ROYAL LONDON

Your bonus could help your pension savings grow

Based on bonus exchange

If you 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 Joe, a 40-year-old marketing manager who's earning £55,000 each year. His pension is set up on a salary exchange arrangement and he's exchanging 5% of his salary for an employer pension contribution. This means he pays less tax and National Insurance (NI) on his salary, which impacts the level of tax and NI he pays on his bonus when taken as a cash payment.

Joe has received a bonus of £5,500 and is thinking about adding it to his pension. Here's what he can expect if his bonus is paid alongside his take-home pay, versus the potential long term value of exchanging it for a pension contribution.

Taking bonus as cash payment

If Joe adds his bonus to his pay, he'll pay tax and NI.

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

£5,500 Bonus - tax and NI = **£3,190** in his hand

Bonus exchanged for a one-off pension contribution

If Joe decides to exchange his bonus for a one-off pension contribution instead, it's paid into his pension without tax or NI deductions.

Once invested, he won't be able to access this money until age 57.

£5,500 Bonus = **£5,500** invested in his pension savings

Projected value of one-off pension contribution at retirement

As Joe's bonus is invested in his pension it's projected to increase in value until he reaches his chosen retirement age of 65 years.

£5,500 in his pension savings + potential growth after charges = **£10,000** could be worth this at the age of 65 - tax

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.

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 Joe starts to take money from his pension savings, he'll be able to take up to 25% of his pension savings as a tax free cash lump sum. The other 75% is taxable, which means Joe could pay tax on £7,500 of the projected £10,000. The level of tax he'll pay will depend on his yearly income and lump sum allowances.

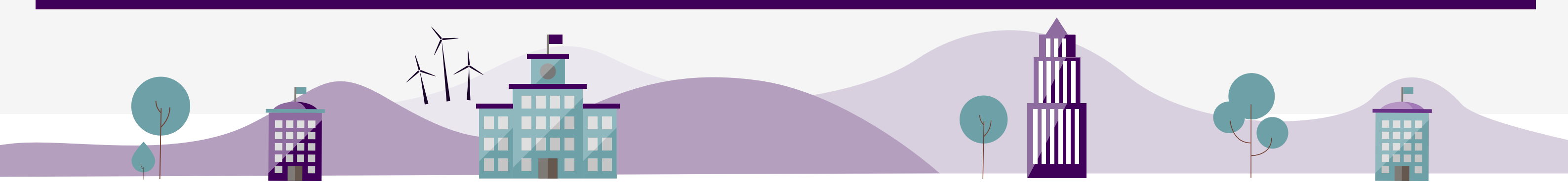
What you could get back at retirement depends on how much you pay in, the charges on your plan and how well the fund you're invested in performs.

How to make a one-off pension contribution

If you'd like to exchange your bonus for a one-off pension contribution your employer will pay this 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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