

## Self Invested Personal Pensions

*Self Invested Personal Pensions (SIPPs) received a great deal of publicity in 2005. In this article, Chris Budd sheds some light on this under used type of pension.*

Anyone approaching or in retirement will be only too aware of the importance of making the most of their accumulated pension benefits. Self Invested Personal Pensions (SIPPs) were invented over 25 years ago to encourage private pension provision. However, only in the last few years have the advantages of SIPPs started to become known to the wider public.

Changes in pensions legislation from 5<sup>th</sup> April 2006 (known as A Day) may significantly increase the attraction of SIPPs.

Many people, especially those below the age of, say, 45, think of pensions as “boring”. I put this down to two particular reasons: insurance companies and annuities.

Insurance company pensions are products. As such, they have charges, limited range of funds, and policy particulars. Many people who have been caught up in the Equitable Life problems have seen ever dwindling returns from With Profits funds, or who have penalties on transfer, will be only too aware of the limitations of such products.

In contrast, a SIPP is not linked to an insurance company, but is run by independent trustees. There are no policy charges, no requirements for certain contribution levels, no penalties on transfer (at least, assuming the correct SIPP provider is used). The individual has much greater control over their investment, and much greater flexibility with regard to ability to contribute, investment choice etc.

Turning to annuities, it used to be the case that once the individual reached retirement, their combined pensions would be bundled together, and given to the insurance company, in return for a guaranteed level of income. Now, for those with funds in excess of, say, £100,000, Drawdown can often be a much more flexible option, and the flexibility of a SIPP is particularly relevant in this area.

A pension fund is, in simplistic terms, a trust fund with generous tax relief. It can invest in any authorised unit trust, investment trust or other mutual fund, or in any stock or share on a registered worldwide stock exchange. It can even invest in commercial property. This enormous investment flexibility means that anybody with a fund of say, £100,000 or more,

and who is willing to accept at least a degree of investment risk, should seriously consider consolidating their pension funds into a SIPP.

## **Death Benefits**

The new pension rules open up interesting possibilities with regard to passing your pensions on to future generations. Under certain circumstances, it seems that it will be possible for the value of your pension fund to be passed on to your wife or children's pension funds. One interpretation of the proposed rules suggest that a 'Family SIPP' would be possible – essentially a combined family pension trust fund, wherein capital being used to provide pension for the elder members can, on their death, be allocated for use by the younger members, when they reach retirement. This is a developing area, and one we are looking in to carefully.

It is even possible that such developments will open up the possibility of moving away from the holy grail of pensions, the Final Salary scheme. Such schemes pay a guaranteed income, an amount of which (typically 50%) is then continued to be paid to the surviving spouse. In the event of the death of the surviving spouse, or if the spouse were to die first, the income stops and the capital cannot be passed on..

In contrast, income from a SIPP Drawdown can continue at 100% to a surviving spouse, and at least the majority of the capital passed on to the next generation. Of course, this would have to be considered extremely carefully, as it would introduce investment risk, and the level of income may fluctuate in the future. Nevertheless, such a course of action would not even have been considered only a few years ago.

SIPPs are not for everyone. They involve additional fees, and would be particularly relevant to those with larger pension funds, and are willing to accept some investment risk. Nevertheless, they allow greatly improved flexibility, and are breaking the hold of insurance companies on pension provision.

However, one thing to remember is that is it not usually possible to transfer or make changes to pensions or annuities that are already being received.

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*This article appeared in Mature Times, February 2006 edition - website*  
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