

## HOW DO PENSIONS WORK?

### THE BASICS OF PENSIONS

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#### **Pension contributions**

Contributions are typically paid into a pension by an individual, and in some cases by their employer too.

The amount contributed into a pension will impact the overall value that someone has in their pension pot. The more that is contributed into the pension, the higher the total value of the pension pot will be.

To encourage contributions, tax-relief is given on all contributions paid into a pension by an individual up to certain limits. This makes contributing into a pension a highly tax efficient way to save for retirement.

#### **Pension accumulation (build up)**

Pension accumulation refers to the period during which an individual is accumulating their pension pot and prior to the point of taking anything from their pension.

The accumulation period is hugely important as that is the primary opportunity for an individual to grow their pension pot through contributions and investment returns.

#### **Pension distribution (pay out)**

Pension distribution refers to the period during which an individual is taking money out of their pension.

Typically an individual can choose to take a portion of their pension pot as a lump-sum, this is known as a pension commencement lump sum (PCLS) and is generally paid tax-free. Thereafter an individual can receive a regular pension income that will be calculated subject to actuarial rates and will be reviewed on a regular basis to ensure an income for life is sustained.

HDPW/01/20082024

Sovereign Group companies where acting as the Retirement Scheme Administrator and/or Trustee to the retirement benefit scheme detailed in this document, are required by their regulators in the jurisdictions in which they operate to ensure full disclosure of all investment costs associated with the investments within any of the retirement planning schemes they may provide. This includes all costs, commissions and fees whether investment costs, transaction costs, or both (including one-off and recurring costs) which a member is expected to bear.

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