Barnett Waddingham
a true partnership approach

Briefing note

Pension transfers to SSASs and SIPPs

Many members who have a small self-administered pension scheme (SSAS) or self-invested personal pension (SIPP) also have pension savings held elsewhere. The natural question they ask is whether those savings should form part of their SSAS or SIPP as well, by accepting a transfer value and paying it in.

> Pension transfers can be complex. It is strongly recommended that you seek independent financial advice before transferring any pension savings.

There are a number of factors that you should consider before transferring savings from one pension arrangement to another as it may not always be a good idea to transfer. This briefing note assumes that, if you have a SSAS, it does ***not*** provide a defined benefit (DB) on retirement, which is the case in the vast majority of instances and always the case for SIPPs.

What should you consider?

Pension transfers can be complex. It is strongly recommended that you seek independent financial advice before transferring any pension savings.

- **RIGHT TO TRANSFER:** You will need to check that a transfer is possible from your other policy to the SSAS or SIPP. You may not be able to transfer if you have already started taking benefits. The scheme administrator or provider of the transferring arrangement will also want to be satisfied that the receiving arrangement is a *bona fide* pension scheme and more robust checks will be taken on a SSAS where you act as trustee of your own retirement savings.
- **TRANSFER PROCESS:** During the transfer process, your pension savings will normally be disinvested into cash by the transferring scheme and reinvested by the receiving scheme. In a SSAS, it would be for the trustees, which would likely include you as a member, to determine the investment choice. Similarly, in a SIPP the investments choice will be yours, although you may choose to delegate this to your financial adviser or an investment manager.

Even if you chose similar investments, your pension savings may be 'out of the market' for the period of time between disinvestment and reinvestment. This may be particularly apparent if the transfer value is simply held in the trustee bank account after transfer with no reinvestment plans. If reinvesting, you may also be charged for both selling and purchasing the investments. Of course, you may decide to pursue different investment options prior to transfer - and after transfer - and may have a particular use for the transfer value, such as part of an agreed plan to purchase a commercial property.

Transfers from defined contribution schemes

A defined contribution (DC) scheme is one where the benefits that you or your beneficiaries will receive depends on the fund value, in contrast to DB schemes where the benefit would depend on, say, your length of service with the sponsoring employer and pensionable salary.

The main additional factors to consider when thinking about transferring pension savings from a DC arrangement to your SSAS or SIPP include:

- **GUARANTEED ANNUITY RATES:** Your pension policy might include valuable guaranteed annuity rates at retirement. These are promised terms for converting your retirement fund into an income for life that are normally generous in today's financial climate. These guaranteed terms are **lost on transfer**.

> “ ”
> Your pension policy might include valuable guaranteed annuity rates at retirement or other guaranteed terms which are lost on transfer.

- **PROTECTED TAX-FREE CASH OR PENSION AGE:** It may be that the pension savings you are considering transferring have beneficial higher tax-free cash or lower pension age protection, which are usually **lost on transfer**.
- **EXIT CHARGES:** There may be exit charges or penalties or both applied when you transfer your pension savings. If so, you will need to find out in advance how much and consider whether this changes the benefit of transferring. Similarly some policies offer loyalty bonuses or reduced ongoing charges to members who stay with them a long time. If you leave, you may lose these bonuses.
- **REGULAR CHARGES:** The charging basis for the policy is likely to be different from that for the SSAS or SIPP. Regular charges can come in a variety of forms; in addition to the charges on the value of your pension savings, (these can differ between the investment options), there may be others such as fixed monthly charges.
- **WITH-PROFITS INVESTMENTS:** Some policies offer a with-profits investment option, in which your pension savings may be wholly or partially invested. From time to time, these investments may be subject to a market value reduction or market value adjustment on transfer. These investments may come with guaranteed returns (bonuses). If so, consider the level of the guaranteed returns, as these would be **lost on transfer**.

Transfers from DB schemes

You may have pensions savings under an employer- sponsored DB pension scheme eg a ‘final salary’ scheme where the benefit would basically depend on your length of service with the employer and pensionable salary.

A pension transfer from a DB scheme means giving up your benefits in the scheme in return for a cash equivalent transfer value, which can then be invested in another pension scheme. Generally speaking, members of DB pension schemes are likely to better off staying in their DB scheme.

The main additional factors to consider when thinking about transferring pension savings from a DB arrangement to your SSAS or SIPP include:

- **LOSS OF GUARANTEED RETIREMENT INCOME:** DB schemes normally promise to pay a retirement income for life, often including an income to a surviving spouse or partner following death. The retirement income is protected to a certain extent by the Pension Protection Fund in the event that the sponsoring employer goes into liquidation.
- **INVESTMENT RISK:** In a DB Scheme, the members have no direct investment risk as the decisions and actions necessary to pay the promise are the responsibility of the scheme trustees and sponsoring employer. This contrasts with DC schemes such as SIPPs or the typical SSAS where the members are exposed to investment risk as their benefits are directly impacted by how their investments perform. Remember that the value of investments can fall as well as rise and you may not get back all of your initial capital.
- **COST:** In a DB scheme, the members are not responsible for the costs of administering their benefits and investing funds. Under a SSAS, the costs are either borne by the members or by sponsoring company, (which might be owned by the members) or a combination of both, (whereas in a SIPP, any costs such as annual management charges and fees are borne by the SIPP fund). The SSAS costs of dealing with a transfer-in from a DB scheme are likely to cost more than if the transfer were from another DC arrangement due to the additional paperwork required, which could include an illustration of benefits and a ‘Transfer Value Analysis Report’.
- **NEED FOR ADVICE:** Pension transfers are irreversible transactions. Given the fundamental difference between a DB arrangement and DC one, it is even more important to seek independent financial advice from a suitably qualified adviser before transferring any such pension savings to a SSAS (or any other DC scheme, including a SIPP). In fact under current rules it is a legal requirement to obtain advice if the transfer value is over £30,000.

> Given the fundamental difference between a DB arrangement and a DC one, it is even more important that you seek independent financial advice.

Further information

For further information in relation to your various pension schemes, please refer to the literature from those schemes for contact details.

For further details of the matters covered in this note, please refer to the contact details below. We will not be able to provide advice but we would be happy to assist you in understanding the issues involved.

As stated above, it is strongly recommended that you take independent financial advice before transferring any pension savings. You may already have your own adviser, or if you wish to find one in your area, you can do so via www.unbiased.co.uk.

If you decide to proceed without advice, you should contact the pension scheme to which you wish to transfer to understand the process.

This briefing note is for information purposes only and does not constitute investment advice.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively, please contact us via the following:

ssas@barnett-waddingham.co.uk 0344 443 0200
www.barnett-waddingham.co.uk/ssas

sipp@barnett-waddingham.co.uk 0344 443 0100
www.barnett-waddingham.co.uk/sipp
