

Ovation

SOUND FINANCIAL MANAGEMENT



The Ovation Guide to

Personal Pensions

Financial Planning | Pensions | Tax | Investments | Protection

The Ovation Guide to Pensions

Why do financial advisers always go on about pensions?

The main reason pensions form a cornerstone of any long term financial planning strategy is because they are tax efficient.

Currently, any contribution made by an individual attracts immediate tax relief at basic rate, with the ability to reclaim higher & additional rate tax. This means up to 45% back for each pension contribution.

For business owners, pension contributions are a trading expense and pension funds grow virtually free of tax.

Added to this, the value of the pension fund is not part of your estate, and therefore can be passed on free of inheritance tax.

But I have to pay tax at the end don't I?

Benefits can be taken from age 55 in the form of 25% of the fund as a tax free lump sum.

The remainder of the fund pays an income which is subject to income tax at your normal rate at that time.

So I am just deferring tax?

This is partly true. Being able to take a quarter of the fund as a tax free lump is a major advantage, but there is no denying that the income that you take in retirement will be taxed.

If you are a higher rate tax payer now, however, there is a good chance that you will get higher rate relief on contributions now, but pay only basic rate tax in retirement.

Ah, but I don't need a pension, because I run my own business. My business is my pension.

This is a common statement you hear from business owners.

In practice, very few businesses actually sell for any significant value. The pension is a very tax efficient method for taking profits from a business, and providing a contingency plan so that you have something to show for your efforts if things were to go wrong.

Pensions are boring, I don't like pensions

Might I suggest that what you really mean is that you don't like insurance companies.

Pensions have a bad press, largely, in our opinion, due to the type of the packaged pension products that so many people end up with. These products often provide only restricted investment choice, and are rarely checked, remaining unloved and unwanted.

But I have heard Stakeholder pensions are cheap.

Stakeholder is a type of pension that was introduced by the last Labour government as a way of encouraging pension provision. They massively reduced insurance company charges, and are indeed the cheapest method for pension provision.

However, whilst Stakeholder is appropriate for those starting out their pensions, the lack of investment choice in particular make them potentially unsuitable for those with larger funds.

Why don't people pay more attention to their pension fund?

A pension fund is many people's second largest asset after their home, and yet they remain languishing in insurance company funds.

There are two main reasons for this: Firstly, people view pension funds as long term and therefore boring. They don't understand them, so they don't look at them.

Secondly, and in our view the advisers must take a large part of the blame for this, many pensions were set up to pay high up front commissions with no incentive for the adviser to go back and review the progress of the investments.

Here at Ovation, we take a different approach. Pensions are simply tax efficient investments. As such, we create an investment portfolio, which is then reviewed on at least an annual basis.

How can you apply such an active investment approach to a Stakeholder pension?

You can't.

So what sort of pension do you use?

We prefer the Self Invested Personal Pension (SIPP). It is only suitable for larger funds (perhaps £50,000 or more) as it is more expensive, however it allows investment into a massive range of investment funds, stocks and shares, commercial property and other such investments.

Download our Guide to SIPP from our website.

I really want to take control of my pension. Can a SIPP help?

Yes. A SIPP will allow you much greater control over the investments of your pension fund, and you can pay into it as and when you feel like it, with no commitment.

Can a SIPP help my Business?

Potentially a SIPP can invest in commercial property, and can even take a loan to help it do so. The loan is restricted to 50% of the value of the fund (for example, a £200,000 fund could borrow a further £100,000 to buy a £300,000 property). This property can then be rented back to the company.

For help with Pensions and all financial services speak to Ovation

Call: 0117 942 4333

Email: enquiries@ovationfinance.co.uk

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

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