old mill financial services
independent financial advisers

Self Invested Personal Pensions (SIPPs)

listening, understanding, advising

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Planning for your retirement

Setting aside money for your retirement should be one of the most rewarding decisions that you will ever make.

Everyone would like to enjoy a long and contented retirement, but this might not be possible without taking the right financial steps beforehand.

In order to maintain a good standard of living throughout your old age it pays to plan for your retirement as soon as possible. However, if you are nearing retirement and feel that your current provisions are insufficient don't panic, there are likely to be simple steps that you can take to ensure a more secure financial future.

What you will require is sound, independent financial advice.

How we can help

Old Mill is independent of all banks and financial institutions and employs some of the most highly qualified financial specialists in the country. Our strength lies in our integrated service of accountants, financial consultants and pension managers, advising on areas such as investment strategy, tax, retirement options and protection planning. We will work with you to determine the best strategy to meet your requirements.

We use our robust investment process to build you a sound financial strategy. Crucially, this is based upon a thorough understanding of what you want to retire on. This can only be achieved by appreciating the timescales involved and giving due consideration to any other provisions that you may have in place. We are in this with you for the long term and understand the importance of guiding you through the different financial stages of your life. An Old Mill Consultant will work with you to ensure that you have the right investments to meet your retirement goals.

Why save in a pension?

While there are many different ways of saving for your retirement, one of the most tax-efficient is in a pension plan.

One of the great advantages of paying into a pension plan is that the government tops up your contribution by automatically adding basic rate tax relief to it. The diagram below explains how this works.

Higher rate tax payers can claim higher rate relief (subject to limits) on their tax return. A higher rate tax payer is free to do what they choose with the tax that they get back. This could be invested back into a personal pension and then be eligible for another round of tax relief!

A winning start

Receiving this tax free relief from the government makes it much easier to get a good head start when saving for your retirement. This is important as funds in a pension grow virtually free of Income Tax and Capital Gains Tax, so the more you invest (and the sooner you start) the better.

What is a SIPP and how can you fund it?

A Self Invested Personal Pension (SIPP) is a special type of personal pension that enables you to have a great degree of control over your pension money.

If you are aged 75 or under and resident for tax in the UK, then you can contribute into a personal pension such as a SIPP.

Paying in to your SIPP

Subject to your earnings you can pay in as much as £245,000 in the 2009/10 tax year (and then £255,000 for each year from 2010 to 2016) and tax relief maybe available on the contributions depending upon your total income in the year. Even if you don't have any Relevant UK Earnings you can still contribute up to £3,600 per year, a useful aspect for those already retired or not working. The other limit you should be aware of is the lifetime allowance, which is £1.75 million in 2009/10 (£1.80 million from 2010 to 2016). If your pension plan exceeds this amount then you may be taxed.

Employer contributions

Your employer can also make contributions into your SIPP. They are eligible for corporation tax relief if the HMRC deems the amount paid in reflects your position in the company. Employer contributions are paid gross into the SIPP.

In specie contributions

You can make in specie contributions into your SIPP. These involve the transfer of the legal ownership of an asset (other than cash) from an individual to a pension scheme without the need for a sale and repurchase.

Protected rights

Protected rights can also be put into a SIPP. This is pension money accumulated from contracting out of the State Second Pension, (formerly SERPS).

A SIPP is a great vehicle for consolidating existing pension arrangements under one umbrella. Our pension experts can help you to determine the most suitable assets to place into your SIPP.

Investing your money in a SIPP

Many different types of asset can be placed into a SIPP, which can help to generate returns and spread risk. These include:

- Unit trusts and Open Ended Investment Companies (OEICs)
- Investment trusts
- Stocks and shares
- Gilts
- Bonds
- Hedge funds
- Exchange Traded Funds (ETFs)
- Offshore funds
- Investment grade gold bullion
- Real Estate Investment Trusts (REITs)
- Second hand endowment policies
- Building Society permanent interest bearing shares (PIBS)
- Cash
- Commercial property funds
- Direct property purchase (commercial property, agricultural land, hotels, nursing homes and public houses, but not residential property)

Holding commercial property within a SIPP can be very tax efficient. There are other advantages in using this strategy including the ability to borrow to fund the purchase. However, there are important factors that must be taken into consideration. These are explained in our SIPP Property Guide or one of our consultants can help you.

Taking the benefits from your SIPP

These days no-one has a job for life. People work for longer and often adopt more flexible working practices, maybe working part time or in a consultancy capacity.

Your personal pension, and the way you derive an income from it, should reflect these changing circumstances. A SIPP gives you this flexibility as it allows you to begin withdrawing money from the current minimum retirement age of 50, (this will rise to 55 from 6 April 2010).

You can draw from a SIPP in stages, which allows you to draw on only a part of your fund and leave the rest untouched for the future. Up to 25% of your SIPP can be taken as a tax-free lump sum, with the remaining funds used to provide an income. You can either:

- Use your fund to purchase an annuity (which will usually provide a guaranteed income) or
- Keep your fund invested and draw an income from it (known as, ‘unsecured pension’)

The majority of our SIPP clients find that the flexibility afforded by unsecured pension is preferable to a traditional annuity. Unsecured pension allows the amount paid out each year to be varied. Decisions of this nature are crucial and our independent experts are happy to discuss the options available to you.

Benefits on death

If you die before the age of 75 your fund can be paid out either as a lump sum and/or a dependant’s pension. If you are not drawing on your fund then the lump sum is tax free and if you have started to draw benefits the lump sum is taxed at 35% (based on an unsecured pension. Benefits in relation to protected rights and annuity purchase will be different). The pension can only be paid to a spouse, civil partner or someone that is financially dependent on you. Advice can be given on how to organise death benefits free of Inheritance Tax.

If you die after the age of 75 any remaining funds are used to provide a pension for a dependant for the remainder of their life. Again, they can choose whether to purchase an annuity or use unsecured pension. Other options are available if you have no dependents.

Contact Old Mill

Old Mill Financial Services is a Chartered firm of financial planners, employing over 50 staff.

Old Mill Pensions Consultancy has run the administration and accounts for pension schemes for over 25 years and now looks after the interests of over 250 self-invested arrangements. Through our years of experience we are able to offer our pension scheme clients technical advice as well as a highly efficient and personal service.

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Past performance is not a guide to future returns. The value of investments and any income will fluctuate and investors may not get back their original investment.

Unquoted shares can be unpredictable which means the investor is exposing themselves to a much higher degree of risk than with quoted shares. Changes in legislation may adversely affect the value of the investments. The levels and the bases of the tax relief's available may change in the future. The FSA does not regulate taxation or cash deposits.