

THE Openwork PARTNERSHIP

YOUR GUIDE TO MAKING THE
MOST OF YOUR ANNUAL PENSION
CONTRIBUTION ALLOWANCES

Plan for tomorrow, today

Saving into a pension is one of the smartest financial decisions you can make. It gives your money a head start thanks to generous tax relief and helps you build a pot that supports the life you want in retirement. Even small contributions can grow significantly over time. Whether you're contributing to a workplace pension or managing your own self-invested personal pension (SIPP), the tax advantages are the same. SIPP's can offer greater flexibility and investment choice, but they also require more involvement, so it's important to take advice to ensure your investments suit your goals and risk appetite.

Make the most of your pension allowance

For the 2025/26 tax year, you can contribute up to £60,000 in total to your pensions, including the tax relief added by the government, or up to 100% of your earnings, whichever is lower. This generous allowance applies across all your pensions and gives you valuable scope to build your retirement savings, though it may be reduced if you're a high earner.

If you haven't used your full allowance in the past few years, you may be able to make larger payments this year using a rule called carry forward. This allows you to use any unused allowances from the previous three tax years, as long as you've used this year's full allowance and were a member of a registered pension scheme in those years. There's now no lifetime limit on the total amount you can save in your pension.

Top up your workplace pension

If you're in a workplace scheme, consider increasing your contributions if you can. Because the money comes from your pre-tax salary, you'll also save on National Insurance. Even a small increase now could make a big difference later.

Keep in mind, you can't usually access your pension until age 55 (rising to 57 in 2028).

Check your progress

Review your State Pension record to make sure you have enough qualifying years of National Insurance contributions. If you notice any gaps, you may be able to make voluntary contributions to help secure the full amount.

You can check your State Pension entitlement, National Insurance record and State Pension age by visiting www.gov.uk/check-state-pension and www.gov.uk/check-national-insurance-record

Keep things simple

If you've built up private pensions with different employers, consolidating them can make life easier – fewer statements, clearer performance and one place to track progress. But don't transfer without advice, as some older plans may include valuable benefits.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

How much will you need in retirement?

Everyone's idea of a comfortable retirement is different, but it helps to have a guide. According to the Pension and Lifetime Savings Association (PLSA) Retirement Living Standards (2025), the figures below show the annual after-tax income typically needed for different lifestyles, based on living outside London:

Lifestyle	Single person	Couple	Couple
Minimum	£13,400	£21,600	Covers essentials – a modest lifestyle with limited leisure activities.
Moderate	£31,700	£43,900	More financial security, a car, holidays in Europe and some social spending
Comfortable	£43,900	£60,600	Greater flexibility, long-haul holidays and more spending freedom

These figures are after tax and based on living outside London. Your adviser can help you work out what's realistic for your own goals and the income you'll need to achieve it.

How tax relief works

When you pay into a pension, some of the money that would have gone to the government as tax instead goes into your pension. The rate of tax relief you receive depends on your income tax band.

Taxpayer type	Tax relief rate
Basic rate	20%
Higher rate	40%
Additional rate	45%

If you pay into a pension through your employer, your contributions are usually taken before tax, so you automatically receive full tax relief.

If you make personal contributions, your pension provider will claim 20% basic-rate relief for you. Higher- or additional-rate taxpayers can reclaim the extra relief through self-assessment.

If you're a higher earner

If your annual adjusted income (your total earnings plus pension contributions) is more than £260,000, your annual allowance may reduce.

If your threshold income is £200,000 or less, your allowance stays the same.

The calculation can be tricky, so it's best to speak to your adviser to make sure you're contributing the right amount.

Before you take money out

Once you start drawing income or lump sums from your pension, your future contribution limit may fall under the Money Purchase Annual Allowance (MPAA). This means you might not be able to pay in as much and still get tax relief.

It's important to talk to your adviser before taking money out, to make sure it won't restrict your future options.

Future changes to inheritance rules

From 6 April 2027, the tax treatment of pensions on death is set to change.

Under current rules, most unused pension funds and death benefits fall outside your estate for inheritance tax (IHT) purposes. However, from 2027, the government plans to include these pension funds within a person's estate when calculating IHT.

This marks a major shift, and the detail may still evolve before the change takes effect. If you're building pension wealth to pass on to loved ones, it's important to seek advice to understand how this could affect your long-term plans.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.



Other ways to save tax-efficiently

If you've used your full pension allowance and still have more to save, ISAs can be a great complement. You can invest up to £20,000 each year, with tax-free growth and withdrawals. Your adviser can help you decide which mix works best for your goals.

Save for your children's future

It's never too early to start saving for a child's retirement. Junior pensions (also known as children's SIPP) let parents, grandparents or guardians contribute up to £3,600 each year on a child's behalf, with the government adding 20% tax relief.

That means you can pay in £2,880 and HMRC will top it up to £3,600. The money can't be accessed until the child is 57, giving it decades to grow – a real head start for their future.

Make sure your pension is working for you

A regular review can help you make the most of your allowances and keep your retirement savings moving in the right direction. Speak to your adviser to stay on course.

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