PENSIONS

5 MINUTE GUIDE TO
SIPPs

Interface

Independent Financial Advisers - Financial Life Planners

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What is a SIPP?

A Self Invested Personal Pension (SIPP) is a type of personal pension. They are known as SIPPs because they allow 'self-investment'.

Other words to describe them could be 'self-controlled' or 'self-directed'.

The basic principle and difference to other personal pension types is that you will direct (or control) the investments, probably with help from your adviser, rather than leaving this in the hands of an insurance or pension company fund manager.

Investors like them and use them because they allow the investor to exercise a significant degree of control over their own pension, the assets held within the pension, the way the investment structure is managed and all other aspects of the plan.

A SIPP has to have a trustee and, in this respect, even though investors are in control and making the decisions a trustee company has to be used to regulate the SIPP and to ensure that the investments used, contributions made and the general running of the SIPP are all in accordance with the relevant rules.

How a SIPP can be used

A SIPP can be used by any investor at any stage during their retirement planning years or they can be used for the management of monies through the retirement phase itself.

In the 'old days' SIPPs were generally thought of as the preserve of those with very large pension funds, however thanks to modern style charging structures and the changing rules and landscape, SIPPS are now available and used by people with any amount of pension money already accrued or available to save.

SIPPs are now a product for all investors to consider.

Many investors will use the flexibility and wide investment range within a SIPP to transfer previously poor-performing pensions which were invested with traditional pension providers with very restricted investment options.

Others use the SIPP option when they want to invest into assets which are not available from traditional pension plans; assets such as commercial property or direct holdings in shares or more specialist investments.

Some investors choose to move to a SIPP at the point they retire, when they wish to use Income Drawdown as the mechanism for drawing their income in retirement; the greater flexibility offered by a SIPP allows the investor to build a better balanced income portfolio.

The introduction of Pension Freedom legislation in March 2015 provides pension investors with much greater flexibility around how to manage their income in retirement – it also produces a different position around taxation on death if the pension plan is still in place. The outcome is that the decisions retirees will be making today are likely to be different from a few years ago; because the options are now different, as is the background economic position.

A SIPP is commonly going to offer the best pension plan option for many people, even those who have not used a SIPP prior to their retirement point.

SIPPS ARE NOW
A PRODUCT FOR ALL
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The key benefit of a SIPP

In brief SIPPs have one major, overriding, key benefit: investment flexibility and choice.

This is heavily supported by the fact that the individual investor is ultimately in control of their own plan and their own money and therefore, by definition, the future outcome.

Many (most?) individuals prize this element of control over all other aspects and understandably so.

SIPPs potentially allow the individual to get whatever investment type they want/desire into their pension. This provides for dynamic strategies to be put in place and for investors to take away the reliance from traditional pension companies, where they have been so many problems in the past.

At their outer limits SIPPs provide additional flexibility with respect to self-investment into assets owned by the investor, they can facilitate borrowing and other interesting financial planning or investment possibilities.

They can be used in a dynamic way as part of Estate Planning or Inheritance Tax mitigation.

Many of you will be in business on your own account. It is possible to use a SIPP in ways which interact with your Business. A common example is where you want to buy commercial property.

You can use a SIPP to buy the property and then your Business leases the property back from the SIPP.

There are various ways to utilise pensions and these can have major advantages for you and your Business, including possible tax advantages.

However these can be complex areas and include pitfalls to avoid, so it is imperative you take professional advice from a pension expert if you wish to explore this.

THE INDIVIDUAL INVESTOR IS ULTIMATELY IN CONTROL OF THEIR OWN PLAN AND THEIR OWN MONEY

Overall the SIPP facility - for many people - is a far better way to manage the retirement planning process than a traditional pension plan where money is handed to a Pension Provider for them to manage.

Different types of SIPPs

When is a SIPP not a SIPP?

Unfortunately, as is the norm in Financial Services, nothing is ever simple – so not all SIPPs are the same and not all SIPPs are full SIPPs.

The way to consider this is to think about levels of investment facility. The rules governing pensions are determined by legislation and are covered in the HMRC manual relating to these matters.

The HMRC manual contains a permissible investment list and definitions of what is or isn't a permissible investment.

From this one can ascertain whether an investment is possible within a SIPP. For example investing into unlisted, private company shares is possible, investing into a racehorse isn't.

A 'Full' SIPP is one where the investment potential is unrestricted and pretty much anything goes: if the investor/plan holder wants to invest into a particular investment then it is allowed (provided, of course, it is permissible under HMRC rules).

A 'Partial' SIPP is one where many or even most of the permissible investments are available for the investor to use, but the trustee will not sanction certain investments due to their own restrictions (as opposed to HMRC restrictions) – for example the trustee may not allow investment into overseas shares or overseas property.

A 'Limited' SIPP is one where the SIPP provider/trustee makes a SIPP available and allows fairly unrestricted fund choices to be selected by the investor but does not allow anything more esoteric such as a commercial property investment, direct equities, overseas property or shares. In other words they offer a range of funds of the investors choosing but that's it.

The definitions above ('Full' 'Partial' 'Limited') are not formal, industry, definitions; they are used here to describe and explain the different types of SIPP and to demonstrate to the reader that not all SIPPs are the same or have the same functionality/flexibility/range.

NOT ALL SIPPS ARE THE SAME AND NOT ALL SIPPS ARE FULL SIPPS

Getting advice and help

To ensure the right choices are taken individuals should pay high regard for getting the best and most appropriate advice.

The SIPP to use, even whether to use a SIPP at all, is a decision making process that has a number of elements which varies from situation to situation – if a SIPP is deemed the right solution, then a decision needs to be taken on which SIPP and type of SIPP to go for and which provider/trustee.

There are two reasons why seeking out advice generally works:

1. The best advisers are full time professionals, trained in these areas, they will have access to software and research and will be experienced with SIPPs and all that goes with it. They should be able to add considerable value to the decision making as a consequence.
2. As with anything of this type, getting an outside view and one that is reflective is almost always beneficial. Somebody else, particularly a professional, is likely to offer a good perspective of the individual position and requirement.

In many respects it may be that the single, most important, job any individual has is to pick the right and the best adviser.

This selection and decision may well be the one thing above all others that ensures the best income position is achieved when the SIPP is being considered.

We are here to help you and provide this advice.

History, structure, and expertise

Interface Financial Planning started providing independent financial advice in 1992. From the beginning it had the aim of providing professional advice and quality service to people with modest income and wealth.

Its key value was putting people before profit, and contribution before reward. This mission statement has been our torch to light the path ahead and has been the reason that we have endured for over 24 years.

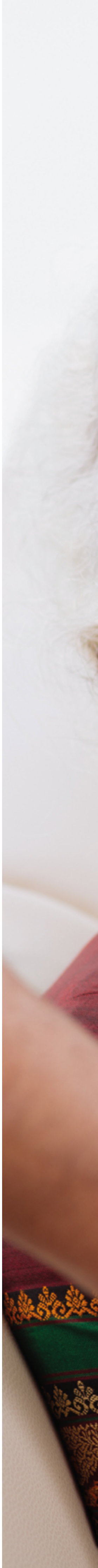
Alan has lead the company with his personal values of: Integrity, Compassion, Respect, & Loyalty, and he is proud that over the years he has worked with clients who share similar values. Like him they want to help others and make the world a little better.

Client care and service is important and he is proud that his first two clients from January 1990 remain his clients today.

We believe that every client should have access to highly qualified advice and expertise.

Technology is used to the full to maximise efficiency and engage expertise from throughout the UK. The business has been paperless for 10 years and for over 5 years has been 'cloud' based. This structure reduces costs and allows support staff to operate anywhere - from Colchester to Honiton to Leicester and elsewhere.

Clients are encouraged to access their online account where they can exchange messages and documents securely. They can view their investments and reports, and they have immediate access to their paper file. Clients love the transparency and openness of being able to view and print paperwork going back for years and many clients use it as a source of reference.



Owner, Director
Interface Financial Planning

Alan Moran is one of the most highly qualified advisers in the UK. He became a Certified Financial Planner in 1995 and he was one of the first Chartered Financial Planners in 2005.

He is a Chartered FCSI, a holder of the IMC certificate and member of CFA UK. His expertise has been called upon by The CII, The IFP, The Kinder Institute, and others, where he has trained and examined other financial advisers.

Alan Moran B.Sc. M.Soc.Sc. Cert.Ed. FPFS FSWW IMC CFP^{CM} RLP®
Chartered Financial Planner - CERTIFIED FINANCIAL PLANNER^{CM} professional – Chartered FCSI
Registered Life Planner® - Affiliate of STEP
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A member of The Ethical Investment Association and The Sustainable Investment and Finance Association UKSIF

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CONTACT US

Alan Moran
0121 554 4444

enquiries@interface-ifa.co.uk

To book an appointment, schedule a call by telephone/Skype or arrange an online meeting, visit:
www.interfacefinancialplanning.co.uk