SIPP versus SSAS - How Do They Differ?

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What’s on the agenda?

- What are SIPPs and SSASs?
- What customers look like
- What’s the difference?
- Two case studies
- Why Barnett Waddingham?

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What are SIPPs and SSASs?

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SIPP (Self-Invested Personal Pensions)

- Personal pension: 1 member, 1 SIPP
- 1 scheme, unlimited members
- Sole trustee (usually)
- Regulated by FCA

SSAS (Small Self-Administered Scheme)

- Occupational pension scheme, fewer than 12 members
- Typically a separate scheme for each sponsoring employer
- Members are (usually) trustees
- Regulated by TPR

What customers look like

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SIPP

- High net worth individuals & self-employed
- Seeking more than retail collective funds
- Typically introduced by financial advisers

SSAS

- Directors and key personnel of limited companies
- Seeking financing
- Typically introduced by accountants / financial advisers

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What’s the difference?

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Control

SIPP

- SIPP provider has overall control of the scheme. Would be responsible for day-to-day administration.
- Member makes investment decisions, but is not responsible for administration.

SSAS

- Trustees and/or the sponsoring employer are responsible for scheme - usually delegate day-to-day administration to a pension firm.
- Member trustees make investment decisions.
- HMRC require a 'fit & proper' Scheme Administrator - who could be a member, trustee, sponsoring employer, or SSAS provider.

Contributions

SIPP

- Employer contributions are paid gross.
- Personal contributions are usually paid net of basic rate tax under Relief At Source, with additional tax relief claimed via self-assessment.
- SIPPs are better at dealing with net personal contributions than SSASs.
- All contributions are earmarked at outset.

SSAS

- Employer contributions are paid gross.
- Personal contributions are paid gross, unless the SSAS is registered for Relief At Source (which is unusual).
- Employer Contributions do not need to be earmarked at outset (but usually would be).

Fund share – SSAS only

Why do we have to define the fund share for each member?

- 2006 legislation – benefit limits are based on fund size
- Prevent taxable reallocation between members
- Good practice – people like to know what they've got

Methodology

- Legislation does not specify method – but needs to be equitable for tax efficiency
- Money-weighted rate of return = "personal rate of return"
- Same method applied across all members

Fund share

Increasing factors

- Contributions
- Transfers in
- Investment growth/income
- Revaluation of non standard assets

Decreasing factors

- Benefit payments
- Pension sharing order (on divorce)
- Expenses
- Investment fall

Investments

SIPP

- Investments are registered in the name of trustees, which could simply be SIPP trustee company. This allows investment transactions to happen without need for 'wet' signatures from members.
- All investments are earmarked to a specific member.
- Members can combine funds to purchase an asset together, in which case the asset would be earmarked for those members in a fixed percentage.

SSAS

- Investments are registered in the name of trustees, which could include many names. This can delay investment transactions.
- Investments don't need to be allocated amongst members, as a common trust principle applies.
- Each member owns a notional share of all non-earmarked assets.

Loans and borrowing – the SSAS 'USP'

SIPP

- Loans are not allowed to SIPP members, or to any person or company connected to the member.
- There is no limit for loans to unconnected parties.
- Up to 50% of the net value of the scheme can be borrowed.

SSAS

- The sponsoring employer can take out loans totalling no more than 50% of the scheme's net asset value.
- Strict criteria must be met, including need for a first charge over security and repayments over a maximum five-year term.
- Loans are not allowed to SSAS members, or anyone related to them. There is no limit for loans to unconnected parties.
- Up to 50% of the net value of the scheme can be borrowed.

Benefit options

SIPP

- Maximum benefits are allowed under pension taxation rules, including Pension Commencement Lump Sum.
- Drawdown options and Uncrystallised Funds Pension Lump Sum are universally offered.
- Scheme Pension is only possible via specialised SIPPs.

SSAS

- Maximum benefits are allowed under pension taxation rules, including Pension Commencement Lump Sum.
- Drawdown options and Uncrystallised Funds Pension Lump Sum are universally offered.
- Scheme Pension is possible, but is declining in use following the pension freedoms.

Death benefits

SIPP

- Death Benefits are paid at the discretion of the trustees, or the SIPP provider.
- Dependants and/or nominated beneficiaries may also receive pension income.
- Death Benefits under the BW SIPP are paid at the discretion of BW SIPP LLP, the SIPP operator.

SSAS

- Death Benefits are paid at the discretion of the trustees, who may choose anyone to benefit from a lump sum.
- Dependants and/or nominated beneficiaries may also receive pension income.
- Where a drawdown fund is set up within the scheme, the Barnett Waddingham SSAS allows the trustees - rather than the beneficiary - to determine the pace of income withdrawals.

4 Two case studies

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1: SSAS Loan-back – A.I. Robotics Ltd

Situation

- Relatively new company
- 3 founders
- Successful employed careers
- Significant pension funds
- A.I. Robotics needs funds to grow
- Banks won't lend!

Solution

- Company SSAS effected
- Transfer co. pensions in
- Loan-back effected
- Conditions as safeguard
- Funding for business
- Much higher return for pension than fixed interest
- Handy AE exemption

2: Commercial property – Jane & Jo

Situation

- Successful corporate careers
- Setting up own consultancy business
- Need modern offices in central location
- Buying is an option
- Business can't afford it

Solution

- Transfer previous pension arrangements to two SIPPs
- With borrowing, can afford to buy property
- Business pays rent to their two SIPPs
- Very tax-efficient way to help the business – and accumulate pension funds

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Why Barnett Waddingham?

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Financial strength

Commitment

Investment

People

Service

Property

Governance

WHAT DIFFERENTIATES US FROM OUR COMPETITORS AND PEERS?

THANK YOU

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