autumn2001 Pointers

# Self Invested Personal Pensions ("SIPPs") - Financial Planning Opportunities

Funds within the SIPP environment are rising rapidly as monies are being transferred from other individual arrangements notably Retirement Annuity Contracts and occupational schemes. Funds within Retirement Annuity policies of around £50bn are held by insurance companies in contracts dating back prior to 30 June 1988. Funds within SIPPs have risen over the last five years to some £20bn. We expect this expansion to continue as awareness grows of the flexibility, wider investment choice and competitive costings of SIPPs.

In the Saunderson House Portfolio Advisory Service ("PAS"), SIPPS are increasingly playing a part in providing a useful financial planning tool for clients. However, we stress in our "Investment Approach" that one policy, the SIPP for example, should not be viewed in isolation - we consider the whole portfolio when making asset allocation and fund manager recommendations.

## Income Drawdown

In conjunction with the growth of SIPPs, the number of those taking income from pension funds other than by annuity purchase has grown rapidly. From 14 February 2001, it has been possible to change income drawdown providers - holders of Equitable Managed Annuities please note. If the Government abolishes the compulsory purchase of annuities at age 75 (or indeed raises the age limit to 80 or 85), further financial planning opportunities will arise. Mr Justice Collins has recently given leave for a judicial hearing into the laws obliging Joseph Singer to purchase an annuity with his pension fund at age 75.

## The Importance of Selected Retirement Dates

The retirement age selected for retirement annuity and personal pension policies can be important on two counts. Inheritance tax may be charged if benefit is deferred beyond the originally selected retirement age where the policyholder is in ill health and does not take benefit in order to increase the estate of another person (excluding spouse) on his death. With Profits pension policies normally guarantee the payment of annual bonuses at the originally selected retirement age but may impose a market related adjustment if benefit is taken before then at a time of depressed stockmarkets.

## With Profits Terminal Bonuses

With non-guaranteed terminal bonuses accounting for up to 50% or more of a policy's value, thought should be given to crystallising the terminal bonus at it's present level. The proceeds can be re-invested on a with profits or an investment linked basis through policy transfer or switch of funds within the existing policy. With lower charges applying to new personal pension plans, a transfer or switch can often be achieved at little cost and sometimes with on-going cost saving on transfer since annual management charges have also tended to reduce for new policies. A SIPP may be an appropriate vehicle.

Saunderson House can advise on the issues related to the crystallisation of terminal bonuses including the level of any Market Value Adjuster, the possible loss of guaranteed bonus rates, guaranteed annuity rates or demutualisation benefits in the case of companies that remain mutual.

## Stakeholder Deadline for Employers - 8 October 2001

Failure to comply with the legal requirements on the provision of access to a stakeholder scheme (unless exempted) could result in a £50,000 fine for some companies. Potentially nearly 50,000 companies including many FTSE 250 firms may flout the Government's deadline for putting a scheme in place. Saunderson House provides advice for companies on appropriate arrangements and on-going monitoring of those arrangements.

## Equitable Life and The Policyholders' Protection Board ("PPB")

Unit-linked funds are "ring-fenced" from the With Profits fund and thus the solvency or otherwise of the With Profits Fund should not impact on any unit-linked monies. Acceptance of any compromise scheme appears less likely although the continued existence of the Society is probably assured as the PPB would normally require the transfer of the business as a going concern.

When UK Provident had it's difficulties in the early eighties, Friends Provident took over the business. A similar scheme would seem the most likely result for Equitable Life.

The PPB functions under the Policyholders' Protection Act 1975 when a UK insurer becomes insolvent. It is up to the board of directors of the company to decide if the company is insolvent. Once they have decided, a provisional liquidator is appointed who reviews policies to determine that they are reasonable; once the policies have been determined as of reasonable value, the PPB must seek initially to transfer the ongoing policies to another insurer, so that policyholders will receive 90% of future benefits or life cover as appropriate. Failing this, the PPB is required to pay 90% of the value of the policy in compensation to the policyholder.

We stress the importance of taking advice on your individual circumstances.

## Unused Relief

Although the facility to carry forward unused relief ceased on 6 April 2001, the effective deadline is 31 January 2002 because contributions may be paid and elected back to 2000/01 where the carry forward facility is available. Any such election to carry back must be lodged with the contribution. Contributions to Retirement Annuity Contracts are not affected.

## Proof of Income

Contributions by the self-employed to personal pensions are subject to proof of earnings to the pension provider within 30 days of making the contribution. A letter from an accountant certifying earnings for the previous year will suffice but until earnings for the current year have exceeded the cap (£95,400), the contribution will be limited to the appropriate percentage of earnings multiplied by last year's cap (£91,800).

## Autumn Seminars

Saunderson House is holding lunchtime seminars on Wednesdays 17 October and 14 November at Ironmongers Hall in Aldersgate Street (beside the Museum of London) for partners in professional firms on the maximisation of pension fund benefits. An Equitable Life update will also be provided. Please call Julia Langford to book your place.

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*Please telephone me to provide advice on:*

- ☐ Unused relief
- ☐ Equitable policies
- ☐ Pension contributions
- ☐ Venture Capital Trusts
- ☐ Stakeholder contributions for others
- ☐ Other (please specify)..........................................................

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