Your bonus could help your pension savings grow

Based on bonus exchange

If you are going to receive a bonus from work you could consider exchanging it for a one-off pension contribution paid by your employer. One major benefit is that it's tax efficient – you won't pay tax on the amount of bonus exchanged since it doesn't count as part of your taxable income.

Value of exchanging your bonus for a pension contribution

Meet Sarah, a 28-year-old office manager who's earning £27,000 each year. Her pension is set up on a salary exchange arrangement and she's exchanging 5% of her salary for an employer pension contribution. This means she pays less tax and National Insurance (NI) on her salary, which impacts the level of tax and NI she pays on her bonus when taken as a cash payment.

Sarah has received a bonus of £1,350 and is thinking about adding it to her pension. Here's what she can expect if her bonus is paid alongside her take-home pay, versus the potential long term value of exchanging it for a pension contribution.

Taking bonus as cash payment

If Sarah adds her bonus to her pay, she'll pay tax and NI.

Tax treatment can change, and depends on individual circumstances and where you live in the UK.

£1,350 Bonus - tax and NI = **£972** in her hand

Bonus exchanged for a one-off pension contribution

If Sarah decides to exchange her bonus for a one-off pension contribution instead, it's paid into her pension without tax or NI deductions. Once invested, she won't be able to access this money until age 57.

£1,350 Bonus = **£1,350** invested in her pension savings

Projected value of one-off pension contribution at retirement

As Sarah's bonus is invested in her pension it's projected to increase in value until she reaches her chosen retirement age of 65 years.

£1,350 in her pension savings + growth after charges = **£3,300** at the age of 65 - tax

Inflation reduces the buying power of their retirement savings and we've allowed for this by reducing the assumed growth rate by 2%, giving a more realistic view of what that would look like if payable today.

These are illustrative figures based on an assumed growth rate of 2.94% which has been reduced to include inflation. We've assumed an annual management charge of 0.45%.

When Sarah starts to take money from her pension savings, she'll be able to take up to 25% of her pension savings as a tax free cash lump sum. The other 75% is taxable, which means Sarah could pay tax on £2,475 of the projected £3,300. The level of tax she'll pay will depend on her yearly income and lump sum allowances.

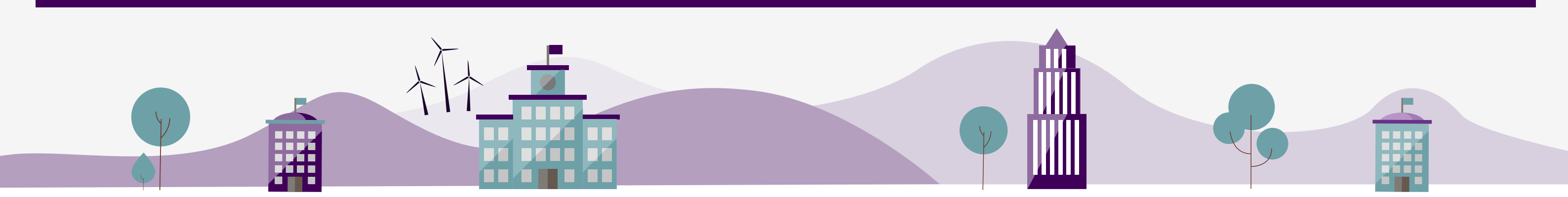
What you could get back at retirement depends on how much you pay in, the charges on your plan and how well the fund you're invested in performs. Contributions are invested so the value of pension savings can go down as well as up and you could get back less than you invest.

How to make a one-off pension contribution

If you'd like to exchange your bonus for a one-off pension contribution, that your employer will pay into your workplace pension plan, you'll need to instruct them to do this as it won't happen automatically.

Remember, you can make a one-off pension contribution into your plan at any time. Depending on the type of pension plan you have, you may be able to do this by bank transfer using our online **form**.

We always recommend that you seek regulated financial advice before making any financial decision.



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