

A GUIDE TO  
**SELF-INVESTED  
PERSONAL  
PENSIONS**

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over your pension fund investments?





# A guide to Self-Invested Personal Pensions

## Is it time to take more control over your pension fund investments?

If you would like to have more control over your own pension fund and be able to make investment decisions yourself with the option of our professional help, a Self-Invested Personal Pension (SIPP) could be the retirement planning solution to discuss.

### MORE ACCESSIBILITY

A SIPP is a personal pension wrapper that offers individuals greater freedom of choice than conventional private personal pensions. However, they are more complex than conventional products and it is essential you seek expert professional advice.

SIPPs allow investors to choose their own investments or appoint an investment manager to look after the portfolio on their behalf. Individuals have to appoint a trustee to oversee the operation of the SIPP but, having done that, the individual can effectively run the pension fund on his or her own.

### THE TAX BENEFITS OF A SIPP

As a registered pension scheme, a SIPP offers a number of different tax advantages:

- Personal contributions attract tax relief up to your maximum rate, within the relevant contribution limits
- Contributions made by your employer are not treated as a benefit for tax purposes, providing they are within the relevant limits
- Your accumulated savings grow free from capital gains tax and income tax liability (although the notional tax on dividends cannot be reclaimed)
- In the event of death before retirement, the accumulated fund can normally be distributed to your spouse and/or dependents, free from capital gains tax, income tax or inheritance tax (subject to a maximum for all pension benefits of £1.5m for the 2013/14 tax year; reducing to £1.25m for 2014/15)

- Up to 25 per cent of the accumulated fund can be taken as a tax-free lump sum when you start to take the benefits

### CONTRIBUTIONS LEVELS

Provided you are eligible to make contributions, you can typically pay into your SIPP as much or as little as you choose. This can be a combination of personal and/or employer contributions and can be made on a one-off or regular basis.

Although there is no limit to the level of contribution, there is a limit on the level of tax relief available. The limit is known as the annual allowance. The current amount of your pension savings that benefits from tax relief is currently limited to £50,000. From tax year 2014/15 onwards the annual allowance will reduce to £40,000.

Income tax relief is not available for personal contributions which exceed earned income, although regardless of earnings, most people can contribute £3,600 per annum into a SIPP or other pension arrangement and still receive basic rate tax relief at source.

An employer can receive relief against corporation tax for contributions providing they can be justified as wholly and exclusively for the purpose of their trade.

### CONSOLIDATING EXISTING PENSIONS

If you already hold a range of different pension benefits, either from previous jobs or your own personal pensions, a SIPP could be one way to consolidate these into one portfolio. We can advise you if we

recommend whether you should consolidate your existing pension arrangements.

### THOUSANDS OF FUNDS

You can typically choose from thousands of funds run by top managers as well as pick individual shares, bonds, gilts, unit trusts, investment trusts, exchange traded funds, cash and commercial property (but not private property). Also, you have more control over moving your money to another investment institution, rather than being tied if a fund under-performs. Once invested in your pension, the funds grow free of UK capital gains tax and income tax (tax deducted from dividends cannot be reclaimed).

### OTHER CONSIDERATIONS

You cannot draw on a SIPP pension before age 55 and you should be mindful of the fact that you'll need to spend time managing your investments. Where investment is made in commercial property, you may also have periods without rental income and, in some situations, the pension fund may need to sell on the property when the market is not at its strongest. Because there may be many transactions moving investments around, the administrative costs are higher than those of a normal pension fund.

The tax benefits and governing rules of SIPPs may change in the future. The level of pension benefits payable cannot be guaranteed as they will depend on interest rates when you start taking your benefits. The value of your SIPP may be less than you expected if you stop or reduce contributions, or if you take your pension earlier than you had planned. ■

Although annuity rates generally increase with age, deferring your pension benefits may not be in your financial interests due to the way annuity rates are calculated by life offices.

### PAYING AN INCOME

One feature of 'income drawdown' is that, in the event of death, the full fund can be used to pay an income to a surviving spouse or dependent child, or can be paid as a lump sum (subject to tax at a rate of 55 per cent) to the spouse, other beneficiary, or estate.

This is a feature that attracts many individuals to taking benefits using income drawdown, but you should seek professional advice in order to establish whether it is appropriate in your circumstances.

If you draw a high income from the fund it may result in a substantial erosion of the amount of fund available to purchase a pension annuity.

### FLEXIBILITY ON RETIREMENT

Most people can start taking income from age 55. When you start to take the benefits, up to 25 per cent of the accumulated fund can usually be taken tax-free.

At retirement you can start taking benefits from your SIPP either by purchasing an annuity or drawing an income from your fund (known as 'income drawdown'). This can be a flexible way of taking benefits from your SIPP without buying an annuity.

Where an annuity is purchased, all of the funds are paid to an insurance company who will provide a guaranteed level of income throughout the remainder of your life. There are different types of income that may provide for continuation to a surviving spouse after death, or provide for increases in payment. With the exception of unit-linked or with-profits annuities, control of the assets of the SIPP is completely lost upon annuity purchase.

### SUIT YOUR CIRCUMSTANCES

Where benefits are taken in the form of 'income drawdown', the funds remain within the SIPP and investment control is retained by you. This offers flexibility because the level of income can be varied and the purchase of an annuity can be deferred to suit your circumstances.

The Government Actuaries Department set maximum levels of income available for 'capped' drawdown arrangements. However, for those who are already in receipt of a pension meeting the "Minimum Income Requirement" (presently £20,000 pa), 'flexible income drawdown' is available which allows an unlimited percentage of the fund to be drawn as taxed income.

Although annuity rates generally increase with age, deferring your pension benefits may not be in your financial interests due to the way annuity rates are calculated by life offices.

We can explain in plain English how a SIPP could help you to plan for your retirement. To discuss your requirements please contact us for further information – don't leave it to chance.

Contact us today.

The Government has set a limit on how much you can build up in pension savings without paying a tax charge. This is called the lifetime allowance and is currently £1.5 million (but will reduce to £1.25 million in 2014/15). Dividends received within a SIPP do not come with a 10 per cent tax credit, so basic rate taxpayers are no better off receiving dividends within a SIPP than receiving the dividends directly. Investors in a SIPP need to be comfortable making their own investment decisions about their retirement. Investments go down in value as well as up so you could get back less than you invest. The rules referred to are those that currently apply; they could change in the future. You cannot normally access your money until at least age 55. Tax reliefs depend on your circumstances. If you are unsure of an investment's suitability you should seek professional financial advice.

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