

Ovation

SOUND FINANCIAL MANAGEMENT



The Ovation Guide to

SIPPs: Self Invested Pension Schemes

Financial Planning | Pensions | Tax | Investments | Protection

Ovation Guide to SIPPs

What is a SIPP?

A Self Invested Personal Pension (SIPP) is a flexible method of managing your pension funds.

What do you mean by flexible?

Unlike insurance company products, a SIPP does not tie you to any limited range of investment funds. A full SIPP will allow you the ability to invest in stocks and shares, unit trusts, tracker funds, private equity, and even commercial property.

OK, one thing at a time. Tell me more about investment portfolios.

For many people, their pension fund is their second largest asset after property. And yet, their pensions languish in insurance company managed funds, unloved and unchecked.

A SIPP allows creation of an investment portfolio, spreading the funds around a range of asset classes (stocks and shares, property, cash etc), and different geographical areas and types of investments.

This doesn't mean it is going to be checked though, does it?

Moving to a SIPP is a good idea for larger pension funds (£50,000 plus), but it is also essential that a rigorous and ongoing investment approach is adopted. Reviews, perhaps annually, are essential.

Are SIPPs more expensive?

SIPPs do carry additional fees to, for example, Stakeholder pensions. A SIPP would be typically run by trustees, and they will have extra charges over and above the typical insurance company product. These additional charges could be in the region of £500 set up and £500 per annum (this is just an example, different trustees will have different rates). This is the reason why a SIPP is only suitable for larger funds and for active investors.

SIPPs have become very popular over the last few years, why?

For clients, SIPPs offer greater flexibility of investment and allow them to take control over their pensions.

For advisers it has enabled them to take much greater investment control over many of their clients largest assets.

However, there is a danger here. Some of the less scrupulous IFAs have seen this as an opportunity to build ongoing payments to themselves (known as fund based or trail commission), and yet not actually do anything for it. As such, some commentators have begun to fire warning shots to the public about the genuine value of SIPPs.

Such warnings are valid if the adviser has used this as an excuse to move many pensions into one place, take a fund based commission, and then not actually review the investments.

The consolidation exercise and ongoing investment flexibility of SIPPs is perfectly valid, but only if an ongoing review of the investments is included in, and paid for by, the trail commission.

I understand SIPPs can invest in private equity?

There is a possibility for a pension fund to invest in unquoted shares. There are restrictions around this, however, and this is not typically available to an owner managed business.

Business angels, and investors in business, most certainly can take advantage of this, where they own less than, say, 15% of a company (between themselves and any connected parties such as family). This could either be by using a pension fund to make an investment, which would have the advantage that any growth would be free of any capital gains tax.

Clearly, however, investing in unquoted equities is a highly risky business, and only for those with other assets and therefore able to take the risk.

What if I already own some private company shares?

It is possible to sell existing assets into your SIPP. Indeed, this can be seen as a good way of releasing cash from a very long term investment.

Again, this is fraught with risk, and careful advice should be taken before proceeding.

I like property as an investment. Can my SIPP invest in property?

Commercial property - yes, residential property - no. Note that buy-to-let is seen as residential property.

Investing in a shop or office, however, is certainly possible, and the SIPP is able to take a loan in order to achieve this. The maximum loan is 60% of the value of the fund (for example a £200,000 pension fund could borrow a £100,000 loan to buy a £300,000 property).

This property could then be rented back to you, but it would have to be on strictly commercial terms.

Indeed, this was a very common form of investment several years ago when the borrowing limits were more generous, and the commercial property market was buoyant. This is a highly specialist area, and we would recommend that you discuss it with us before taking it any further.

OK, you have convinced me, I am off to get my own SIPP.

Because a SIPP does not come with any package set of funds, the investment decisions would be down to you. If this is something you do regularly, then this may well be an attraction.

For most people, however, they use an investment adviser such as Ovation to run the investment portfolio and meet with them on a regular basis to discuss performance. We would, of course, be delighted to take this approach with you.

For help with SIPPs and all financial services speak to Ovation

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Return to web site: www.ovationfinance.co.uk

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