

Weighing up the differences - SIPP & SSAS

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Before A-day, SSASs and SIPPs were subject to different tax rules, but things have changed.

Once, a SSAS was seen as particularly beneficial to senior staff in small companies, allowing maximised pension contributions and investment opportunities, whilst SIPPs stood their ground by offering greater flexibility in the payment of benefits.

Since A-day, SSASs and SIPPs became subject to the same legislation, meaning more flexibility for both. But which is the better product for your clients?

Investments

The main differences between SSASs and SIPPs regarding investment choice are:

Loan to sponsoring employer

Only a SSAS is able to make a loan of up to 50% of net scheme assets to a sponsoring employer; however the loan must comply with certain requirements if it is to avoid being treated as an unauthorised employer payment. The loan must:

- » be secured by a first charge on assets at least equivalent to the value of the loan;
- » not exceed 50% of the net value of the SSAS;
- » be for a term of less than 5 years;
- » be repaid by equal instalments of capital and interest; and
- » interest on the loan must be charged at a commercial rate at least 1% higher than the average base rate of the 6 main UK clearing banks.

The requirement for any loan to be appropriately secured may result in a number of potential loans being declined.

It is regarded as an unauthorised member payment if a loan is borrowed from a SIPP to an employer who is connected to the scheme member. A tax charge will apply in this situation.

Purchase of shares in sponsorship employer

A member's SSAS (or any other occupational scheme) may not hold more than 5% of the scheme's assets in shares of the sponsoring employer (up to 20% of the scheme's assets where they relate to the shares of more than one sponsoring employer, i.e. up to a maximum of four sponsoring employers).

A SIPP on the other hand can invest up to 100% of the scheme assets in shares of the member's employer, subject to certain conditions. However, many SIPP (and SSAS) providers will not accept unquoted shares (those can be regarded as 'taxable property') due to potential tax charges

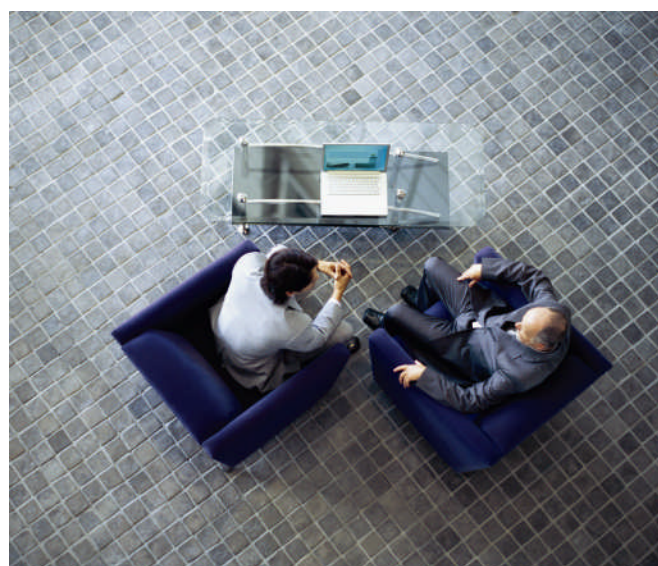
that could arise.

Contributions and benefits

There are no differences in the legislation regarding the contributions and benefits that can be paid from a SSAS to a SIPP.

A scheme pension can be available through both SSASs and SIPPs; however the structures of the majority of SIPP providers do not allow them to offer this option.

The provision of a scheme pension out of the SSAS assets can sometimes be seen as advantageous where a member's overall benefits are close to their lifetime allowance. In most cases where a member crystallises their retirement benefits under a SSAS or SIPP, it will be the value of those crystallised benefits that is set against their lifetime allowance. This is not, however, the case where the member's benefits are being paid as a scheme pension out of scheme funds. In such a case the member's scheme pension is determined by the scheme actuary taking account of the size of the member's fund, the likely investment return on the assets and the member's expected longevity. The amount assessed against the member's lifetime allowance will be 20 times the scheme pension being paid, which will commonly result in a lower value being set against the lifetime allowance than the member's fund value and may help avoid any lifetime allowance charge.





Contracting out

Another factor considered advantageous for SIPPs is that since October 2008, protected rights may be held (so long as the scheme holds an appropriate scheme contracting out certificate). Due to restrictions, SSASs are still unable to hold such benefits.

This may make a SIPP a more attractive option for an individual who wishes to consolidate all their pension investments under one scheme, where these include a sizeable protected rights element.

Conclusions

Even after A-day there still are a number of pros and cons for both SIPP and SSAS. It is safe to say that single member SSAS can be cumbersome and costly so in these cases the choice is generally clear. However, if a number of connected persons wish to invest together a SSAS can be just as cost effective and flexible as a number of SIPPs.

Structure of schemes

A SSAS is usually set up under trust by an employer. The scheme members are the trustees, and the investments are registered under their name. The SSAS will be established as a common trust fund, so that where it includes more than one member there will be no need for the benefits to be earmarked for the members concerned.

Despite SSASs normally being exempt from most of the requirements imposed by the Pensions Act 1995 (e.g. member nominated trustees, disputed resolution, etc), the members/Directors, as Managing Trustees, will still need to have a good understanding of pension issues and investments.

When establishing a SIPP, it is commonly set up as a scheme under a Master Trust by the provider, to which individuals become members (however there are many other ways it can be done including under a deed poll/insurance contract). The investments are registered under the SIPP providers' (or an appointed trustee's) name, whilst the member may hold sub-trustee status in some cases. The member's benefits are specifically earmarked.

A SIPP will often be seen as advantageous as there is generally less involvement in administration by the members, and the members do not need to consider what their colleagues are investing in.

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