



SIPPS: an investment opportunity not to be missed

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If you haven't taken the time to catch up with the UK's new pension rules, including Self Invested Pension Plans (SIPPs), you might find it well worthwhile doing so.

The long standing rules regarding the percentage of net relevant earnings contributed to a personal pension which attracts tax relief (25 percent for ages 46-50, 30 percent for ages 51-55, etc.) are being replaced by a total maximum lifetime contribution of £1.5 million. In addition, the restriction on income which can be withdrawn from a pension plan, while still subject to some complex rules, has been relaxed. The vast majority of people should be very interested in these changes.

Reasons for the change are bound up with the growing awareness of the pensions funding "crisis", as David Willets, the Shadow Work and Pensions Minister, calls it. This has been apparent to many since the stock market crash in 2000. Both company schemes and personal pensions were badly affected when it became apparent that the equity markets would not defy the laws of gravity forever.

Self-invested personal pensions (SIPPS) have been around since 1989 but have had a relatively low take-up. The industry expects this to change dramatically however and expects a huge increase in the number of firms offering these schemes.

I know many people in their 40's and 50's who four years ago had confidently expected to retire by now, given the value of their pensions, equity portfolios, Individual Savings Accounts (ISAS), Personal Equity Plans (PEPs), and houses. Most of them are still working, a "solution" to the problem that has been enthusiastically taken up by the CBI!

The government has belatedly woken up to the problem (not helped by the Treasury's retention of the tax on dividends into pension funds, amounting to some £5 Billion a year over the last 7 years). In this year's budget it announced a change to the rules regarding pensions generally, and SIPPS in particular. It will now be possible to hold a much wider class of assets in a SIPP, including residential and commercial property.

But the most astonishing change is the dramatic increase in the limits for contributions attracting tax relief, as a direct result of the switch from annual limits to a lifetime limit. This almost seems geared to help mainly the rich, which may be unintentional coming from a Labour government. Nonetheless, this class of investors will not want to look a gift horse in the mouth.

It is also possible to start drawing down income from a SIPP even though one is not actually retired, giving an even greater boost to those, say in their 50's, who are still working, but have sufficient savings to live off while replacing taxed income with tax-free income.

For example someone with a (non-tax sheltered) portfolio of £1million and an income of £100,000 could contribute 50 percent of this income to a SIPP at full 40 percent

tax relief, and replace the forgone £30,000 of after-tax income with £30,000 drawn from the portfolio, a net gift from the UK government of £20,000 per annum. I'm no tax expert but this seems like a pretty good deal to me. Which clients would object to another £500 plus in fees to in to order to achieve this level of tax benefit? Well, I'm sure you have some, but you take my point!

Of course someone may wake up and close this "loophole", but it will be very difficult to do so and achieve pension tax simplification, which is one of the rationales for the change. In the meantime there is a terrific opportunity for private client investment managers to offer their clients a SIPP plan. They have similarities to PEPs when they were first introduced, allowing wealth to be transferred from a taxed environment to a tax-sheltered environment, in effect just moving holdings into another tax-wrapper, but of course generating trades in the process.

What does this mean from an IT point of view? At this point we need a dialogue with our clients about what we should be developing. It would be quite simple to add additional SIPP portfolios to the ISA and PEP tax-wrappers most firms already have. But given the potential size of the "reclaim", this could start to make Capital Gains Tax allowances pale into insignificance. Would it be useful to have modelling tools which worked out the potential savings given different levels of SIPP contributions?

Could this opportunity awaken interest in financial planning tools? We have recently announced a distribution agreement for Fyntel, whose Fyntelligence system is designed to enable providers of financial services to build and nurture valuable customer relationships by identifying clients' current and planned financial expectations, mapping long-term cash flows based upon proposed investment plans, meeting all compliance, regulatory, and tax requirements in the process. This could be highly relevant when advising clients about the take-up of a SIPP.

In summary I believe the new SIPP rules present an opportunity for Investmaster's clients to help their clients manage an even greater portion of their wealth. We are here to help you with that task

