SELF ADMINISTERED PENSION PLANS

For many years the "must have" accoutrement for all business owners was the self-administered pension plan. Swallow Financial Planning is authorised to advise on all aspects of pensions including self-administration and final salary scheme transfers.

These notes are designed to debunk the myths around self-administered pensions and their real benefits to business owners.

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1. WHAT IS A SELF ADMINISTERED PENSION PLAN?

A self-administered pension plan is, as the name suggests, a pension plan where the investor has control over what he or she invests in. There are strict rules to ensure the investments are appropriate for an approved pension plan, however, compared with the traditional pension schemes these options are extensive.

A self-administered pension plan is not protected by the policyholder's protection rules so loses much of the legislative security of insured plans. As such, these should only be chosen where absolutely necessary to achieve the aims of the investor.

2. TYPES OF SELF ADMINISTERED PENSION PLAN

There are basically two types of onshore self-administered plans:

2.1 A Self Invested Personal Pension (SIPP)

This is available to the self-employed and employed and was originally based on personal pension legislation. A personal pension is by definition a pension designed for one person but many people can band together for the purpose of a SIPP, for instance where they want to buy a commercial property.

2.2 A Self-Administered Small Scheme (SASS)

Going back over 10 years now this scheme was based on the old executive pension scheme (EPP) rules and was principally designed for controlling directors of limited companies. The maximum number of members for a SSAS is 12 and for the purpose of this note all members must also be trustees of the pension scheme.

The choice of which self-invested option to use (or indeed to go self-invested or not) really depends upon the specific requirements of the saver.

3. CONTRIBUTIONS AND TAX

There is now no difference to the contribution limits for SSAS, SIPP or insured schemes. The annual allowance is £40,000 per person subject to taper if your income exceeds £240,000 (2020/21). Please refer to our Tax treatment of pensions notes for more detailed explanations.

4. CHOICE OF INVESTMENTS

In addition to investments which are available to insured pensions self-invested pensions can invest in:

- Intangible assets such as intellectual property (IP)
- Cash deposits and deposit interests
- Commercial property (including hotel rooms, with certain restrictions)
- Traded endowment policies
- Derivative products such as a contract for difference (CFD)
- Gold bullion, which is specifically allowed for in legislation
- P2P lending
- Art, fine wines and other esoteric choices are available in highly restricted forms

5. WHAT IS THE DIFFERENCE BETWEEN A SSAS AND A SIPP?

The main difference is the relationship between the pension plan and the employing limited company.

SSAS	SIPP
SSAS can lend up to 50% of the fund value to sponsoring employers.	Loans are not allowed to any members or any person/company connected to the member.
Can invest up to 5% of the fund value in the shares of the sponsoring company.	A SIPP does not have a sponsoring employer so can theoretically invest up to 100% of the fund in the shares of any company, including one run by the member.
Can buy shares in more than one sponsoring employer so long as the total market value at the time the shares are bought is less than 20% of the total value of the scheme.	If the company involved is controlled by the SIPP member or an associated person, no shares can be bought in the employer.
SSAS can potentially own 100% of a company's shares so long as the value does not exceed 5% of the value of the SSAS.	A SIPP can potentially own 100% of a company's shares so long as the company is not controlled by the member.

For most purposes (ie buying commercial property) there is little, if any, difference. We tend to find that the SSAS regime is chosen where we are transferring assets from executive pension plans (EPPs) which benefit from pre-2006 benefits such as a high percentage of tax free cash.

6. BUYING COMMERCIAL PROPERTY

Most self-invested pensions have no need to be self-invested and would be far better protected and less expensive if they were invested via an insured platform pension plan. Having said this, if you want to buy a commercial property then you have to use a self-invested pension plan.

A self-invested pension plan can borrow up to 50% of its fund value to assist in the purchase of a commercial property. As with anything else to do with pensions, the devil is in the detail!

Let us say you want to buy a commercial property for £500,000. The property is VAT registered. The costs are likely to be something like this:

Purchase Price Of Property	£500,000
Vat	£100,000
Gross Cost Of Property	£600,000
Stamp Duty (Post VAT Price)	£19,500
Professional Fees Say	£5,000
Total	£24,500
Total Initial Cash Flow	£624,500

For the sake of simplicity, two directors want to buy the property using their SIPP scheme. To do this they need to have pension funds as follows:

	John	**Freda**	**Total**
Current Pension Transfer Value	£290,309	£126,024	£416,333
Maximum Permitted Borrowing	£145,155	£63,012	£208,167
Total Funds For Purchase	£435,464	£189,036	£624,500

Even if the VAT is going to be refunded 3 months after completion, the 50% borrowing rules apply to the whole cost.

For many, owning their own commercial property is the ideal use of pension savings. Having said this, commercial property is often a poor investment and giving up guaranteed final salary pensions just so you can own your premises could be a very poor financial decision.

7. INVESTING IN YOUR BUSINESS

As can be seen, a SSAS can invest into the employing business both via shares and loans.

Whilst there may be occasions where investing your pension fund in your business is both expedient and an attractive investment for the pension fund, the expression “eggs and basket” springs to mind!

A pension fund is usually safe from creditors so risking what is often your second largest asset by investing into the business, which also provides all your income and most of your other wealth, is a very high risk proposition. It should not be entered into lightly, particularly where the business could not warrant a loan or investment within the commercial market.

8. SUMMARY

SSAS and SIPP schemes are from an era before the modern platform pension when to be able to invest in anything other than the 10 funds on offer from your insurance company you had to set up a self-invested pension.

If you do not want to buy commercial property or invest back into your company then keep it safe and simple and consider using a platform pension.

If you want to own commercial property, or you want to use your pension fund to mop up some company shares then self-invested pensions can work very well and the costs need not be exorbitant.