FINANCE
UPDATES
JULY 2019

HB Dobbin
FINANCIAL PLANNING

SELF-INVESTED PERSONAL PENSIONS

Pension saving with flexible investment options.

Having celebrated its 30th birthday this year, the self-invested personal pension (SIPP) remains a popular choice for savers who want to take control of their pension investments.

SIPPs were announced in the 1989 Budget by then-Chancellor Nigel Lawson, who proposed to “make it easier for people in personal pension schemes to manage their own investments”.

Since then, they have evolved from what was considered to be a niche and exclusive option for knowledgeable investors to a mainstream product on the pensions market.

The initial aim of allowing individuals to manage their own investments remains the same, however, and SIPPs are now seen by many as a flexible, ‘DIY’ option for pension saving.

They are a main retirement saving option for the self-employed, who are not automatically enrolled into workplace pension schemes like more than 10 million eligible employees.

While participation levels among employees who are eligible for workplace pensions soared to 75% in 2016/17, pension saving among the self-employed declined to 14%.

SIPPs do, however, remain an important retirement savings option for people who do not qualify for auto-enrolment.

HOW DO SIPPS WORK?

SIPPs are a type of personal pension, which work as an individual contract between you and the provider.

You put money into your SIPP as and when you like, and the Government pays in an extra 20% in pension tax relief. Your provider will claim and add this to your SIPP automatically.

Higher-rate taxpayers, who earn more than £50,000 a year in England, Wales or Northern Ireland, or more than £43,430 in Scotland, can use tax returns to reclaim more pension tax relief.

Across all of your pension pots, there is a lifetime limit on the value you can save before an extra tax charge is triggered. This stands at £1.055 million in 2019/20.

For contributions, the relief applies on up to 100% of your annual earnings up to a maximum of £40,000.

This is subject to any tapering of the annual allowance for high earners, or a £4,000 limit if the money purchase annual allowance (MPAA) has been triggered by taking benefits.

Speak to us if you want to know more about pensions tax relief.

WHAT INVESTMENTS CAN YOU MAKE?

Compared to more traditional pension types, SIPPs offer a much higher degree of freedom when it comes to your investment options, and your ability to choose your own investments.

Because of this, it’s important to be comfortable with making those decisions – or letting an adviser do so on your behalf. Charges vary depending on the provider and service they supply.

It also means you should be aware of the risks associated with the investments you choose, as the value of your investment can rise as well as fall.

It's possible to hold cash in a SIPP as part of a portfolio with a mixture of different investments, including:

- quoted UK and overseas stocks and shares
- funds, most commonly including exchange-traded funds, open-ended investment companies and unit trusts
- bonds
- unlisted shares
- investment trusts
- commercial property.

The exact range of available investments depends on the type of SIPP you go with, and who you choose as your provider.

Some offer more options, with high-end providers offering ready-made portfolios to entice savers, while SIPPs usually can't hold residential property without incurring tax charges.

PAYING INTO A SIPP

You can pay straight into a SIPP, or you can transfer existing savings from other pensions if you choose.

If you are considering transferring, make sure this really is a beneficial choice, and that the advantages of a SIPP are greater than those of your existing pension.

In some cases, transferring your money from an existing pension could mean losing valuable benefits from that scheme.

It's also important to check for any penalties you may incur by transferring the money out of a current pension scheme.

When you pay into a SIPP, you'll receive tax relief up to the usual limits for pension contributions.

ACCESSING YOUR SAVINGS

You can choose from a wide variety of options when you access your SIPP from age 55, even if you're still working.

If you continue to make contributions after taking your first pension benefits, the £4,000 MPAA will apply.

You can take up to 25% of your pension savings tax-free, with the remaining 75% taxed as income.

You could then take income through drawdown, an annuity, or another method.

WHAT ABOUT FEES?

The charges for a SIPP can vary, and those with complex assets tend to be more expensive than those that hold more mainstream investments such as cash, stocks and funds.

Depending on the provider, you might have to pay charges for:

- annual SIPP administration
- investing in funds and shares
- buying or selling investments
- leaving the scheme
- transferring money
- entering into income drawdown.

PASSING A SIPP ON AS INHERITANCE

If you die before the age of 75, your beneficiaries can receive the entire pension lump sum tax-free.

If you die after age 75, they will generally have to pay income tax on payments they get from it, although the way it is taxed depends on how they choose to take the income.

It will usually be exempt from inheritance tax, but this is subject to certain tax rules which we can advise on.

IS A SIPP RIGHT FOR YOU?

This depends on factors like your employment status, your attitude to risk, the types of investments you'd prefer to make, and the amount of control you want to have over them.

Other personal options to consider include ordinary personal pensions and stakeholder pensions.

Consider all your options and seek advice before making decisions about your pension.

Get in touch to discuss your retirement planning.

IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change. Pensions eligibility depends on individual circumstances and pension benefit cannot normally be taken before age 55.

This document is solely for information purposes and nothing in this it is intended to constitute advice or a recommendation. You should not make any pension decisions based on its content. While considerable care has been taken to ensure that the information contained in this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.