

## What you need to know about...

# Self-invested personal pensions

You may have heard of Self-invested personal pensions, or SIPP, and have wondered what they are really about. This leaflet aims to explain some of the basic provisions around these investments, and help you to understand why they may be useful to you.

### What are SIPP?

SIPPs are basically personal pension plans, which allow more complex investments. Typically, SIPPs are used for more sophisticated investors as they allow you to manage your own funds, and this can cost more in charges. However, the idea is that through flexibility comes a greater chance for growth of your money over time.

Because a SIPP is another kind of pension wrapper, it benefits from all the advantages of personal pensions. Thus, your funds grow largely tax-free; you get tax relief on your contributions, so your funds grow faster; your funds are usually free of inheritance tax if you die before taking benefits; you can get up to 25% of the fund back as tax-free cash when you come to retire before age 75.

### Is a SIPP right for me?

If you are an ordinary investor, then the chances are that you do not need a SIPP. Most personal pension plans have a good choice of investment funds, and have competitive charges. If you want more flexibility with your pensions, and have a larger sized fund already built up then a SIPP could be right for you.

You should think of a SIPP as a sports car, and a personal pension as a family saloon. Most people would love that sports car, but might balk at the running costs. You should have a good reason why you want to take out this product.

### More investment choice

SIPPs allow a much wider choice of investments than the standard personal pension.

This includes:

#### **Standard pension funds**

from across the market (not just from the pension provider);

#### **Mutual funds**

(unit trusts, OEICs and investment trusts);

#### **Individual company shares**

both in the UK and worldwide, and including AIM investments

#### **Company property**

#### **Government securities**

#### **Bank accounts**

#### **Traded endowment plans**

#### **National savings**

#### **Venture capital trusts**

#### **Futures and options**

As you can see, this is a very wide choice, and really goes to prove that you should take advice before buying a SIPP.

### Higher charges

SIPPs have a wide variety of charges depending on the product provider. Because these products allow such diverse flexibility, you need to be aware of how

Continued overleaf...

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the charges affect you over time.

### **Who might benefit from a SIPP?**

Typically investors fall into 3 main camps:

#### **Sophisticated investors**

If you are looking for a wide choice of investment funds outside of the usual pension funds with your provider, then SIPPs allow this choice. If you like the idea of specialist choices such as individual shares, then this can be a very tax-efficient way of investing.

#### **Company Directors/owners**

It is very common for company owners to purchase their commercial property through their pension fund. You are permitted to borrow against the assets in the pension fund. The rules allow you to borrow up to 50% of the value of the fund. Thus, if a company owner has £100,000 invested, he can borrow a further £50,000 and buy the company premises for up to £150,000.

Thus, the pension fund will now own the property. Any interest is paid by the fund, and any rent paid by the company goes into the fund as well. This is a great way for a business owner to buy their premises.

#### **Post retirement**

Many people use SIPPs to facilitate unsecured pensions (drawdown). This is a flexible income alternative to annuities, which leaves you control over the funds, allows flexibility of income, and also allows you to pass on the fund (minus tax) when you die. For many people with larger funds, this is extremely important.

#### **The need for advice**

As you can see, with flexibility comes complexity. We would always recommend that you seek advice from a professional before making important decisions. Why not contact us if you feel one of the above scenarios

fits your circumstances?

### **Why use us?**

1. **Free** initial consultation
2. **Guaranteed** satisfaction with our advice
3. **Fee-based** - no commission hungry salesmen
4. **Fully independent** from insurance companies
5. **State of the art research tools**
6. **Regular contact & services to suit you**

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