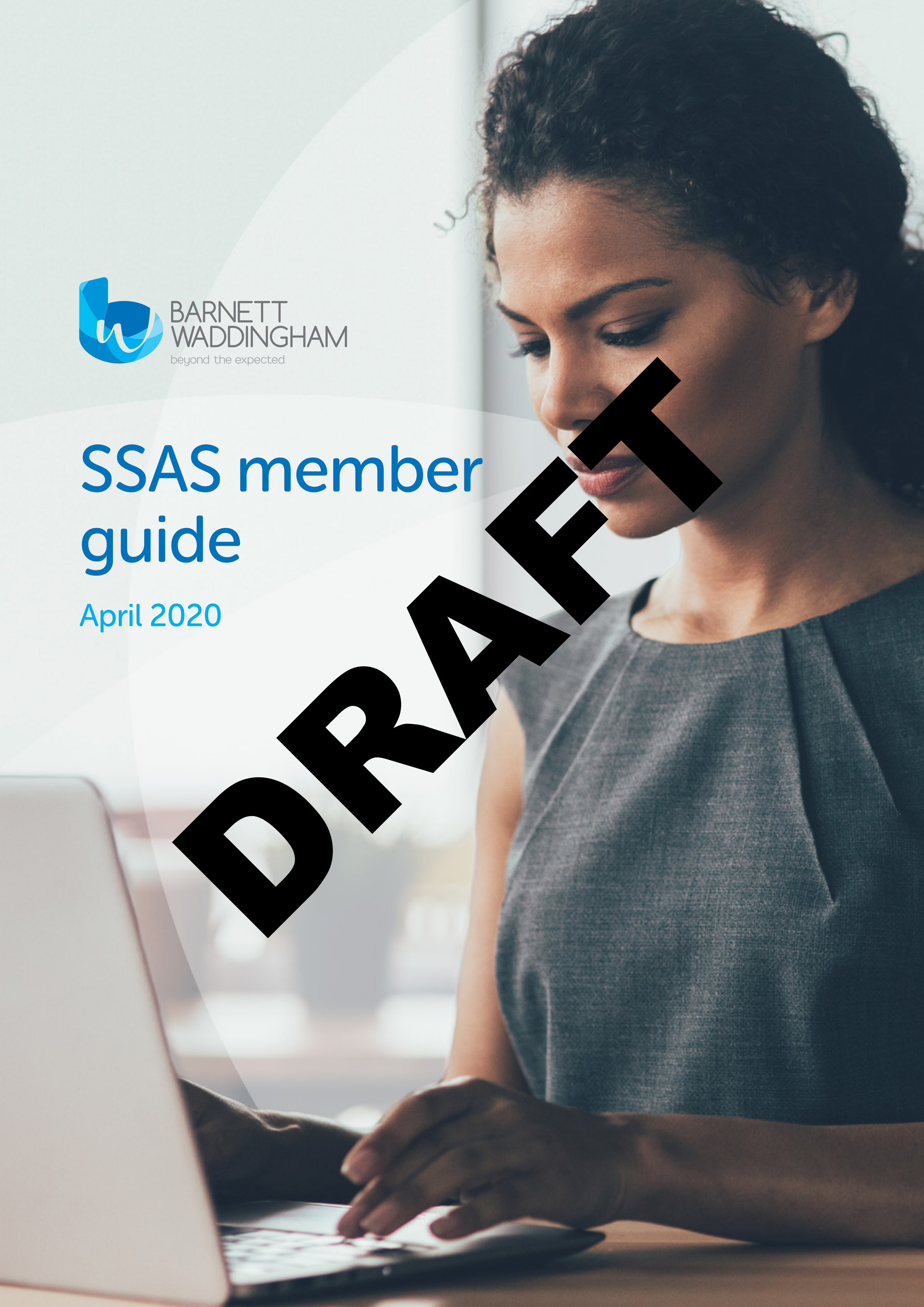


BARNETT WADDINGHAM

beyond the expected

SSAS member guide

April 2020

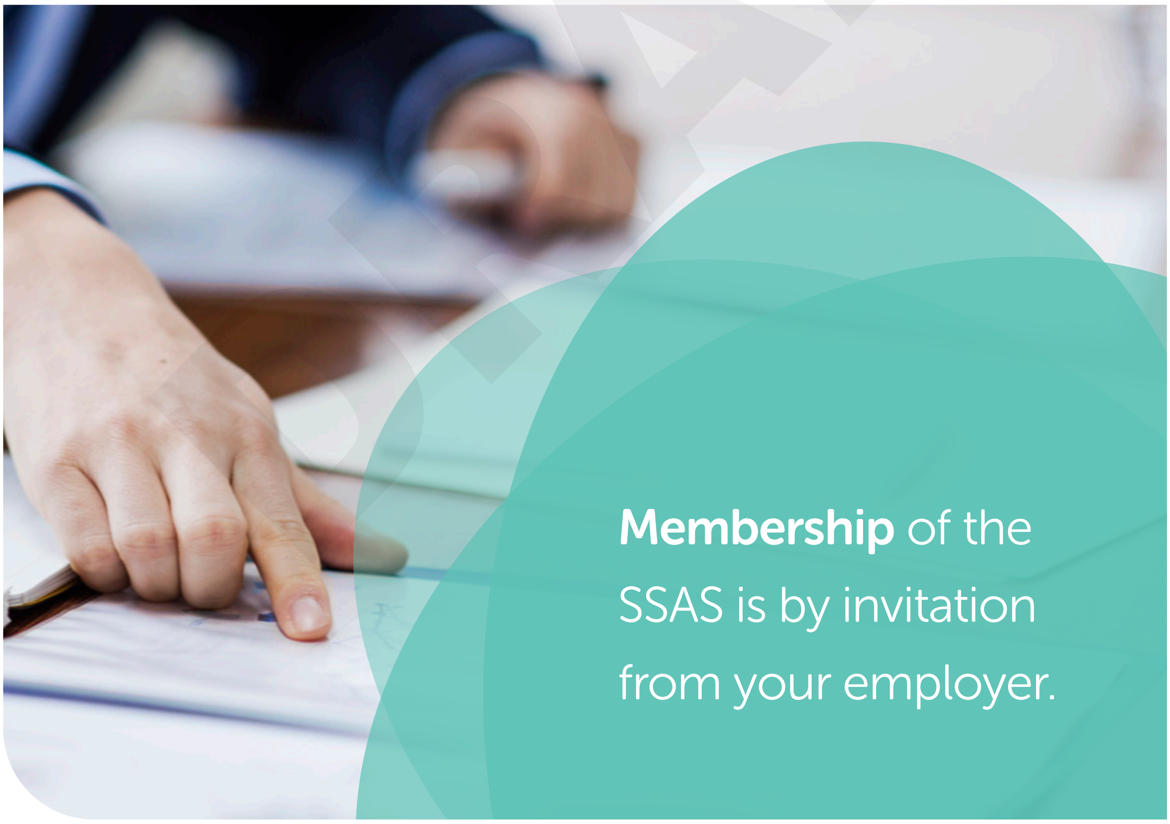
Your employer is inviting you to join its Small Self-Administered Scheme (usually referred to as a SSAS) and this member guide provides you with a simple overview of how a SSAS works. A more detailed guide to SSAS can be downloaded from Barnett Waddingham's SSAS website. It is recommended you read the 'Guide to SSAS'.

Structure

A SSAS is a legal trust, established by an employer, which qualifies as a registered pension scheme. Having it registered with HM Revenue & Customs (HMRC) allows it to have the same favourable tax treatment as any other pension scheme registered in the UK.

You will become a SSAS trustee. This means that you and your co-trustees will decide how the SSAS assets are invested. You will be involved in the day-to-day administration of the SSAS which is why SSASs are termed 'self-administered'. 'Small' reflects the fact that there are fewer than twelve members in the SSAS. More information on a trustee's involvement can be found in our 'helpful guides' on our website.

The SSAS is set up on a money purchase (or defined contribution (DC)) basis. This means that the benefits paid to you are based on the value of your funds built up as a result of contributions, transfers in and investment returns (less charges).



Contributions and transfers in

Your employer may contribute to the SSAS on your behalf. There is no specific salary-related limit to how much your employer can contribute but the employer will only receive corporation tax relief on contributions which are 'wholly and exclusively' for the purpose of the business i.e. are justifiable by reference to what you do for the company.

However, income tax is charged to you if total contributions from all sources exceed the Annual Allowance (AA). Total contributions made from 6 April 2020 to 5 April 2021 inclusive are normally subject to a maximum allowance of £40,000 gross.

You can also make personal contributions to the SSAS. If you are resident in the UK you can usually contribute up to 100% of your relevant UK earnings in any one tax year and receive tax relief - provided the contribution, when added to your employer's contribution, does not exceed the AA.

If you have been a member of a pension scheme in any of the previous three tax years and have not contributed up to the AA in those years, it could be possible to make a higher contribution using 'carry forward' rules.

Please note you may be subject to a lower AA depending on your income or if you are already drawing DC pension benefits. Please refer to our 'Guide to SSAS' for more details.

> You can transfer existing pension rights into the SSAS, even if you have drawn benefits from another scheme.

There is no tax relief on transfers from another registered pension scheme. It is recommended that you consider obtaining financial advice in relation to any proposed pension transfer, and in fact, this is now a mandatory requirement for transfer values of £30,000 and above from a defined benefit (DB) pension scheme, or a DC pension scheme containing 'safeguarded rights' (for example, a guaranteed annuity rate).

The SSAS is not tied to any particular provider; it is a scheme in its own right and the trustees can choose where to invest their monies. Details on permitted investments can be found in Barnett Waddingham's 'Guide to SSAS'.

Retirement benefits

You can start taking retirement benefits from age 55. If you are in serious ill-health, you may be able to take benefits earlier. There is no need for you to actually retire from your employer to take retirement benefits.

Your benefits will be based on the value of your share of the SSAS assets, agreed between you and the trustees, as at the date you elect to take your retirement benefits. There is no limit on the overall value of your share of the SSAS assets.

However, if the total value of all of your registered pension schemes exceeds the Lifetime Allowance (LTA) (which is £1,073,100 for the 2020/21 tax year), a tax charge may apply on the excess above the LTA.

Pension commencement lump sum

You will usually be able to take up to 25% of your share of the SSAS assets (or 25% of your available LTA if this is lower) as a pension commencement lump sum (PCLS), which is tax-free. Members with benefits which arose before 6 April 2006 can sometimes have higher lump sum entitlements.

Pension income

From 6 April 2015, your remaining fund (after taking a PCLS) can be used to provide pension income by purchasing an annuity, and/or drawing an income directly from the SSAS assets.

If you haven't taken a PCLS, you could take your share of the SSAS assets as a one-off taxed cash sum, or as a series of taxed cash sums.

Barnett Waddingham's 'Guide to SSAS' provides a detailed explanation of each of the options available.

The taxed cash sum is usually taxed by applying your marginal rate of income tax on 75% of the cash sum.

The method(s) of pension income will be agreed between you and the trustees.

Taxable income and taxed cash sums are taxed at source on a PAYE basis but are not subject to National Insurance.

If you purchase an annuity with the full value of your share of the SSAS assets, you will have no further benefits in the SSAS in your own name and will therefore cease to be a member. Once all your funds are exhausted, you will usually also step down as a trustee at the same time.

Death benefits

The shape and taxation of benefits on your death largely depends on your age when you die.

If you die under age 75, regardless of whether or not you have drawn any retirement benefits, your funds can normally be paid to recipients as a tax-free lump sum, or used to provide a tax-free pension. Lump sum payments should also normally be free of inheritance tax.

However, if any undrawn funds exceed your available LTA on death, the excess will be subject to a tax charge of 55% for lump sum payments and 25% for pension payments.

> Conversely, if you are aged 75 or over when you die pensions are taxed at the recipient's marginal rate of income tax and so too are lump sums where the recipient is an individual. Lump sums paid to non-individuals (for example, a trust) may be subject to a 45% tax charge.

Where you leave dependants on your death, you are able to nominate one or more non-dependants to receive some or all of your death benefits, in addition.

Where you leave no dependants on your death, the trustees may be able to make a tax-free lump sum payment to one or more registered charities nominated by you. The trustees cannot nominate a charity on your behalf.

When deciding the recipients of your death benefits, the trustees will take into account any wishes you have expressed to them. You should regularly review your 'expression of wishes form' to ensure it meets your changing needs and circumstances.

The death benefits from an annuity policy will depend on the features built into the arrangement when it commenced.

If you decide to leave the SSAS, you will be entitled to transfer the value of your share of the SSAS assets to another registered pension scheme. Transfers to overseas pension schemes may be subject to restrictions, for tax reasons, and a possible 25% tax charge on the transfer value.

State pension and benefits

Benefits payable from the SSAS will be in addition to any state pension or other benefits you may receive from other pension schemes.

Discontinuance and amendment

Although your employer may contribute to the SSAS, it reserves the right to discontinue such payments at any time, and with the agreement of the trustees (subject to the provisions of the Trust Deed governing the SSAS) may amend the SSAS at any time.

Disclosure and complaints

All SSASs with more than one member are required to register with The Pensions Regulator (TPR). TPR keeps up to date records of all pension schemes so that former members can keep track of which pension scheme now has the liability to provide their benefits.

TPR's website is: www.thepensionsregulator.gov.uk

If you are dissatisfied with the information that has been received or have an unresolved query about your pension entitlement, you may ask for the assistance of the dispute resolution team at the Pensions Ombudsman whose website is: www.pensions-ombudsman.org.uk

The Ombudsman has the power to resolve any complaint and their rulings are enforceable in the County Court although appeals may be made on points of law in the High Court. However, before contacting the Ombudsman you are strongly advised to discuss any problems with the SSAS trustees in the first instance.

Investment and financial advice

Barnett Waddingham LLP is not authorised to provide investment or financial advice either to trustees, or to members personally. If the trustees or members require advice, they should consult their existing financial adviser. Alternatively, details of advisers can be found at www.findanadviser.org or by contacting the Personal Finance Society on 020 8530 0852.