Self-Invested Personal Pensions

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TRULY INDEPENDENT
Financial Advice for Everyone

A Self-Invested Personal Pension (SIPP) could be right for you if you're looking for a wider choice of investment options and have sufficient knowledge and experience of investing to make your own investment decisions.

First introduced in 1989, unlike most forms of personal pension, a SIPP is independent of the investments it holds. This structure provides a range and flexibility of investment that makes a SIPP one of the most flexible methods of saving for retirement.

Almost anyone under the age of 75 in the UK can open and make tax-relievable contributions into a SIPP. Parents can even open a Junior SIPP for their children. But SIPPs are not suitable for every investor and other types of pensions may be more appropriate.

A SIPP provides favourable tax treatment and a range of investment options. Once in a SIPP wrapper, your savings will grow free from UK income and capital gains tax. But if you're not comfortable choosing and managing investments, you should receive professional financial advice on the best pension options to suit your needs.

What can I invest in?

You should aim to have a well-balanced portfolio, investing in a wide range of different assets and sectors. Most SIPPs allow you to select and invest in a range of assets, such as:

- Stocks and Shares
- Investment Trusts listed on any stock exchange
- UK government bonds, plus bonds issued by foreign governments
- Unit Trusts
- Open-Ended Investment Companies (OEICs)
- Gilts and Bonds
- Exchange Traded Funds (ETFs) traded on the London Stock Exchange or other European markets
- Traded endowment policies
- Bank deposit accounts including non-Sterling accounts
- Some National Savings & Investment products
- Commercial property
- Real Estate Investment Trusts listed on any stock exchange
- Offshore funds

Residential property can't be held directly in a SIPP with the tax advantages that usually accompany pension investments. 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. But not all SIPP providers accept this type of investment.

How can I benefit from tax relief?

SIPPs are governed by the same tax and contribution rules as other pensions, so for any contributions you make – whether or not you are a taxpayer – your SIPP provider claims back 20% (equivalent to basic-rate tax) from the government and adds it to your pension pot. If you're under 75 and resident in the UK for tax purposes, you automatically receive basic-rate tax relief from the government on your contributions.

Higher-rate taxpayers can reclaim another 20% through a self-assessment form. If you pay in £800 then the government will add another £200, giving £1,000 in total. Provided you pay income tax, you can put up to 100% of your annual income into your SIPP, up to an Annual Allowance limit of £40,000 a year. If you're not a taxpayer, you can put in a maximum of £2,880 a year and still get the tax top-up of 20% (leaving you with £3,600).

If you pay higher-rate tax (40%) or additional rate tax (45%) you can claim the additional sums back from the taxman in your annual tax self-assessment. You can only contribute and receive tax relief on as much income as you earn, but children and other non-taxpayers may contribute up to £3,600 every tax year.

A Lifetime Allowance (LTA) also applies to the total of all the pensions you have, including the value of pensions promised through any Defined Benefit Schemes you belong to, but excluding your State Pension. The LTA for the tax year 2020/21 is £1,073,100. When you reach age 55 and seek to withdraw your retirement funds, if the total value exceeds this limit then you will be liable to a tax charge on the amount above the LTA limit.

Can I consolidate my pensions?

If you have accumulated a number of pension schemes throughout your career, a consolidation into a SIPP may have significant attractions, as this will generally allow for a much more consolidated investment strategy and simpler administration. But care must be taken as some pensions offer guaranteed benefits or apply charges if you transfer and either could outweigh the advantages of moving.

If you have deferred pension benefits in a Defined Benefit Scheme, the pension freedom legislation now provides the opportunity for potentially bringing these assets into the SIPP structure. This is a highly specialised area of financial planning advice and you should always receive professional financial advice before considering this option.

What flexibility do I have?

New rules introduced in April 2015 mean you can access and use your pension pot more flexibly from age 55 (57 from 2028). You can take money from your pension how you want. You have the freedom to choose one option, mix and match or delay making a decision.

Pension drawdown allows you to take a one-off tax-free lump sum of up to 25% and gives flexibility as to how you can take the remainder of your money. An annuity provides you with a regular, secure income for the rest of your life. Alternatively, you can continue investing in a SIPP. This can allow your pot to grow tax-free, potentially providing more income once you access it.

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.

Helping you plan for a better future

Investing your retirement savings in a SIPP may not be for everyone. If you are not sure which type of pension scheme is best for you, it's essential you obtain professional financial advice to review your options. To discuss your requirements, please speak to us.

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