which is a specific type of fund where a market value adjustment may be applied. You should check with your current pension provider whether any charges or penalties will be applied.

Furthermore, if you have a protected normal minimum pension age within your existing scheme, some, or all, of the full value of this protection may be lost when you transfer your benefits to another pension arrangement. You should check this with both your current and new pension provider prior to any transfer being made.

You should also check the charges and other key features of the scheme into which you are considering transferring your funds.

Your pension provider has the power to prevent or delay a pension transfer if it believes or suspects that you are being scammed. There are certain issues which give rise to a red flag (stopping the transfer from taking place) or an amber flag (requiring the transfer to be delayed whilst further action is taken). Whilst this is not expected to affect most transfers, if your pension provider has any concerns you may need to provide them with further information or evidence. There are also certain circumstances which will require further evidence. For example, if you are transferring to the occupational pension scheme of your new employer, you will need to provide proof of employment. In certain circumstances you may also be required to receive free Pension Safeguarding Guidance from MoneyHelper before the transfer can proceed.

Please see the following links for further information from MoneyHelper on transferring your pension and the scam prevention measures in place.

https://www.moneyhelper.org.uk/en/pensions-and-retirement/building-your-retirement-pot/transferring-your-defined-contribution-pension

https://www.moneyhelper.org.uk/en/pensions-and-retirement/building-your-retirement-pot/pension-safeguarding-how-pension-transfers-are-kept-safe-from-scams

Will the charges on my pension scheme change?

Your current pension scheme will have an Annual Management Charge (AMC) taken as a percentage of the value of your fund, and this will continue to be deducted. There may also be other charges, such as a platform fee and administration charges. Details of the charges applicable to your scheme can be obtained from your pension provider, and are also detailed in the literature provided by your employer.

The charges agreed with the pension provider for your AE workplace pension scheme will not change as a result of you leaving your employer or ceasing to contribute to the pension scheme.

If I keep my pension scheme with the current provider, how will I be kept informed of investment performance and projected benefits?

The provider will continue to send you, or provide an alternate means for you to view, an annual statement and illustration. It is essential that you keep the provider updated of any future change of address/nomination of beneficiary etc.

The most effective way to keep updated of the investment performance of your pension fund, and also to keep the pension provider updated of any changes to your personal details, is to register with your pension provider for on-line services. Many pension providers now have an app you can use.

Moving Overseas

Can I transfer my pension fund to a pension scheme overseas?

If you are looking to move to another country permanently, you may want to take your pension assets with you. It may be possible to transfer your pension fund between countries, but differing tax structures mean that there could be significant penalties and long delays in doing so. You may also still be liable to pay UK tax on some payments from your overseas scheme.

It is also possible that, as a result of the UK's departure from the EU, some EU countries may no longer be willing to accept a transfer from a UK pension scheme. This is something which would need to be checked depending upon which country you wish to transfer your benefits into.

Most pension schemes will only allow a pension to be transferred to a Qualifying Recognised Overseas Pension Scheme (or 'QROPS'), as these satisfy specific UK legislative and HMRC requirements. However, you may have fewer options on what you can do with your pension plan than if you left it in the UK, and you may also pay more charges. Depending upon the location of the QROPS, and your personal circumstances, you may also pay a tax charge.

Transferring to a non-QROPS could lead to a significant tax charge. Care should be taken to check that the receiving pension scheme satisfies the relevant criteria for a QROPS prior to any transfer.

Transferring your pension benefits to another arrangement may also result in you losing any special terms associated with your existing policy, such as a protected normal minimum pension age if this is applicable to you. You should check this with both your current and new pension provider prior to any transfer being made. Please see page 12 for more information.

Your pension provider will need certain information if you are transferring to a QROPS. Also, it has the power to prevent or delay a pension transfer if it believes or suspects that you are being scammed. Please see page 12 for further details, including information on the measures in place to prevent you from being scammed. If your pension provider has any concerns you may need to provide them with further information, and you may need to receive free Pension Safeguarding Guidance from MoneyHelper before the transfer can proceed.

All these points highlight the ongoing intricacies of transferring pension assets overseas, and it can be a difficult and complicated process. Furthermore, following the abolition of the LTA, there is now an overseas transfer allowance which, if exceeded, will result in a 25% tax charge. We would therefore always recommend speaking to a specialist regulated financial adviser before attempting it. You may also find the following links helpful:

https://www.moneyhelper.org.uk/en/pensions-and-retirement/building-your-retirement-pot/moving-your-uk-pension-overseas

https://www.gov.uk/transferring-your-pension/transferring-to-an-overseas-pension-scheme

Can I continue to pay into the pension scheme if I am working overseas?

It may be possible, depending on your individual circumstances, to continue making payments to your pension scheme if you are working overseas. However, tax relief may be limited. You will need to clarify your position with your pension provider, and we would also recommend that you take specialist advice if you wish to look into this option.

How do I access my pension scheme if I retire abroad?

It is possible to draw on your pension funds from a country outside of the UK, however you might end up paying tax both in the UK and in your new country of residence.

If your country of residence has a double taxation agreement with the UK special rules may apply. You would need to confirm your tax position with HMRC and make any necessary arrangements.

Restricted choice when accessing your benefits

Depending upon the rules of your pension scheme, you may be restricted in your choices on how to access your benefits if you reside overseas, for example, you may not be able to take income drawdown as it may require a new contract to be established, which may not be allowable or may not be in your best interests. In addition, overseas tax rules may stop you drawing any amount tax free, a valuable aspect of UK pensions (i.e. usually25% of your pension fund can be drawn tax free in the UK). This should be checked before any decision is made.

Making withdrawals

Some pension providers will pay any pension withdrawals into a non-UK bank account, but there may be charges for doing so. The payment will normally be paid in sterling and as result you will be subject to exchange rates when converting it to your local currency.

Alternatively, some pension providers will only pay money into a UK bank account, so you should check with your pension provider before moving. You should also check with your bank whether you can have a UK bank account when living overseas as, following the UK's departure from the EU, UK bank accounts for some EU residents have been closed.

What about my UK State Pension?

Assuming you have paid enough UK National Insurance contributions to qualify, your UK State Pension can be paid into an overseas bank account and, unlike a private pension, will be paid in that country's currency which means that the amount you get may change due to exchange rates.

However, you can only choose one country for this to be paid to at any one time and cannot nominate two or more countries in one year (if you are travelling for example).

Increases to your UK State Pension may be affected depending upon which country you live in. For example, your UK State Pension will be increased each year in the EU in line with the rate paid in the UK.

As you can see, there are many things to consider before retiring abroad. We would therefore recommend that you obtain specialist regulated financial advice before making any decision. You should also inform HMRC to ensure that you are taxed correctly.

Salary Exchange

What is salary exchange?

Salary exchange, sometimes referred to as salary sacrifice, is a contractual arrangement whereby you ‘give up’ or ‘exchange’ part of your cash remuneration, usually in return for your employer’s agreement to provide some form of non-cash benefit.

Salary exchange is often used for pension contributions. An employee agrees to exchange part of their salary in return for an equivalent pension contribution from their employer into their pension scheme. The employer would pay this contribution in addition to any contribution they would normally make.

The advantage of using salary exchange in this way is that you and your employer do not pay National Insurance contributions on the pension payment. Consequently, if you are liable to pay National Insurance contributions, your take home pay will increase when compared to making the same employee pension contribution from your pay.

How do I know if my workplace pension scheme has the ability to use salary exchange?

Salary exchange requires your agreement to change your contract terms in this way. If you are participating in a salary exchange arrangement your employer will have either asked you to give your consent, or informed you that you will be automatically included unless you opt out.

You should therefore refer to your contract of employment and any information from your employer on this matter. If you are unsure, you should contact your employer.

If you have the opportunity to participate in a salary exchange arrangement when making pension contributions, there are many things to consider as it is not suitable for everybody. Your employer may have provided you with lots of information about the advantages and disadvantages of using salary exchange which you should consider in full. This information may also detail any eligibility criteria for the salary exchange arrangement. If you do not have access to this information you should contact your employer for further details.

What happens in the event of my death?

HMRC rules around what benefits can be paid when you die, who they may be paid to, and also whether or not they will be subject to tax, are extremely complicated.

Furthermore, the benefits available to your beneficiaries also depend upon whether or not you have started to draw your benefits, and the choices that you make. Add to this any terms and conditions that your pension provider may also have about how they will pay benefits to your beneficiaries on your death. As such, it is not possible to give absolute clarity on this in a Frequently Asked Questions guide.

The questions and answers below are designed to give you a broad understanding, however due to the complexities mentioned above, they cannot give you a full and accurate understanding of how the various rules will apply to you and your beneficiaries and should not be treated as advice.

Please also note that the Government plan to include most unused pension funds and death benefits within an individual's estate for inheritance tax purposes with effect from 6 April 2027.

The following summary applies to the 2025/26 tax year only.

We recommend that you obtain regulated financial advice before drawing your pension benefits, and also legal and/or tax advice if you think that your beneficiaries may be affected by inheritance tax, as this is a complex area.

Who will receive benefits from my pension fund when I die?

Your pension provider will tell you in your pension scheme literature who may receive benefits from your pension scheme in the event of your death. Generally speaking, beneficiaries do not have to be your dependants, although your scheme rules may require this.

You may have been asked to complete an 'Expression of Wish' or 'Death Benefit Nomination' form. This will be kept by your pension provider and used to:

- assist them in making a decision on who should receive benefits in the event of your death if it is discretionary; or
- tell them who should receive benefits if your pension provider enables you to give a direction.

It is therefore very important that you keep this form up to date, and that you understand the implications in terms of potential inheritance tax should your pension provider exercise their discretion compared to acting on a direction.

If you wish to complete or update your existing form, you should contact your pension provider. Often these forms are available on their website, along with further information on how death benefits are paid to beneficiaries and any potential tax implications.

Please note that if your employer has a separate death-in-service arrangement, you will also be required to complete a separate death benefit nomination form in respect of this benefit.

What happens to my fund if I die before I draw benefits?

The benefits payable following your death will be paid in line with the rules of your scheme or contract and the legislative requirements at the time. Please review your scheme booklet for more information.

Broadly speaking, your beneficiaries may be able to decide how to receive any benefits. Depending upon their decision, and the size of your fund, the tax position may vary. As such we would recommend that your beneficiaries also take regulated financial advice when deciding how to receive any benefits.

In summary, the tax position of any payment to your beneficiaries will depend upon:

1. the total value of your fund if paid as a lump sum
2. whether you are under or over age 75 at the time of your death and how your beneficiaries choose to take any benefits,
3. whether inheritance tax applies.

Lump sum and death benefit allowance

All individuals are entitled to a lump sum and death benefit allowance (LSDBA) of £1,073,100 unless they have a protected right to a higher LSDBA due to a previous Lifetime Allowance protection. The allowance is currently a tax-free allowance for both lifetime lump sums and most lump sum death benefits.

Death before age 75

Broadly speaking, if you die before age 75, your entire pension pot can be paid to your beneficiaries as a lump sum tax free (provided it is paid within certain timescales), unless it exceeds your LSDBA, in which case your beneficiaries will pay income tax at their marginal rate on the excess amount (with some exceptions, for example if the beneficiary is not an individual then different rules apply).

Alternatively, your beneficiaries can choose to take it as an annuity or through flexi-access drawdown (if this option exists within the scheme) tax free (if paid within certain timescales where required).

Death after the age of 75

If you die aged 75 or older, your pension pot can be paid to your beneficiaries either as a lump sum, an annuity or through flexi-access drawdown (if this option exists within the scheme). Lump sum payments will generally be subject to income tax at the marginal rate of the beneficiary or at 45%. Other payments will be subject to income tax at marginal rate. The LSDBA does not apply in these circumstances.

Inheritance Tax

For the 2025/26 tax year, payments to beneficiaries from pension funds do not normally attract inheritance tax, however there are circumstances when it may apply, for instance if you are able to give your pension provider a direction as to who should receive benefits as opposed to them exercising their discretion.

However, it was announced in the Autumn Budget 2024 that from 6 April 2027 most unused pension funds and death benefits will form part of an individual's estate for inheritance tax purposes. The full extent of this proposed change and wider implications is currently unclear as the Government is yet to decide how it will implement this policy. For some individuals this may mean that inheritance tax will be payable on benefits received from a pension scheme.

Inheritance tax and pensions is a complex area and the changes from April 2027 add to this. If you think your beneficiaries may be affected by inheritance tax now or when the changes are introduced, you should obtain legal/tax and financial advice as appropriate.

Further information on inheritance tax can be found at the following link:

https://www.moneyhelper.org.uk/en/family-and-care/death-and-bereavement/a-guide-to-inheritance-tax

What happens to my pension fund if I die after drawing some or all of my pension fund?

This depends upon the choices that you made when you took your benefits (see earlier for more information), and the rules of your pension scheme. You may therefore wish to take regulated advice before you start to draw your benefits so that any implications for your beneficiaries can be fully explained to you and taken into consideration.

The tax treatment will depend upon whether you are aged 75 or older when you die. Broadly speaking, and subject to HMRC rules, if you are under age 75 at the time of your death, your beneficiaries can take their benefits tax free (provided any lump sum payment does not exceed your LSDBA and benefits are paid within certain timescales where applicable), whereas if you are 75 or older, they will be taxed at their marginal rate.

As previously discussed, this is a complex area and will also be affected by new rules concerning unused pension funds and death benefits and inheritance tax from 6 April 2027. If you were previously affected by the Lifetime Allowance, have Lifetime Allowance protection from HMRC or think the total benefits payable in the event of your death may be in excess of the LSDBA, you may wish to speak to a regulated financial adviser.

Further information on the Lifetime Allowance can be obtained in the 'Lump Sum Allowances for Pensions Employee Guide'.

Further information from MoneyHelper can be found at the following link (please refer to the section 'What happens to defined contribution pensions?':

https://www.moneyhelper.org.uk/en/pensions-and-retirement/pension-problems/pensions-after-death

Useful Information

Where can I get information and guidance?

The Money and Pensions Service (MaPS) is sponsored by the Department for Work and Pensions.

https://maps.org.uk/en/about-us/who-we-are

MaPs has introduced a service called MoneyHelper to provide information and free guidance to people of all ages on financial issues including pensions and retirement.

https://www.moneyhelper.org.uk/en

If you are aged 50 or over you can get free and impartial guidance through Pension Wise, which is part of MoneyHelper. Telephone or online appointments are available and can be arranged by visiting their website at:

https://www.moneyhelper.org.uk/en/pensions-and-retirement/pension-wise

Alternatively, you can call 0800 138 3944.

If you are under 50 you can still get pensions guidance by calling 0800 011 3797 or by visiting the MoneyHelper website shown above.

Please note that MaPS and MoneyHelper will not be able to give you advice on, or recommendations specific to, your circumstances.

If you need specific advice on your options or financial circumstances, you will need to speak to a regulated financial adviser, who will normally charge you a fee.

MoneyHelper provides information on how to find a financial adviser in the following links:

https://www.moneyhelper.org.uk/en/pensions-and-retirement/taking-your-pension/use-our-tool-to-find-a-retirement-adviser

https://www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser

What is a pension scam?

The increased flexibilities now available on how your benefits may be taken, including the option to take the whole of your pension savings as cash at your normal minimum pension age (currently age 55 for most people and increasing to age 57 from 6 April 2028), has led to an increase in members being targeted and caught out in pension scams.

A pension scam is when someone tries to con you out of your pension money, often by contacting you unexpectedly about:

- An investment or other business opportunity that you've not spoken to them about before;
- Taking cash from your pension fund before you're 55; or
- Ways that you can invest your pension money.

You may be offered tempting ways to invest your pension pot, with the promise of high returns. These offers, although appearing convincing, are usually fake and you could risk losing most, if not all of your savings.

Be wary of cold calls and unsolicited texts or emails. If it sounds too good to be true, it usually is! Scams are also becoming more sophisticated and harder to detect, so you need to be very careful and check who you are dealing with. Beware of fraudsters posing as your pension provider, or other companies or financial institutions that you may recognise, or regulating bodies, through fake websites, advertising and email addresses. For more information, please visit:

https://www.moneyhelper.org.uk/en/money-troubles/scams

https://www.fca.org.uk/scamsmart

MercerMarsh Benefits

Important Notices

Please note that the income tax contribution rates shown in this document are for 2025/26 and are based on information available as at 1 February 2025.

This document is based on our current understanding of legislation, taxation and HMRC practice, which may change in the future, for example if Government policy changes.

Please also note that we are not lawyers or tax advisers and nothing in this document should be construed as legal or tax advice or relied on for this purpose. We strongly recommend that you seek appropriate advice in relation to matters of law and taxation.

This document is for information only and is not personal financial advice. It cannot cover all the scenarios which may apply to individual members depending upon their personal circumstances. If you require financial advice you should seek this from a regulated financial adviser.

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