Your bonus could help your pension savings grow

If you receive a bonus from work you could consider paying it into your workplace pension as a one-off pension contribution. One major benefit is that it's tax efficient - you'll receive tax relief on the amount you pay into your pension plan.

Using your bonus to top up your pension

Meet Joe, a 40-year-old marketing manager who's earning £55,000 each year. He's received a bonus of £5,500 and is thinking about paying it into his pension. Here's what he can expect his bonus to be worth after tax and National Insurance (NI) deductions, and the potential long term value if he pays it into his pension as a one-off pension contribution.

Value of bonus after tax and NI

If Joe adds his bonus to his take-home pay, he'll pay tax and NI on the full amount.

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

Tax relief added to one-off pension contribution

If Joe decides to pay his bonus into his workplace pension, as a one-off pension contribution, he'll receive tax relief at the basic rate of 20%. He could also claim further tax relief when he submits his self-assessment.

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

£3,190 one-off pension contribution + 20% tax relief = **£3,988** 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.

£3,988 invested in his pension savings + growth after charges = **£7,200** 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 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 £5,400 of the projected £7,200. 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. 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

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.