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SPOTLIGHT ON:

Retirement planning basics

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SIMPLE WAYS TO REDUCE TAX ON SAVINGS

ISAs and pensions remain two of the simplest ways to keep savings and investments tax efficient in the UK. Used together, they can help you build short-term flexibility and longer-term retirement security, without tying everything up in one place. This article covers the key 2025/26 allowances, the rules that trip people up and a straightforward way to bring the two into one plan.

A quick note on scope. We cover tax rules and planning principles, and we aim to keep it clear and factual. This is not personal investment advice, and regulated advice may be appropriate where you need a recommendation on products, providers or investments.

WHY ISAS AND PENSIONS SIT AT THE HEART OF TAX PLANNING

Most personal tax planning comes down to two questions.

1. **How do we reduce avoidable tax today?**
2. **How do we build financial flexibility for later?**

ISAs and pensions answer those questions better than most other options because:

- ISAs give you tax-free growth and tax-free withdrawals, with access generally available whenever you need it (subject to product rules)
- pensions give you income tax relief on the way in and can also grow largely tax efficiently, but they come with access restrictions and rules on how withdrawals are taxed.

Used together, they let you balance short-term flexibility and long-term planning, without complicated structures.

THE ALLOWANCES YOU NEED TO KNOW

ISA ALLOWANCE

- The annual ISA allowance is £20,000 per person in 2025/26.
- You can spread this across ISA types and, under current rules, you can pay into more than one ISA of the same type in a tax year as long as you stay within the overall limit.
- Some ISA providers offer flexible ISAs, which can let you replace withdrawals in the same tax year (provider rules vary).

LIFETIME ISA AND JUNIOR ISA ALLOWANCES

- The Lifetime ISA allowance is up to £4,000 a year, with a 25% government bonus (up to £1,000), subject to eligibility and withdrawal rules.
- The Junior ISA allowance is up to £9,000 a year per child.
- The government has stated that the ISA, Lifetime ISA and Junior ISA subscription limits will remain at these levels until April 2031.

PENSION ANNUAL ALLOWANCE

For most people, the headline pension figure is:

- annual allowance – £60,000.

However, the practical limit can be lower due to:

- tapered annual allowance for higher earners, based on income measures such as "threshold income" and "adjusted income", with a minimum tapered allowance of £10,000
- money purchase annual allowance (MPAA), which can apply after you start flexibly accessing defined contribution pension savings, and is £10,000.

PERSONAL CONTRIBUTION LIMIT FOR TAX RELIEF

Pension tax relief also depends on earnings.

- You can usually get tax relief on personal contributions up to 100% of your annual earnings (relevant earnings rules apply).
- If you have little or no earnings, you can still normally contribute up to £3,600 gross each tax year and get tax relief in some circumstances (often via relief at source).

PEOPLE ARE USING THESE ALLOWANCES MORE

Two recent data points are worth bearing in mind.

- Government savings statistics show around 15m adult ISA accounts received subscriptions in 2023/24, up from 12.4m the year before.
- The Department for Work and Pensions reports that more than 22m people were saving into a workplace pension as of 2023, over 10m more than in 2012.

The direction of travel is clear: more households use ISA and pension wrappers and it's sensible to make sure your own set-up stays intentional.

HOW ISAS WORK, WHAT YOU GAIN AND WHAT TO WATCH

WHAT AN ISA ACTUALLY DOES

An ISA is a tax wrapper. Investments or cash held inside can generally grow without UK income tax or capital gains tax, and withdrawals are generally tax free.

That combination matters because it can help you:

- keep savings interest tax free
- build an investment pot without annual capital gains admin
- withdraw money later without pushing you into a higher tax band.

THE MAIN ISA TYPES

- **Cash ISA:** This is a savings account inside an ISA wrapper. You typically use it for short-term plans and emergency funds.
- **Stocks and shares ISA:** These are investments inside an ISA wrapper, typically for medium- to long-term goals.
- **Lifetime ISA:** This is a special ISA for first-home purchase (subject to rules) or retirement from age 60, with a government bonus.
- **Junior ISA:** This is an ISA for children, locked until age 18.

ISA RULES THAT REGULARLY CATCH PEOPLE OUT

- Using the allowance too late. Your ISA allowance resets each tax year. If you do nothing, you can't carry it forward.
- Assuming withdrawals are always "free". Tax free does not mean "penalty free". Product rules still apply, especially for Lifetime ISAs.
- Flexible ISA confusion: Flexibility is provider specific. If you plan to withdraw and replace funds within the same tax year, check whether your ISA is flexible and how the provider applies the rules.

UPCOMING ISA RULE CHANGES WORTH KNOWING

Government announcements in late 2025 set expectations for future ISA rule changes, including changes to cash ISA limits from April 2027. If you rely heavily on cash ISAs, keep an eye on updates and provider communications over the next year or two.

HOW PENSIONS WORK, WHAT YOU GAIN AND WHAT TO WATCH

WHAT A PENSION ACTUALLY DOES

A pension is primarily a tax-relief vehicle that locks money away for later life. The benefits typically come from:

- income tax relief on contributions (subject to limits and scheme method)
- employer contributions (workplace schemes)
- tax-efficient growth within the pension
- potential tax-free lump sums, within limits.

The trade-off is access. Most pension savings cannot be accessed until the normal minimum pension age (with exceptions), and government policy sets this age.

PLAN AROUND THE ACCESS AGE

The government has legislated that the normal minimum pension age will rise to 57 from 6 April 2028 for most people (with protections for certain scheme rights).

This matters when you plan your "bridge" between stopping work and accessing pension benefits. ISAs often fill that gap.

TAX RELIEF: HOW IT WORKS IN PRACTICE

You may receive tax relief automatically or you may need to claim part of it, depending on the pension scheme method and your tax position. Two planning points come up repeatedly.

- Higher-rate taxpayers often need to claim extra relief for some personal contributions.
- If your pension uses a net pay arrangement, non-taxpayers can miss relief that would have been available under relief at source, so it's worth understanding your scheme method if your income varies.

LUMP SUMS AND THE LIMITS

Many people focus on "25% tax free", but there are headline limits to know.

- The maximum tax-free lump sum you can usually take is £268,275, known as the lump sum allowance.
- In certain circumstances, the lump sum and death benefit allowance is £1,073,100.

These limits mean that pension planning still needs care for people with larger pots or multiple pension arrangements.

The government has legislated that the normal minimum pension age will rise to 57 from 6 April 2028 for most people (with protections for certain scheme rights)

ANNUAL ALLOWANCE, TAPERING, MPAA AND CARRY FORWARD

These rules create most of the pension tax surprises.The annual allowance is the starting point. You then need to consider the following.

- Tapered annual allowance – if your threshold income exceeds £200,000 and adjusted income exceeds £260,000, your allowance can reduce down to £10,000.
- MPAA – if you have flexibly accessed defined contribution pensions, MPAA can restrict future contributions to £10,000 (and you can still also trip the standard annual allowance depending on total inputs).
- Carry forward – you can carry forward unused annual allowance from the previous three tax years, subject to conditions.

If you suspect any of these apply, it's worth checking before you increase contributions, because an annual allowance charge can wipe out the benefit of "just paying more in".

ISAS VS PENSIONS, WHICH SHOULD YOU PRIORITISE?

This is the decision most people actually need.

A PRACTICAL RULE OF THUMB

- Use pensions first when you get employer contributions, because it's part of your total reward package.
- Use ISAs alongside pensions to build accessible reserves and avoid locking everything away.
- Use pensions for longer-term retirement funding when you pay higher-rate tax, because the relief can be significant (subject to scheme mechanics and limits).
- Use ISAs for medium-term goals and flexibility, and as a bridge to pension-access age.

A SIMPLE TWO-POT STRUCTURE THAT WORKS FOR MANY HOUSEHOLDS

1. Now and next – your ISA pot

- emergency fund
- home improvements and big purchases
- career breaks, self-employment transitions
- early retirement bridge.

2. Later – your pension pot

- retirement income
- long-term investing
- tax-relief-driven saving.

This structure reduces stress because you can plan for both flexibility and retirement without forcing every goal into one wrapper.

COMMON SCENARIOS AND HOW TO THINK ABOUT THEM

SCENARIO 1: YOU ARE EMPLOYED AND IN A WORKPLACE PENSION

Start with these steps.

- Contribute enough to capture the maximum employer contribution available.
- Check whether salary sacrifice is available, and how it affects your take-home pay and workplace benefits.
- Use ISA contributions to build a cash buffer and medium-term savings.

A useful target for many people is: pension contributions that feel sustainable, ISA contributions that build resilience.

SCENARIO 2: YOU ARE SELF-EMPLOYED

You don't get employer contributions, so your planning needs a different balance.Many self-employed people find this structure workable.

- Build a solid cash buffer first (often via a cash ISA if rates suit).
- Commit to regular pension funding for retirement.
- Use stocks and shares ISAs for medium-term wealth building, especially where you want access before pension age.

Also keep the personal contribution relief rules in mind, especially if profits vary year to year.

SCENARIO 3: YOU EARN BETWEEN £100,000 AND £125,140

This band deserves a specific mention because pension contributions can reduce “adjusted net income” and help restore the personal allowance in some cases, thereby improving the effective rate of relief. The mechanics depend on your full tax position and income sources, but it’s one of the reasons pensions remain a key planning tool for higher earners. At this income band, individuals are paying an effective tax rate of 60%.

Pension contributions can also be used to bring your income below £100,000 to give you free childcare hours.

If this might apply, it’s worth reviewing contributions early enough to act before the tax-year end.

SCENARIO 4: YOU ARE A HIGHER EARNER NEAR TAPERING THRESHOLDS

If your income is high, you may be close to tapered annual allowance rules. HMRC sets out how threshold and adjusted income interact, and the allowance can reduce to £10,000. In these cases:

- check whether your pension input amounts are likely to breach your reduced allowance
- consider carry forward if appropriate
- avoid accidental triggers of MPAA if you plan to keep contributing.

SCENARIO 5: YOU WANT TO HELP A CHILD OR GRANDCHILD

A Junior ISA can build a tax-free pot that becomes the child’s at 18, with a £9,000 annual limit in 2025/26.

If you want longer-term retirement provision for a child, pensions can also be relevant because tax relief can apply within limits, even for those with low or no earnings (subject to scheme method and rules).

The choice comes down to control and purpose.

- Junior ISA – adult control until 18, then the child controls it.
- Pension for a child – long lock in, but long time horizon.

SCENARIO 6: YOU ARE APPROACHING RETIREMENT

This is where combining ISAs and pensions tends to pay off.

- ISAs can provide tax-free withdrawals, which can help manage your taxable income in retirement.
- Pensions can provide core retirement income, but withdrawals can be taxable beyond tax-free elements.

If you plan to retire before pension-access age, your ISA bridge becomes even more important.

SUMMING UP YOUR OPTIONS

A tax-efficient plan does not need to be complicated. For most people, the most effective approach is consistent and repeatable – use pensions to build long-term retirement funding and use ISAs to build flexibility and protect savings from tax. Together, they can reduce avoidable tax, improve your options later in life and make it easier to handle changes without disrupting your long-term plans.

The key is to stay intentional. Know what each pot is for, check your allowances each tax year and make adjustments early enough to avoid a last-minute rush before 5 April.

If you can only do a few things, focus on these: capture any employer pension contributions available, keep an ISA reserve for short- to medium-term needs, and review pension limits if you are a higher earner or you have started taking pension benefits.

Talk to us if you have any pension or retirement questions.

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