

## Key facts – SIPPS

### What is a Self Invested Personal Pension (SIPP)?

A SIPP is simply a tax-efficient pension wrapper approved by Her Majesty's Revenue and Customs (HMRC) that allows you to both shelter a wide range of assets from income and capital gains tax and gain income tax relief on any authorised contributions that you make to the fund.

Although the underlying rules are broadly similar, the term 'self-invested' distinguishes SIPPs from ordinary personal pensions, which generally offer access to a limited range of insurance company funds and, in some cases, to unit trusts provided by other fund managers, albeit usually at additional cost. With a SIPP, the investment choice is diverse and can include, for example, direct equities and commercial property. Like all registered pension schemes, you receive full tax relief on personal contributions, funds grow in a tax-advantaged environment and at retirement you can take up to 25% of the fund tax-free. The balance of the funds must be used to generate income but there are different ways you can do this depending on personal choice.

The primary purpose of the SIPP, as with all pensions, is to provide you with an income in retirement. However, a well designed plan can also offer considerable flexibility with regard to how you build your pension fund and how you arrange your pension income.

### What makes a SIPP special?

The appeal of a SIPP lies with the potential for:

- *Superior Choice*
- *Superior Control*
- *Superior Flexibility*

#### Superior Choice

Using a traditional personal pension plan, or a stakeholder pension, is limiting in terms of investment freedom. With a typical stakeholder pension plan you are restricted

as to how and where your pension fund can be invested. Most stakeholder pensions and personal pension plans will offer a limited range of investment choice. A SIPP gives you almost unlimited freedom to choose how you want your pension fund to work for you. You can have access to many thousands of investment funds, as well as other investments including unit trusts, investment trusts, individual equities (both in the UK and overseas), individual UK gilts, individual corporate bonds, commercial property, residential property funds (and/or syndicates), futures, options, real estate investment trusts (REITS), warrants, ground rents, loans and cash.

#### Superior Control

A SIPP can provide you with the opportunity to take firm control of your retirement planning. Within the legislative framework, you decide how, when and where you want to invest your pension fund. You have the control over whether you want to make these decisions on your own, or with expert assistance. You decide how and when you take your pension benefits. Control, and how you want to exercise that control, rests with you.

#### Superior Flexibility

A SIPP offers you the flexibility to use your pension fund to provide you with pension benefits in a way that suits you at any particular time. You no longer have to buy an annuity with your pension fund, if you don't feel that is in your best interests. You can use a SIPP to take pension benefits in the form of Unsecured Pension (USP) by using income drawdown from the outset or by phasing income in a tax efficient manner by using tax free cash allowances and a mixture of income drawdown/annuity. The way in which a SIPP is structured means that you do not have to transfer your funds to other products in order to establish your income in the way that best suits your needs. The SIPP structure gives you this automatically.

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### Commercial Property Purchase

One of the benefits of the current pension regime, introduced on 6 April 2006, was the removal of the 'connected party rules', which prevented individuals from selling assets that they already owned to their pension scheme. This means professional partnerships and small businesses can now invest in business premises they already own via a SIPP instead of having to acquire new premises. If structured correctly, this can be very tax efficient.

SIPPs are permitted to borrow in order to make investments and buy property. The level of borrowing allowed is restricted to 50% of the SIPP fund value. The SIPP is required to pay interest on borrowings at commercial rates but this could be offset from the rental income of the property.

Charges relating to the transacting and servicing of commercial property investment may well be expensive.

### Types of SIPP and Charges

There are two different types of SIPP the hybrid and the full SIPP.

Hybrid SIPPs are typically offered by life assurance companies, and these are usually no more than a personal pension with the option of using self-investment facilities to access a wider range of packaged investments. Charges are generally kept low as long as the majority of investments are held within the insurance company's or investment company's range of funds. The cost of advice is covered by a payment made to your adviser. Should you choose to invest more widely, it is likely that additional charges

will be applied and these may not be inexpensive.

Full SIPPs impose no such restrictions on investment and underlying investment charges may well be lower than a hybrid SIPP. However, you should be prepared to pay separately for any advice that you receive as this is not included in the product charges. Costs relating to the transacting and servicing of commercial property investment can be significant.

### Is a SIPP For You?

A SIPP is not suitable for everyone. Some people simply don't need, or want, such a huge range of investment opportunity. Others may be more than adequately provided for by an employer's pension scheme.

However, if you want control, flexibility and wider investment opportunities, then a SIPP may be worthy of consideration.

SIPPs can provide an excellent way to plan for your retirement, whatever your stage of life. Your Alexander Forbes Wealth Management Consultant will be pleased to provide any additional information or assistance.

**This fact sheet is based on our understanding of current HM Revenue and Customs guidance, which is subject to change.**

**Alexander Forbes Wealth Management**  
**Leon House, 233 High Street, Croydon, Surrey CR9 9AF.**  
**Tel: 020 8686 0660 Fax: 020 8681 4093 Web: [www.alexanderforbes.co.uk](http://www.alexanderforbes.co.uk)**

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**Alexander Forbes**

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