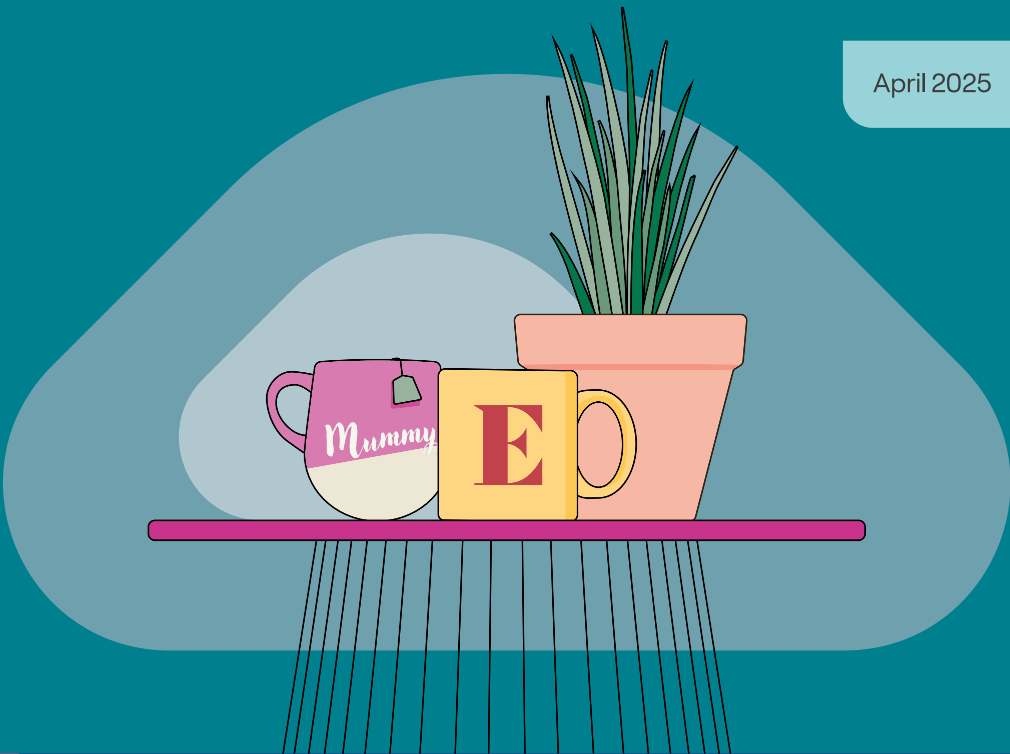
April 2025



Personal pensions

The different types of personal pensions, how they work and which one may be right for you

- The options available
- Things to consider
- Deciding if a personal pension is right for you

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HM Government

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Money & Pensions Service

Here to help you

If you're self-employed, not currently working, or can't join a workplace pension scheme, this guide will help you understand the benefits of starting to save into a personal pension and which type may be suitable for you.

Contents

What is a personal pension?

A personal pension is a type of pension scheme and, like other pension schemes, offers a tax-efficient way to save for retirement.

A personal pension lets you build up a pot of money to use when you retire. Your money is invested so it should grow over time.

Your contributions are also usually boosted by tax relief. This means the Income Tax you'd normally pay to the government goes into your pension instead.

From age 55 (57 from April 2028), you can usually take up to 25% of your pension pots tax-free – up to a maximum of £268,275 for most people.

If you already have an older personal pension, you might be able to take more than 25% tax-free. You can check this with your pension provider.

See *'Tax relief on pension savings'* (p13) for more information.

Who can have a personal pension?

Personal pensions suit a wide range of people and are worth considering if you:

- are self-employed
- will rely on the State Pension as your only retirement income
- have an irregular income or are taking time off work
- don't work but can afford to pay into a pension.

Even if you are not in paid employment, you can pay into a personal pension and still get tax relief. You can even save into a pension scheme for your children or grandchildren.

Personal pensions can also be used alongside a workplace pension. But any scheme your employer offers is likely to be better value than taking out a separate personal pension, especially if they will match what you choose to pay in.

Types of personal pension – at a glance

There are three different types of personal pension, all of which can also be used as a workplace pension scheme.

- **Standard personal pension –** offered by most large pension providers and usually gives you a range of investment choices (see p4).
- **Stakeholder pension –** lets you make low minimum contributions, stop and start payments and transfer out at no cost. Annual charges are capped, but can be higher than other pensions (see p6).
- **SIPP (self-invested personal pension) –** often gives you a wider range of investment options than stakeholder or standard personal pensions, but charges might be higher (see p8).

Employers can offer personal pensions as their workplace pension in which case it is called a '**Group personal pension**', '**Group stakeholder pension**' or '**Group self-invested personal pension**'.

Alternatives to a personal pension if you're self-employed or a sole director

If you're self-employed or a sole company director, you may be eligible to join NEST – a national workplace pension scheme that has low charges and is simple to administer.

The minimum you can pay in is £10 each time and the maximum during the tax year is up to the current annual allowance. For most people this is £60,000 or 100% of your earnings if less (see p14).

- Find out about NEST pensions for the self-employed at **nestpensions.org.uk** (search 'self-employed')

How personal pensions work

All types of personal pensions invest your money so it should grow over time, but some offer a wider choice of investments to choose from. Here's what you need to know, including the fees and charges you'll usually pay.

When you set up a personal pension, you can usually choose how much you'd like to pay in – including regular monthly amounts and lump sums as and when you want to.

You usually get tax relief on your contributions and your savings grow largely tax-free (see p13).

Your pension provider will often manage different investment funds, so you can decide how you'd like your money invested.

How much money you'll have when you retire depends on:

- how long you save for
- how much is paid in
- how well your investments perform
- the charges you've paid.

Choosing investments

Most personal pension plans offer a range of investment funds.

This usually includes funds that invest in:

- specific things – like company shares, government bonds or property
- certain areas or countries – like UK or European companies
- a mixture – like global company shares and government bonds.

The choice of investments within each fund will be managed by professional fund managers.

Your pension provider should list how the fund has performed in the past, the charges you'll pay and if it's high, medium or low risk.

You can usually choose to invest in one fund or spread your money over a number of funds.

Key point

Your pension pot will be invested. As no investment is guaranteed, there's a risk you might get back less than you pay in.

Fees and charges

You usually pay charges from your pension pot to cover the cost of investing and managing the funds.

These typically include an annual management fee (usually a percentage of your pot's value) and fees if you want to change your funds.

Make sure you understand and compare charges before choosing a pension provider and the funds to invest in. A fund with a higher cost doesn't mean it guarantees higher performance.

A regulated financial adviser can help you choose a pension provider and give advice on the investment funds to choose (see p11).

If you use a financial adviser, you'll have to pay a fee for the advice. You'll be told how much this is before you commit.

Paying for advice might save you money in the long run.

Annual statement

Your personal pension provider must give you regular information about your pension pot.

This includes an annual statement to tell you how much has been paid in, how well your investments have performed and a forecast of how much your pension might pay you when you're older.

You can use this to check if you're saving enough for a comfortable retirement.

Personal pensions for your children or grandchildren

If you set up a personal pension for your children or grandchildren, they can benefit from tax relief on savings up to £2,880 a year (see p13). This means your contributions can be boosted to £3,600.

They can access the money when they reach the normal minimum retirement age – currently 55 (57 from April 2028).

Is a personal pension right for you?

If you're under 75 in the UK, you can start a personal pension. You can also transfer other pension pots into a personal pension at any age.

If you're self-employed, not working or don't have access to a workplace pension, getting a personal pension might be a good way of saving for retirement.

If you already have a workplace pension and want to save more, it usually makes sense to put more into your workplace scheme. This is because the charges are typically lower and your employer might match your contributions.

Stakeholder pensions

Stakeholder pensions are a type of personal pension that must meet minimum standards set by the government to ensure that people taking them out get a fair deal.

Why are they different?

Unlike standard personal pensions, stakeholder pensions must offer:

- low minimum contributions
- flexibility to stop and start payments without penalty
- capped charges (some standard personal pensions might have lower charges)
- fee-free transfers
- a 'default' investment fund – where your money will be invested if you don't want to choose one yourself.

Low minimum payments

Some pension providers require a minimum payment to keep it active. The minimum for stakeholder pensions cannot be higher than £20 and doesn't need to be paid each month. But you usually need to pay in much more than this – and regularly – for a comfortable retirement.

See *How much should I save into a pension?* (p10).

Find out how much you need to save by using our **Pension calculator** at **moneyhelper.org.uk/pension-calculator**

Flexibility to start and stop payments

You can pay into a stakeholder pension regularly or as and when you want to. You can change the amount and pause paying in without any charges.

Capped charges

The maximum annual charge that stakeholder pension providers can take from your pension pot is usually 1.5% in the first 10 years, then 1%.

If your pot is worth £240 in the first year, your annual charge cannot be higher than £3.60.

You might have lower capped charges if:

- you started your stakeholder pension before 6 April 2005 – the maximum is 1%
- your employer is using a stakeholder pension scheme as their workplace pension scheme – the maximum for a default fund is 0.75%.

Some stakeholder pension providers might charge less than the maximum, so always compare charges before signing up.

Fee-free transfers

You can switch to another pension provider at any time, without charge.

Default fund

If you don't want to choose an investment fund yourself, your money will usually go into the stakeholder pension provider's 'default' fund.

Many default funds will make investment choices based on your expected retirement date.

This usually means your pension provider will take less risks with your money the closer you get to retirement, as there's less time to recover any investment losses.

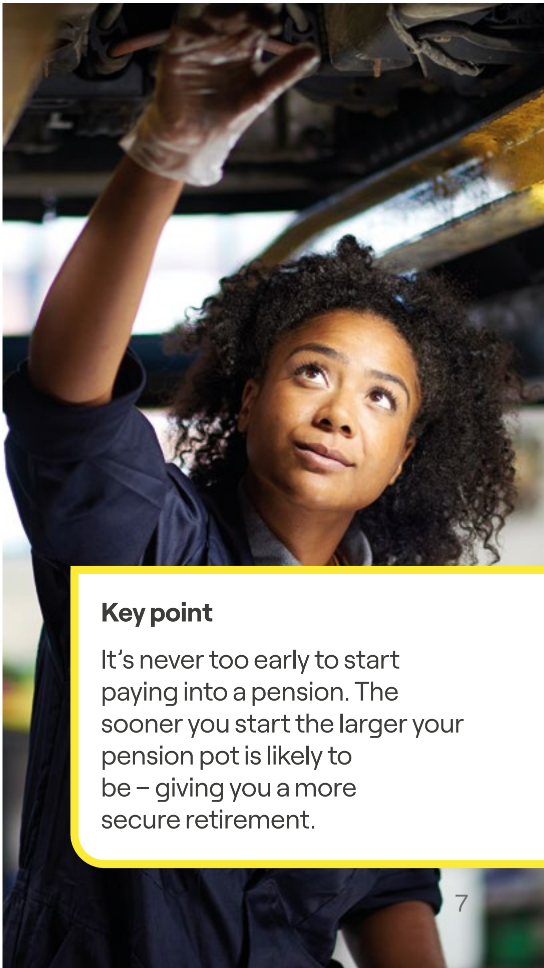
Staying in the default fund might not be right for you if you're planning to take money from your pension pot before or after the date your scheme expects you to retire.

This is because your money might be invested for longer or shorter than planned for, so you could miss out on investment growth - or your money is kept in riskier funds for longer.

A regulated financial adviser can give you advice on the best option for you (see p11).

Key point

Even though charges on stakeholder pensions are capped, some standard personal pensions may have lower charges. Always shop around before buying.



Key point

It's never too early to start paying into a pension. The sooner you start the larger your pension pot is likely to be – giving you a more secure retirement.

Self-invested personal pension (SIPP)

A SIPP works in a similar way to a standard personal pension, but some schemes give you a much wider choice of investments. You can choose and manage your investments yourself or pay a financial adviser to help you.

Why are they different?

You usually have the option to choose and manage your own investments, or pay a regulated financial adviser to help you.

Since you're in control, you can make changes and additions to your investments as often as you wish.

As SIPPs typically offer a wider range of investment options, they might have higher charges than standard personal pensions or stakeholder pensions.

Choosing investments

Most SIPPs allow you to select from a range of assets. This might include:

- unit trusts
- investment trusts
- government securities
- insurance company funds
- traded endowment policies
- some National Savings and Investment products
- deposit accounts with banks and building societies
- commercial property (such as offices, shops or factory premises)
- individual stocks and shares.

You cannot use a SIPP to invest directly in residential property. But your provider might let you invest indirectly using certain collective investments, like a real estate investment trust (REIT).

Fees and charges

You can usually find:

- 'low-cost' SIPPs with fewer investment options
- 'full' SIPPs with more complicated investment options and higher fees.

You often pay a fee to set up a SIPP, an annual management fee and charges for each investment fund. Some fees might be fixed, but many will be a percentage of the amount you have invested.

Before taking out a SIPP, shop around and compare charges.

Are SIPPs right for you?

If you're under 75 in the UK, you can start a SIPP. You can also transfer other pension pots in at any age.

SIPPs are usually only worth considering if you understand financial markets and have time to research and manage your investments – or you can afford to pay a financial adviser to do this for you (see p11).

Investments can go up and down, so managing a SIPP means taking responsibility for your decisions if things go wrong.

If you have access to a workplace pension, it usually makes sense to put money into that first – especially as your employer contributes too.

SIPPs allow you to choose from a wide range of investments that you manage yourself. Remember the value of your investments can rise or fall.

Consider using a regulated financial adviser to help choose and manage your SIPP investments. If you invest without advice you are less likely to be protected if things go wrong.

How much should you save into a pension?

Here's how to work out how much you might need for a comfortable retirement.

How much to save into a pension largely depends on:

- what you can afford
- how much you expect to need for a comfortable retirement.

You can make a budget to see how much spare cash you might have. See **moneyhelper.org.uk/budget-planner** to use our free and easy online tool.

Any money saved into your pension will usually be locked away until you're at least age 55 (57 after April 2028), so it's a good idea to build up other savings too.

Our pension calculator will show you how much you might need in retirement, and how much you're on track to get.

See **moneyhelper.org.uk/pension-calculator**

You can also see how your retirement income might change if you saved more or less into your pension.

The Retirement Living Standards also list how much you might need to have a:

- 'minimum' lifestyle – enough money to live on, plus entertainment and a holiday
- 'moderate' lifestyle – extra security and money for more holidays and entertainment, or
- 'comfortable' lifestyle – enough money so you can cover most things you want to do.

See **retirementlivingstandards.org.uk**

Keep track of your pension savings

It's a good idea to regularly check how your pension savings are performing. You can usually log in to your pension providers online account or app to see:

- how much your pension is currently worth
- how much it has changed in value over time
- how much it's likely to pay you when you're older.

You should also be sent a statement each year with with an estimate of how pension income you might get when you retire.

If you're not on track for a comfortable retirement, you could consider changing your contributions.

Choosing a pension provider

If you decide that a personal pension is right for you, you can either:

- compare providers, fees and products yourself, then sign up to one you've chosen. If the product turns out to be unsuitable, you're less likely to be able to make a complaint.
- use a regulated financial adviser to recommend a product for you.

Getting financial advice

A regulated financial adviser is authorised by the Financial Conduct Authority (FCA) and must follow strict rules when recommending products.

They can tell you which type of personal pension is right for you and compare the market to recommend a suitable product.

If the recommended product or investment funds turn out to be unsuitable, you can complain.

If the adviser rejects your complaint, you can take your case to the free Financial Ombudsman Service.

Need more help?

Find a financial adviser with our
Retirement adviser directory

Our directory only contains details of regulated advisers – so you have peace of mind that you are fully protected. Choose to deal with your adviser in person, on the telephone or online.

It's up to you.

Find your financial adviser at
moneyhelper.org.uk/retirement-adviser-directory

It's a good idea to contact at least three regulated financial advisers for a quote to recommend a personal pension scheme.

Ask each adviser if they can recommend a personal pension from any pension provider in the market – so you get the widest choice – and check you'll get 'regulated financial advice', not just information or unregulated guidance.

Only use a financial adviser who is regulated and authorised by the Financial Conduct Authority.

To find a regulated financial adviser who specialises in pensions and retirement, go to **moneyhelper.org.uk/retirement-adviser-directory**

Cost of financial advice

Regulated financial advisers must tell you how much their services cost and agree with you how much you will pay now and in the future.

Always ask your adviser how much they're charging you for their advice both now and in the future.

Buying without advice

Some firms that sell pension products just provide help and information without giving you actual advice.

If you buy through this route, you might not be able to complain if the product turns out to be unsuitable. These firms should also set out any charges and how they're paid.

If you change your mind after you sign up for a pension

You can cancel your pension and get a refund of any money you've paid within the first 30 days.

After this, you can only access your money from age 55 (57 from April 2028). You can usually transfer your pension to another provider at any point.

Complaints

If you want to complain about bad pension advice, contact the firm you dealt with and tell them what they can do to resolve things.

If you're unhappy with their reply, you can take your complaint to the free Financial Ombudsman Service (see p18).

Key point

A financial adviser can give you advice and help you choose a provider.

Tax relief on pension savings

Most people resident in the UK who contribute to a personal pension get tax relief up to certain limits on their contributions – even if they don't usually pay Income Tax.

For every 80p you contribute to your pension, £1 usually goes into your pension pot. This is because HM Revenue & Customs (HMRC) normally adds an extra 20p of basic-rate tax relief.

For example, if you pay in £40 a month, tax relief usually increases this to £50.

If you're a non-taxpayer or pay the 19% Scottish starter rate, you still get 20% basic-rate tax relief as long as you don't contribute more than you earn.

Basic-rate tax relief is claimed automatically for you by your personal pension provider.

Limits on tax relief

The annual allowance for tax relief on pension savings is usually £60,000 or 100% of your earnings - whichever is higher.

If you have no taxable earnings, you can still pay up to £2,880 a year into a pension scheme and benefit from tax relief.

Example

If you earn less than £3,600 and pay £2,880 a year into your pension (£240 a month), your pension provider will claim basic-rate tax relief of £720 (£60 a month). This means £3,600 (£300 a month) goes into your pot in total.

Higher-rate taxpayers

If you pay Income Tax at a higher rate than 20%, you can claim extra tax relief – up to the rate you pay.

You need to contact HMRC or complete a tax return each tax year you're eligible. You can usually backdate a claim for the last three tax years.

You'll usually get the extra tax relief as a refund at the end of the tax year, a reduction in your tax bill if you owe tax or your tax code will be changed so less tax is taken off your future income.

The annual allowance

To get tax relief, your contributions must be less than (or equal to) the amount you earn.

The annual allowance is the maximum that can be paid into a pension each tax year before you have to pay a tax charge.

All payments in, including your contributions, tax relief and any contributions made by someone else must not be higher than the annual allowance.

For most people, the annual allowance is £60,000. You might also be able to carry forward unused allowances from the previous three years.

Tapered annual allowance if you have a high income

The standard £60,000 annual allowance is usually lower if your 'adjusted income' (typically all your income plus the amount your employer pays into your pension) is over £260,000.

Your annual allowance reduces by £1 for every £2 of adjusted income above £260,000, until the minimum tapered annual allowance of £10,000 is reached. This happens if your adjusted income is over £360,000.

The tapered annual allowance usually won't apply if your 'threshold income' (normally all your income minus the amount you pay into a pension) is below £200,000.

Reduced annual allowance when you start taking your pension

If you cash in your pension pot, buy an investment-linked annuity, start to take taxable lump sums or a flexible income from a defined contribution pension scheme, you might trigger a lower annual allowance of £10,000.

This is called the money purchase annual allowance (MPAA).

Tax charge if you exceed the Annual Allowance

If you exceed the annual allowance, you usually need to pay back any tax relief you've received over the limit. This is called an annual allowance tax charge.

You must complete a Self Assessment tax return and either pay the tax direct to HMRC, or ask your pension provider if they can pay using money in your pension pot.

The lump sum allowance (LSA)

From age 55 (57 from April 2028), you can usually take up to 25% from each of your pensions without paying tax – provided you take the money as one or more lump sums and the total is less than the lump sum allowance (LSA). The LSA is £268,275 for most.

You usually pay Income Tax on lump sums that are higher than the LSA.

The lump sum and death benefit allowance (LSDBA)

If you die before age 75 and anyone inherits your pension, they can usually choose to take tax-free lump sums from it – provided the total is less than the lump sum and death benefit allowance (LSDBA). The LSDBA is £1,073,100 for most.

If you take tax-free lump sums before you die, your LSDBA will be reduced by the same amount.

Income Tax must usually be paid on any lump sums taken over the LSDBA.

Taking your pension

You don't need to retire to start drawing money from your personal pension – for example you can carry on working part-time.

You can currently access your pension pot:

- at your normal minimum retirement age – currently 55, rising to 57 from April 2028. It's then expected to stay 10 years below the State Pension age if that increases
- if you need to retire early due to poor health or your scheme has a protected retirement age.

Options for using your pension pot

When you can access your pot, you can choose how and when you'd like to take the money. You can usually:

- Retire later or delay taking your pension pot.
- Use your pension pot to buy a guaranteed income for life, called a lifetime annuity. The income is taxable but you can usually take up to 25% of your pot as a one-off tax-free lump sum at the start.
- Use your pot to provide a flexible retirement income, often called'pension drawdown' or 'income drawdown'. Again, the income is taxable but you can usually take up to 25% as a tax-free lump sum.
- Take small cash sums as and when you need them. Usually, the first 25% of each cash withdrawal is tax-free and the rest is taxable. You cannot also take 25% of your whole pension pot tax-free upfront.
- Take your whole pot as cash. The first 25% will usually be tax-free and the rest is taxable.
- Mix your options. You could choose different ways to use your money from one or more pension pots.

If your pension scheme or provider doesn't offer an option you'd like, you could consider transferring to a different provider one that does.

If you're 50 or over, you can have a free Pension Wise appointment to help explain your options. Go to **moneyhelper.org.uk/pensionwise**.

Before choosing a product, always shop around and compare - don't just settle for your own pension provider's products. A financial adviser can help with this (see p11).

Find out more about the options available by using our retirement income options tool at **moneyhelper.org.uk/retirement-income-options**

Or download our guide '*Your pension: your choices*'. Go to **moneyhelper.org.uk/free-printed-guides**

Jargon buster

Annuity

An insurance product that provides a guaranteed income for life (or for a fixed term) in return for a lump sum.

Drawdown

Pension drawdown lets you take up to 25% as a tax-free lump sum and leave the rest invested until you need it. This means the value of your remaining pension can go up and down.

You can choose how and when you'd like to take the rest, including buying an annuity for a guaranteed income, taking a regular income directly from your pot or taking money as and when you need it. These would all be counted as taxable earnings.

Retirement income

The money you have to live on in retirement. This can come from a variety of sources including your State Pension, personal and workplace pensions, non-pension savings, benefits and salary from any ongoing work.

See your options at **moneyhelper.org.uk/retirement-income-options**

State Pension

A regular payment from government that you qualify for when you reach State Pension age. The amount you get depends on your National Insurance record. You can see your State Pension forecast at **gov.uk/check-state-pension**

Tax-free lump sum

You can usually take up to 25% of your pension pot as tax-free cash, as long as you don't take more than the lump sum allowance (LSA).

The LSA for most is £268,275, unless previous protections are in place.

Tax year

From 6 April one year until 5 April the following year.

Useful contacts

MoneyHelper

MoneyHelper is independent and backed by government to help you make the most of your money. We give free, impartial money and pensions guidance to everyone across the UK – online and over the phone.

Visit us at **moneyhelper.org.uk**

Or contact us via:

Phone

Money guidance
UK: **0800 138 7777**
if you're outside the UK:
+44 20 3553 2279
Mon - Fri 8am to 6pm

Pensions guidance
UK: **0800 011 3797**
if you're outside the UK:
+44 20 7932 5780
Mon - Fri 9am to 5pm

Webchat

moneyhelper.org.uk/moneychat

moneyhelper.org.uk/pensionschat

WhatsApp

+44 7701 342744
(money guidance only)

Online communities

Join our Facebook groups for support: **moneyhelper.org.uk/online-communities**

Finding a financial adviser

Retirement adviser directory

All of the advisers listed are regulated and authorised by the FCA to offer regulated financial advice.

Use our online Retirement adviser directory at **moneyhelper.org.uk/retirement-adviser-directory** to find an adviser.

Financial Conduct Authority (FCA)

To check the FCA Register or to report misleading financial adverts or other promotions.

Consumer helpline: 0800 111 6768
Typetalk: 1800 10207 066 1000
fca.org.uk/register

Pension information and advice

For details of your workplace pension scheme, talk to your pensions administrator, pensions manager or pension trustees at work.

Pension Wise

A free service from MoneyHelper providing impartial guidance about your defined contribution pension options.
0800 138 3944
moneyhelper.org.uk/pensionwise

To qualify for an appointment, you must be 50 years old or over and have a defined contribution pension pot. You also qualify if you're under 50 with ill-health or an inherited defined contribution pension pot.

- Our booking lines are open 9am to 5pm, Monday to Friday
- We'll send you an email to confirm your appointment.

GOV.UK

For information about planning and saving for retirement, including State Pensions and how to find a lost pension.

State Pension statements and enquiries
0800 731 0175
gov.uk/check-state-pension

The Pension Tracing Service
0800 731 0193
gov.uk/find-pension-contact-details

Complaints and compensation

Financial Ombudsman Service

0800 023 4567 or 0300 123 9123
financial-ombudsman.org.uk

The Pensions Ombudsman

For complaints about a workplace pension scheme or a personal pension. Also considers complaints about a decision made by the Pension Protection Fund or the Financial Assistance Scheme.
0800 917 4487
pensions-ombudsman.org.uk

Use this page to record your notes

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Cymraeg

Contact us

Money guidance **0800 138 7777**
Mon – Fri 8am to 6pm

Pensions guidance **0800 011 3797**
Mon – Fri 9am to 5pm

Text relay services **1800 1 0800 915 4622**
Mon – Fri 8am to 6pm

WhatsApp **+44 7701 342744**

Website **moneyhelper.org.uk**

Money Helper

Calls from the UK are free. To help us maintain and improve our service, we may record or monitor calls.

Accessible formats
If you would like this guide in Braille, large print or audio format please contact us on the above numbers. Information correct at time of printing (April 2025). These guides are reviewed once a year.

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