GROUP PERSONAL PENSION PLAN

What is it?

Group Personal pension plans (GPP) or Group Stakeholder plans (GSHP) are a relatively straightforward method of providing employees with a pension arrangement. As they are not classed as occupational schemes, they are not subject to the more onerous rules and regulations applicable to such schemes, instead they are made up of a series of individual personal pension policies, with each employee having their own policy.

GPP / GSHPs are money purchase schemes allowing both the employer and employee to contribute.

On leaving the employment, the accrued pension will cease to be part of the scheme and will be an individual plan the employee can continue contributing to if they wish.

Eligibility

An employer can make contributions to the scheme without a specific limit on tax-relievable contributions, i.e. as long as the contributions meet the 'wholly and exclusively' accounting rules and the company has sufficient taxable profits in the current business period, employer contributions will receive corporation tax relief. However, all contributions (employer and employee) count towards the annual allowance and would cause a tax charge for the member if the available annual allowance is exceeded.

In order to be eligible to receive tax relief on personal contributions, employees must be under 75 years of age and resident in the UK (there are some exemptions for individuals who work for the UK Government or have left the UK in the last few years).

Contribution limits

The minimum contribution will vary between providers but is usually around £20 per month, contributions can be stopped at any time.

Given the many tax advantages that are available with regard to funding a personal pension there are limits to the tax-relievable contributions that can be paid. Individuals are able to make contributions of up to the greater of £3,600 or 100% of their annual earnings to all of their pensions each tax year and receive tax relief on them.

There is also an annual limit, the Annual Allowance, on the total amount of pension contributions that each person can make without incurring a tax charge (this includes employer and employee contributions). Where the total employer and / or employee contribution exceeds the Annual Allowance a tax charge will apply and the excess will be added to the individual's taxable income to determine their tax liability. Alternatively, the scheme may agree to pay the charge from the pension benefits if the charge meets certain conditions including being over £2,000. For the current tax year, the Annual Allowance is £60,000. It may also be possible for contributions in excess of the Annual Allowance to be paid in some circumstances under the rules which allow unused Annual Allowance from the three previous tax years to be brought forward and added to the current year's Annual Allowance.

Individuals who have adjusted income (income plus employer pension contributions) for a tax year of greater than £260,000 will have their annual allowance for that tax year restricted. It will be reduced so that for every £2 of adjusted income over £260,000, their annual allowance is reduced by £1.

The maximum reduction will be £50,000, so anyone with income of £360,000 or more will have an annual allowance of £10,000. High income individuals caught by the restriction may therefore have to reduce the contributions paid by them and / or their employers or suffer an annual allowance charge.

The tapered reduction doesn't apply to anyone with threshold income (income less personal/employee pension contributions) of no more than £200,000.

Taxation

Contributions to Personal Pensions generate direct tax savings. Contributions are made net of basic rate tax relief, which means that you will only actually contribute £80 net for every £100 of contributions paid. Higher and additional rate taxpayers likewise make contributions net of basic rate tax and can then claim additional relief via their Self-Assessment return or by tax code adjustment.

Your pension contributions once made will be invested in funds where there is no liability to tax on capital gains and where all forms of investment income are also tax free. Your money may therefore grow faster in a Personal Pension than in most other forms of investment.

An employer is able to contribute and receive corporation tax relief on any amount that their local Inspector of Taxes is satisfied meets the 'wholly and exclusively for the purposes of the business' test.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

Withdrawals

The earliest age an individual can take benefits is age 55, this will increase to 57 from 2028 with further increases expected as the State Pension Age goes up.

At retirement they have the option to take up to 25% of the fund as a tax free cash lump sum, and the remaining funds will be taxable as earned income.

There is now no upper age limit by which retirement benefits must be taken (particular products may impose their own age limits).

There are no restrictions on people's ability to draw down from their defined contribution pension pots after age 55, or 57 from 2028. This will allow flexible access to pension savings.

This means there is no particular product that individuals must purchase or invest in when accessing pension savings. It will be up to them to decide how to access their benefits, either as a lump sum or through some sort of financial product.

Before 6 April 2023, if the total value of your pension benefits exceeded the 'Lifetime Allowance' the excess benefits were subject to a tax charge of up to 55%. The Lifetime Allowance charge no longer applied from 6 April 2023 and the lifetime allowance has been completely abolished from 6 April 2024. Instead, there are two new limits relating only to the amount of lump sum benefits that can be taken tax free, either during lifetime or on death. For most people the Lump Sum Allowance is £268,275 and this is the limit on the amount of tax free lump sums that can be taken during lifetime (at any age) and the Lump Sum and Death Benefit Allowance is £1,073,100 which covers tax free lump sums paid during your lifetime (at any age) and following your death if before age 75. If you have lifetime allowance protection, your limits will be higher. Any lump sum benefits that exceed available allowances are subject to income tax on the recipient.

Payment on death

The value of the pension fund is available to the individual's beneficiaries on their death and can normally be withdrawn as a lump sum or left within the pension wrapper to be drawn on to provide a regular or ad-hoc income – further details are contained in the accompanying literature.

Death benefits, whether drawn as a lump sum or income, are normally payable tax free to the beneficiaries if the individual dies before age 75 (in the case of lump sum death benefits, assuming they are within your available Lump Sum and Death Benefit Allowance – any excess would be subject to income tax on the beneficiary). Where death occurs after age 75, death benefits withdrawn as a lump sum or income are taxable on the recipients as earned income.

Risk considerations

There are a number of risk considerations that need to be taken into account. It's important that you are aware of these.

- Any employer contribution is dependent upon the continued solvency of the employer.
- Past performance is no guarantee of future returns.
- The price of units and the income from them can fall as well as rise.
- This investment is intended as a long-term investment and under current HM Revenue & Customs' practice it's not normally possible to access the fund(s) prior to the age of 55. The minimum age will increase to 57 from 2028 with further increases expected as the State Pension Age goes up.
- Please be aware that there may be occasions when an individual fund or funds may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined funds being recommended is still designed to meet your stated tolerance.
- If you have accessed a pension plan of any type before 6 April 2024 and might benefit from increasing your tax free lump sum entitlement through obtaining a Transitional Tax-Free Amount Certificate (TTFAC), then if you take a Pension Commencement Lump Sum (PCLS or tax free cash sum) or Uncrystallised Funds Pension Lump Sum (UFPLS) on or after 6 April 2024 before obtaining a TTFAC you will have lost the chance to do so. This may mean a lower entitlement to tax free lump sums during your lifetime or for your beneficiaries if you should die before age 75 than might have been the case if you had obtained a TTFAC.

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