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Guide to

Self-Invested Personal Pensions

Taking greater control of your retirement plans for the future

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Guide to Self-Invested Personal Pensions

Taking greater control of your retirement plans for the future

It is essential that you start to plan for your retirement as early as possible so that you are able to live comfortably in the knowledge that your lifestyle needs are covered. This will mean careful consideration of your pension fund throughout your working life.

With retirement planning, it is important to take into account the fact we're all living longer. Couple that with the fact that the cost of living continues to rise and the value of the State Pension continues to dwindle, this provides a very strong case for starting to save early for your future.

For appropriate investors, one option is a Self-Invested Personal Pension (SIPP). A SIPP is a wrapper for your pension investments and gives you control of your pension, whereas most members of a company pension scheme have very little control and almost no idea where their pension money is invested.

Also, with many of the UK's largest companies closing their final salary schemes to all members, many members now have to look at taking their pensions into their own hands.

First introduced in 1989, SIPPs have evolved into a favoured investment vehicle for individuals seeking more control and flexibility in their retirement planning. They are suitable for those people who are comfortable with making their own investment decisions about their retirement.

Extra flexibility

SIPPs can be opened by almost anyone under the age of 75 living in the UK. You can open a SIPP for yourself or for someone else, such as a child or grandchild. Even if you've already retired, you can still open a SIPP and take advantage of the extra flexibility that it gives you over your pension savings in retirement – but you may be limited by how much you can pay into it.

SIPP investments

SIPPs offer a wider investment choice than most traditional pensions based on investments approved by HM Revenue & Customs (HMRC). They give you the chance to pick exactly where you want your money to go and enable you to choose and change your investments when you want, giving you control of your pension and how it is organised.

Most SIPPs allow you to select from a range of assets, including:

- Unit trusts
- Investment trusts
- Government securities
- Insurance company funds
- Traded endowment policies
- Some National Savings and Investment products
- Deposit accounts with banks and building societies
- Commercial property (such as offices, shops or factory premises)
- Individual stocks and shares quoted on a recognised UK or overseas stock exchange

Collective investments

These aren't all of the investment options that are available – different SIPP providers offer different investment options. Residential property can't be held directly in a SIPP with the tax advantages that usually accompany pension investments.

But, subject to some restrictions (including on personal use), residential property can be held in a SIPP through certain types of collective investments, such as real estate investment trusts, without losing the tax advantages. Not all SIPP providers accept this type of investment though.

Tax treatment

Currently, an investor can receive up to 45% tax relief when they make a personal contribution to a personal pension such as a SIPP, with 20% paid by HMRC to the pension and any higher and additional-rate tax relief reclaimable via your tax return.

Please note you must pay sufficient tax at the higher and additional rates to claim the full higher-rate tax relief via your tax return.

It is also possible for non-taxpayers to benefit. UK-relevant individuals under age 75 can contribute £2,880 to a pension and receive tax relief of £720, resulting in a total contribution of £3,600. In addition to upfront tax relief, money in a pension is free from Capital Gains Tax and Income Tax on the investments. The tax treatment of pensions depends on the individual's circumstances and is subject to change in future.

Tax relief

SIPPs are one of the most tax-efficient ways of saving for retirement, and you can invest up to the annual allowance for tax relievable pension contributions, currently £40,000. As always, please bear in mind that tax relief will depend on your individual circumstances, and tax laws may change.

- Receive up to 45% tax relief on your contributions
- Take up to 25% of your pension fund as a tax-free lump sum from the age of 55
- Pay no Capital Gains Tax or Income Tax on your investment growth

UK tax laws and individual personal circumstances can change. If you are resident in Scotland for tax purposes, the tax relief you will be entitled to will be at the Scottish Rate of Income Tax, which may differ from the rest of the UK.

The level of tax relief you can claim depends on your tax rate.

Non-taxpayers

Even if you don't pay tax, you're still entitled to tax relief at the same rate as a basic-rate taxpayer. The maximum you can claim relief on is £2,880 per tax year. If you contribute £2,880, you'll receive £720 tax relief, making the overall contribution into your SIPP £3,600.

Making withdrawals

From age 55 onwards (57 from 2028), you have the option of making withdrawals. Typically, you may take 25% of the pension tax-free, and the rest is taxed as income. Instead of purchasing an annuity at age 75, you can keep the portfolio in which your SIPP is invested. With traditional pensions, you have to purchase an annuity at age 75. There's a lot to weigh up when working out which option or combination will provide you and any dependants with a reliable and tax-efficient income throughout your retirement.

Residual monies

Any residual monies left in your pension when you die can typically be passed to your heirs free of an Inheritance Tax charge. Any withdrawals your heirs then make will usually be tax-free if you died before you were aged 75. If you die when aged 75 or older, any withdrawals will be taxed as income at their marginal rate.

Sophisticated investors

Investing your retirement savings in a SIPP is not for everyone. While they offer greater flexibility than traditional pension schemes, they may have higher charges and be more suitable for more experienced, sophisticated investors. Contributions are also limited to the Annual Allowance (plus any Carry Forward), and you cannot access a pension until age 55, unless you are in a special profession. Income is taxable and additional tax is payable if you exceed the Lifetime Allowance.

The tax treatment of pensions depends on individual circumstances and is subject to change in future.

The details surrounding pension rules are very complex. If they affect you, careful planning combined with expert knowledge could be required to structure your affairs as tax-efficiently as possible. ■

Looking to obtain professional financial advice to review your options?

Investing your retirement savings in a SIPP may not be for everyone. If you are uncertain as to what type of investment to invest in, it's essential you obtain professional financial advice to review your options. If you would like further information on any aspects of retirement planning, please call us, and we'll be happy to discuss your options. We look forward to hearing from you.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN.

YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

Pension tax relief table

	Basic-rate taxpayer (20%)	Higher-rate taxpayer (40%)	Additional-rate taxpayer (45%)
Your investment	£800	£800	£800
Tax relief automatically received	£200	£200	£200
Tax relief claimed through annual tax return	N/A	£200	£250

You will automatically receive 20% in basic-rate relief paid to your SIPP. If you are a higher/additional-rate taxpayer, you can then claim an additional 20% or 25% (depending on your tax rate) via your tax return.

Time to take control of your retirement plans for the future?

To find out more about setting up Self-Invested Personal Pension, please contact us, and we'll arrange a meeting to discuss your requirements

We look forward to hearing from you.

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