

Great Returns on Pension Plans

Original Document –

<http://www.shrewdcookie.com/pensions/instant-returns-on-pension-contributions>

Instant Growth of 36.36% on Your Money

In the current investment market there is very little opportunity as far as most people can see it to make a decent short-term return on your money.

There is however a nice tool which can be used to generate an immediate return of 36.36% on your money invested.

This tool is a personal pension plan - the plan works by allowing tax-relief immediately on any contribution made into the plan. For basic-rate taxpayers, the immediate rate of relief is 20%.

For example, if an investor makes an initial net investment of £80, under PRAS (Pension Relief at Source - which is available to both employed and self-employed investors) the actual gross amount invested is £100 - the pension provider reclaims income tax of £20 from HMRC on behalf of the investor.

If the investor is over the age of 50 they can currently vest their benefits and under pension legislation can take up to 25% of their fund as a tax-free lump sum with the remaining fund providing pension income - normally by way of annuity purchase or income drawdown - or alternatively take no tax-free cash and use the whole fund invested to provide retirement income (which remember is subject to income tax).

In our scenario above, the investor would probably take the tax-free cash - it is generally better to have this cash tax-free in the hands NOW rather than taxed in the hands over time although the most appropriate course of action depends on your own particular circumstances - please take suitable advice from an IFA.

In this scenario then, having made an initial investment of £80, the investor has received an immediate pension fund of £100.

By taking 25% tax-free cash they will receive back £25 (25% of the fund value) which leaves their fund valued at £75 with them having made a net investment of £55 (£80 invested minus £25 tax-free cash received back).

£75/£55 - an instant return of 36.36% on the money invested.

The investor is then free to take an income from these pension funds, normally through annuity purchase or income drawdown arrangements, but the initial gains on the money invested of **36.36%** will have a corresponding increase to the level of income which the investor can take from their pension fund.

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Naturally we would strongly urge you to take independent financial advice before investing in a personal pension or other investment vehicle to ensure the course of action you are taking is the most appropriate given your own particular circumstances.

E & OE

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