

Almary Green

> Independent Financial Advisers

A GUIDE TO SELF INVESTED PERSONAL PENSIONS

The Real Alternative to Insurance-Based
Pension Plans



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SELF INVESTED PERSONAL PENSIONS

Building a Pension Fund

There are two main alternative routes that offer the tax-favoured treatment available for those who wish to build up a pension fund to finance their retirement years. These are:

- Insurance-based Pensions—the standard pension package you can buy from an insurance company
- Self Invested Schemes

Self investment is becoming increasingly popular, as it offers wide-ranging flexibility in investment options together with the ability to retain control of the investments you make. Depending on your individual circumstances, self investment can take one of two forms:

- SSAS (Small Self Administered Schemes)
- SIPP (Self Invested Personal Pensions)

A SASS is appropriate for directors of limited companies, where a separate corporate entity is created to provide for the pension needs of its members. If you feel this might be an appropriate route for you, please talk to us.

This guide will look in greater detail at the workings of a SIPP and how it could be of benefit to you to secure your retirement income.

What is a SIPP?

When investing in a SIPP, the capital you invest in your pension fund is under your control—you take full responsibility for managing its investment growth. You decide where your funds are invested—you are no longer reliant on a Life Office for the performance of your pension fund investments.

The SIPP route requires you to take a more active role in both monitoring the performance of the investments you have made and in adjusting your investment portfolio accordingly.

One distinct advantage of this route is that the range of investment possibilities available is wider than those available through an insurance-based personal pension plan. We will look at this range later on in our guide.

Although you retain control of the investment capital that you hold within the SIPP, you must remember that the funds held in a SIPP cannot be withdrawn until age 55 at the earliest.

The SIPP route is not for those who are content to sit back and let their investments simmer—it is for the pro-active investor and allows you to match your investments to your resources and your attitude to risk.

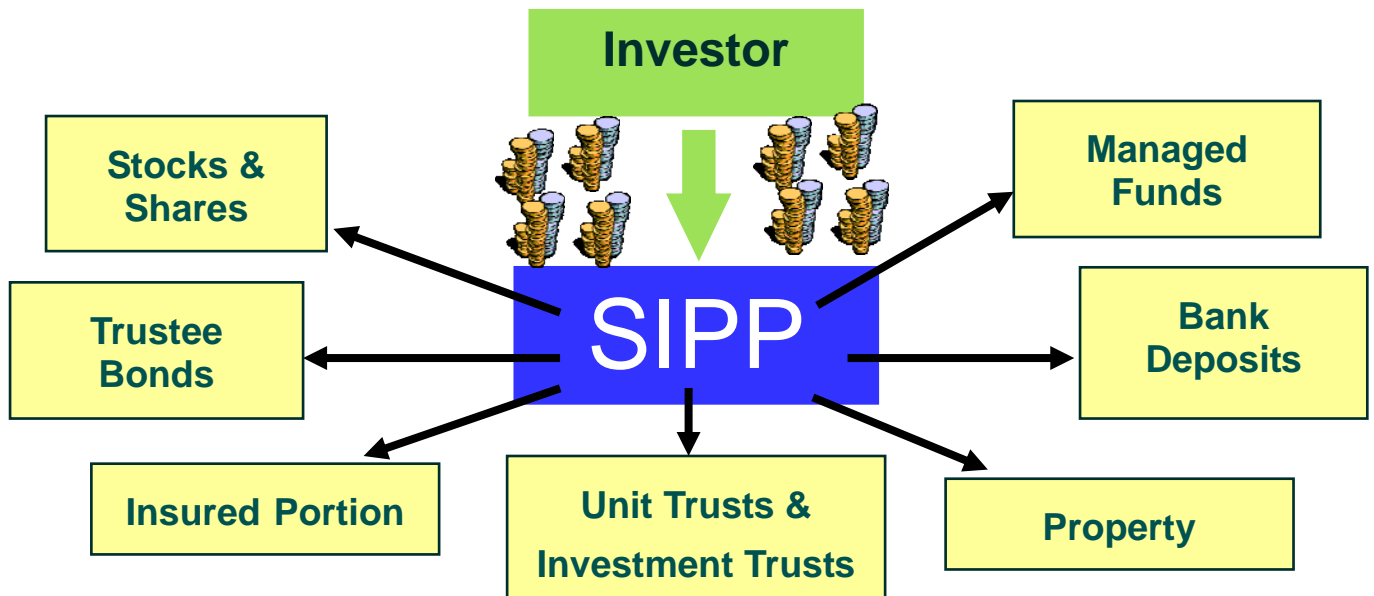
Eligibility

You are eligible to invest for your retirement using a SIPP if you fall into one of the following groups:

- *Employees*
- *Self-Employed*
- *Partners in Business*
- *Directors*

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How a SIPP works



Deciding where to invest your funds is the most important first step for any investor in a self-invested scheme. In order to maximise benefits, you will want to go for the highest possible return, but against that you must consider your attitude to risk.

Within the life of the fund, as its manager, you are permitted to buy and sell investments to maximise your returns, but all the proceeds and subsequent purchases must form part of the ongoing fund.

Contributions

Since the introduction of the new Pension Simplification rules in April 2006, pension savings are no longer linked to earnings. Instead, there is an annual contributions allowance, which is set by the Government. For the tax year 2010/11, this is set at £255,000 and will remain fixed until 2015/16.

The other restraint introduced by the Chancellor is a cap on the total amount of pension savings you can accumulate within your pension funds in your lifetime. The *Lifetime Allowance* for 2010/1011 is £1.8 million, and, like the annual contribution limit, now remain fixed until the 2015/16 tax year.

Money contributed to the SIPP fund can therefore come from a range of sources:

Earnings

- You can put up to 100% of your earned income into pension savings—provided these do not exceed the annual contributions allowance.

Non-Earnings

- Further contributions can be made from capital and cash holdings.

Tax Relief

- The Inland Revenue will refund the tax you have paid on the earned contributions to your fund, at your highest rate of tax.
- The Inland Revenue will restrict the tax relief for those with income from all sources in excess of £150,000. Once your earnings exceed £180,000, tax relief is tapered down to 20%.

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Rent from Property owned by the SIPP

- Rental income is paid directly into the SIPP and is not taxed.

Transfers from other Pension Funds

- You can arrange for the funds you have accumulated in other schemes to be transferred into your SIPP. A note of caution here—beware of low transfer values in comparison to the accumulated fund value, as some schemes will penalise you heavily if you move funds out. Check with your advisor before taking any action.

Risk

Investment is all about risk. You buy assets that you hope will accrue value, and use a range of information sources to judge the potential growth of the investment you have made. As an independent financial adviser, we can help you assess your attitude to risk and ensure that the investments you make fall within your comfort zone. All investment opportunities that are available to you carry risk and we can help you assess the degree of risk that you are taking on to ensure that the investments you make match your attitude to risk.

Spread Your Risk

The age-old adage of not keeping all your eggs in one basket rings as true today as ever. Spread the risk by taking on a range of investments. Look at:

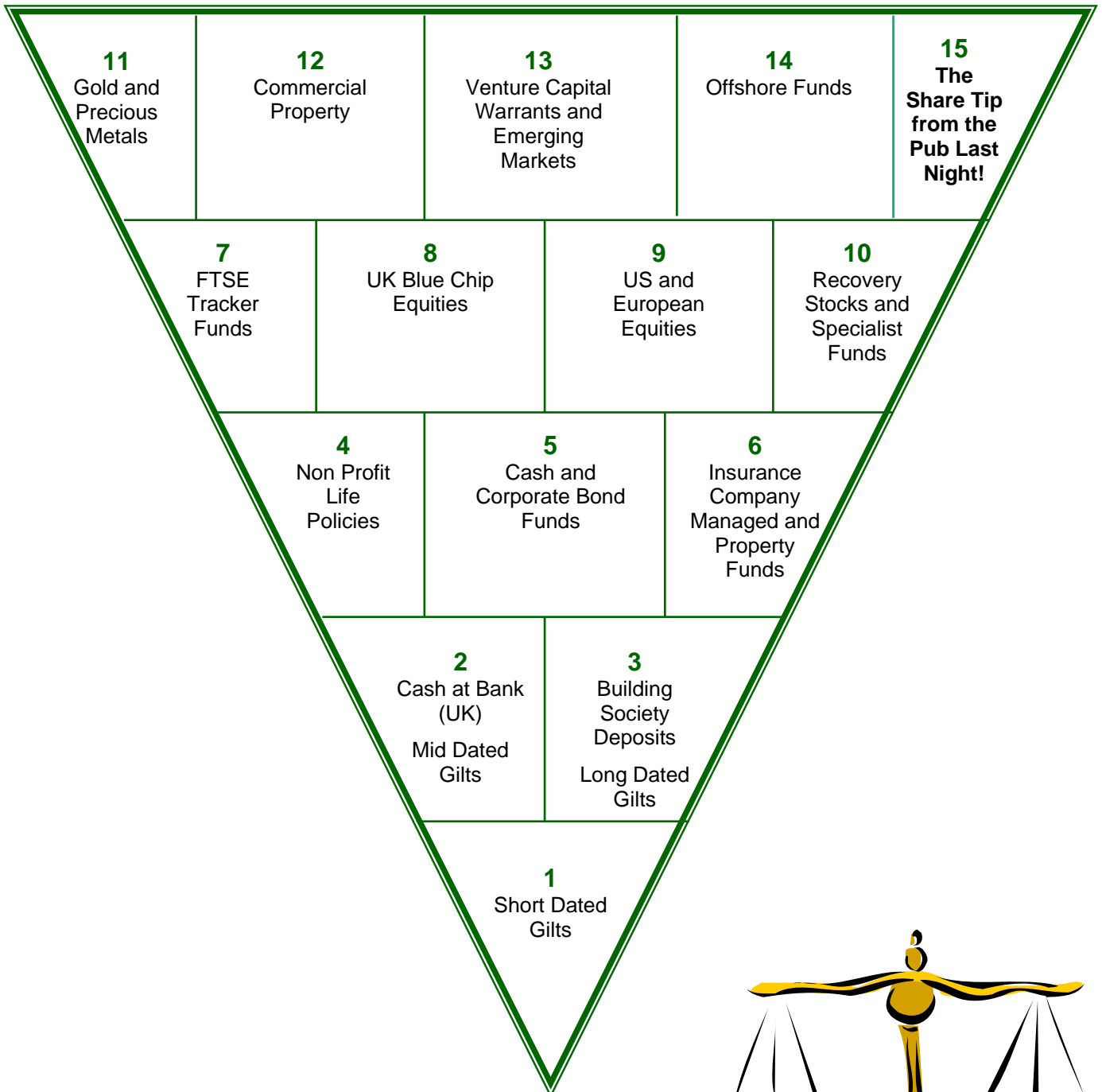
- Cash and Deposits
- Fixed Interest Securities or Bonds
- Equities
- Property

The key to investment success is diversification.

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The Inverted Risk Pyramid

The diagram below gives you an idea of some of the investment opportunities that are out there, and the degree of risk involved with each. Number 1—at the bottom of the pyramid—involves the least risk, with Number 15 at the top involving the most.



It's a balance of risk against reward

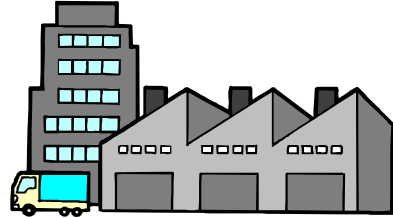
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Self Investment in Property

Commercial Property:

A self-invested pension scheme can invest in a range of commercial properties:

- **Offices**
- **Shops**
- **Factories**
- **Warehouses**
- **Land**



Increasing property prices add value to the pension scheme, and any subsequent sale is free of Capital Gains Tax. Furthermore, the property is normally income producing and the rental income adds to the fund value.

Commercial property can now be purchased by the SIPP from both a connected party and a unconnected party and the maximum that the SIPP can now borrow to purchase the property is 50% of the pension fund value.

Non-Commercial/Residential Property:

The Treasury has recently opened the door to Self-Invested Personal Pension (SIPP) plan holders to invest in non-commercial property.

New options for SIPP investors are now on offer:

- **Hotels**
- **Student Halls of Residence**
- **Residential Homes**
- **Hospices**
- **Prisons**

All the above can be funded via direct investment of SIPP funds (provided no personal use is involved).

The potential for a substantial return makes this an exciting opportunity.

The new SIPP rules also allow for investment in residential property—provided it is via a “genuinely diverse commercial vehicle” or indirect investment (eg unit trust or OEICs).

Under this ruling, it is possible for a SIPP to be a member of a syndicate of private individuals investing in residential property.

However, there are restrictions:

- The SIPP must own no more than 10% of the property
- The total asset value must be at least £1 million, or at least 3 properties are held in the SIPP.

There must be no personal use of the property.

As a commercial entity, a Residential Syndicate could borrow up to 85% of the value of the property.

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Pension Fund Size Limit

The Chancellor set a limit on pension fund sizes in his Pension Simplification rules which came into effect on 6 April 06. The limit was designed to increase each year, and the levels were set by the Treasury for four years, starting at £1.5 million in 2006 and rising to £1.8 million in 2010. The limit has now been capped and will remain at £1.8 million until 2015/16.

Funds in excess of the limits on retirement will attract a tax charge (55% on tax-free lump sums and 25% on pension income).

To allow existing funds to be protected against the tax charge, the Chancellor introduced two routes for the pension investor and to apply for either of these you had to register your scheme by 5 April 2009..

Distributing the Funds held in a SIPP

The SIPP is established to benefit an individual, and the assets contained in the SIPP are therefore available to fund the retirement of that individual, either through a drawdown arrangement, or through the purchase of an annuity.

An important point to remember is that there must be sufficient available “cash” in the fund to pay out the initial tax-free lump sum and to make the necessary pension payments. It’s therefore important to regularly review the mix of investments you hold, so that any necessary changes can be made as retirement approaches.

When funds are required, the investor can either encash all of the assets held in the fund to provide sufficient cash to purchase an annuity, or encash assets as needed to provide an income through pension drawdown (ie taking portions of the fund to directly finance retirement). Assets remaining in the scheme after the start of retirement will continue to bring in additional income to the fund through investment growth, rental income, etc.

Those in a drawdown arrangement must make a new choice when they approach 75 years of age. At age 75, they must either purchase an annuity, or opt for an Alternatively Secured Pension (ASP). The ASP allows pension payments to be made direct from the pension fund, much like drawdown. It was designed for those who have an objection to the purchase of an annuity, but does offer the ASP pensioner the opportunity to pass the remaining fund on to his or her heirs—if the heirs are members of the relevant scheme at the time of death. If they are not members of the same scheme, then the payments can be paid directly to them.

Rental from property held in a SIPP can either be used to augment the fund, as happens prior to retirement, or can be paid as income when in a drawdown or ASP arrangement.

Tax on your Fund’s Growth

Investing in a SIPP offers a number of tax benefits:

- *Investment gains on your fund are free of Capital Gains Tax*
- *No Income Tax is payable on your fund growth*
- *Rental income from any property owned by SIPP is paid gross into the fund*

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Summary: why choose a Self-Invested Pension?

Financial Security

The assets held in a self-invested scheme are ringfenced for your future benefit. They are not susceptible to charges by creditors – even the taxman cannot touch them (but remember, neither can you, until you retire!).

Investment Freedom/Control

You can choose from a wide range of investment options and have day-to-day control of how the assets are being used.



Get the specialist advice you need from our Pension experts

Almary Green Independent Financial Advisers

Based in Norwich's newest premier professional district, Meridian Business Park, Almary Green Investments Ltd provides independent financial advice and support to businesses and individuals throughout East Anglia and beyond. Their advisers have a collective depth of experience extending over many years and they are specialists in advising both individuals and businesses on how to prepare for a prosperous future.

Almary Green's aim is to offer a genuine good deal to its clients by taking a reduced commission on pensions and investments, preferring to pass the resultant savings onto the client minimising the effect of charges on their investments.



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