

## WING TIPS

### *Life for “New Look” self administered pensions after A-Day (06.04.06)*

It will soon be one year since A-day - so what opportunities are now available to investors in the “New Look” SIPPs/SSASs?

Steve Harvey (a Director of leading Independent Financial Advisers, Vantis Financial Management) looks at opportunities for investors following the changes to pensions post 6 April 2006.

#### **What’s changed?**

In the run-up to 6 April 2006 it was impossible to pick up the financial pages of any newspaper, without being bombarded with news about “A-Day”. Was A-Day a lot of hype with little substance, or has it really revolutionised retirement planning and investment decisions?

Perhaps the greatest major change brought about by “A-Day” was greater flexibility in terms both of paying into and drawing income from a pension fund, and it was this flexibility that really caught the public imagination. While self-invested pension plans (SIPPs) had been around since 1990, (and SSASs since 1975) “A-Day” in theory allowed a much wider choice of investment opportunities, with vintage wines, antiques, works of art and even residential property (until the Government’s well-publicised u-turn in December 2005) all capturing investors’ eye. While all this sounded attractive, there were pitfalls of course. Firstly, anyone caught taking a sip of their vintage wine stocks or resting their glass on that antique table would find the asset suddenly liable for tax. The historically relatively high set-up and running costs of SIPPs/SSASs (though more on this later!) also meant they were better-suited for high net worth individuals with at least £250,000 to invest, or people paying in regular annual contributions of over £10,000.

While clients have not yet generally “ploughed” their annual allowances (£215,000 each!) into SIPPs/SSASs, trends in the pension planning market are beginning to emerge.

#### **The Market**

##### **SIPPs**

Fierce competition has already seen off some SIPP providers who simply cannot make sufficiently-high margins in such a ferociously competitive market.

Investors for whom a SIPP is appropriate should compare Providers carefully and remember that price is not necessarily the best differentiator.

At Vantis, SIPPs are reviewed in terms of fees, service standards and financial strength. Of these, service standards, including IT and administration, are seen to be the areas where Providers can really make a difference.

With so many Providers fighting for market share, and some already struggling to cope with demand, some consolidation in the market is predicted.

### **SSASs**

For SSASs the role of Pensioner Trustee (effectively the watchdog for the Revenue for over 30 years) disappeared and a regime of self-assessment has replaced this with effect from A-Day. Many SSAS practitioners have been strangely silent in pointing out this major change to their clients.

Vantis offer a “hand-holding” service to clients as Pension Practitioner, which whilst not a legal requirement, is greatly welcomed by clients looking to avoid the huge tax penalties and charges that now apply if the SSAS is not operated correctly. Fees, whilst slightly higher than an individual SIPP, have not increased significantly over the last 20 years, providing excellent value for the client.

### **Family SIPPs**

With investors no longer forced to purchase an annuity by the age of 75, older investors have been looking at setting up shell SIPPs in readiness for any residual funds on death to be paid into an existing scheme for the benefit of their children or grandchildren. Clients are happier to see money being paid into a pension fund which will eventually benefit their offspring rather than to an insurance company.

However, in his pre-budget statement at the end of last year, Gordon Brown effectively raised the tax “take” on funds being allocated to children after 75 from 40% to 70-90% (depending on circumstances) - yes 70-90%!

Clients are generally therefore changing their strategy now to maximise their income from their self-administered scheme during their lifetime because their children will only eventually benefit at age 55 by “inheriting” 10-30% of the parent’s pension fund; Mr Brown will “inherit” 70-90%!!

### **Group SIPPs**

The concept of a group SIPP has been around for some ten years or more and is met with mixed views. Group SIPPs closely resemble group personal pensions plans. The difference is that in a group SIPP, the employees would manage their own money, investing it where they think they will find the greatest returns. In practice, most employees are happy to leave the management of their money to an insurance company and the concept of a group SIPP may be little more than a marketing gimmick.

Of course there are exceptions. For example, Company partnerships could usefully look to a group SIPP in which their pension funds would be clubbed together to purchase premises which would then be leased back to the company,

The SSAS is still a great “tool” for privately-owned Limited Companies whereby up to 12 senior people can “club together”, and is more flexible than a group SIPP (no need for a Pension Provider).

## **Protection**

It is essential that clients with substantial funds consider carefully protecting their assets before 5.4.2009. There are different options to protect the tax-free nature of the funds and the lump sums on retirement. Clients who have contributed to pensions after A-Day will already have lost the option of certain valuable protection.

It is essential that clients take advice from an Independent Specialist in pensions; the consequences of "getting it wrong" are disastrous. Vantis are experiencing a high demand for technical advice in this most complex area of pension planning.

## **Justifying contributions**

Where company owners are looking to make pensions payments on behalf of executives or employees, contributions should be seen to be fair and reasonable: contributing the maximum annual allowance of £215,000 p.a. on behalf of a family member with a minor, part-time role in running the business will raise Revenue eyebrows.

## **The perks of property**

The Government's well-documented u-turn on permitting residential property within a SIPP caused outrage - but for anyone wanting to invest in commercial premises, SIPPs are still interesting. (Also the small self-administered scheme - SSAS - is still an option for family businesses).

One trend that has been noted is an increase in investing in commercial property overseas. While some advisers are exploiting an apparent loophole in legislation allowing the SIPP to purchase a plot of land, the individual to set up a development company to build on it and to sell just prior to the building being completed, Vantis urges extreme caution. Each case should be reviewed on a case-by-case basis and assessed carefully.

Self-administered schemes can borrow upto 50% of the assets to buy property.

Investing into privately-owned businesses, it is still possible to self-invest up to 50% of the assets of a SSAS by making a loan back to the sponsoring employer on a commercial, secured, basis.

Loanbacks and share purchase therefore are still a way of funding the growth and expansion of privately-owned businesses. (Although in theory 5% of a SSAS can be used to buy shares in the sponsoring employer, there is a tax risk).

## **Conclusion**

Following A-Day, the extra publicity has pushed pensions to the top of investors' agendas, with clients reviewing their arrangements and reconsidering their long-term strategy.

Vantis are experiencing a high demand for advice in reviewing historical arrangements and putting in place new strategies for the future. There has never been a better time to maximise the benefits of a self-administered scheme (SSAS or SIPP).

### **What A-day meant**

For anyone who did manage to miss the extensive publicity over the last few months - or whose eyes simply glazed over when they came across another A-Day article - here is a recap on the main changes to pensions from 6 April:

- A single pensions regime in place of eight different regulations
- Limits on contributions were lifted
- A new annual allowance - £215,000 for 2006/7 - was introduced
- A lifetime allowance replaced earlier benefits limits - £1.5 million for 2006/7
- The pension can be drawn while still working after age 55.
- The requirement to purchase an annuity by the age of 75 was lifted.
- Commercial property purchases and investment back into a sponsoring business are still allowed for self-administered schemes.

*To find out more about Life for “New Look” self administered pensions after A-Day (06.04.06) or to arrange a free business review please contact Brian Williams at Vantis plc on 020 7417 0417 or email: [Brian.Williams@vantisplc.com](mailto:Brian.Williams@vantisplc.com)*