



Pension Planning: Looking at the Options

Planning ahead to enjoy a comfortable retirement, free of money worries, is a wise move - but with many options and information available, making decisions about the way forward is not always easy. This simple guide looks at three different options.

Stakeholder pensions

Stakeholder pensions must, by law, meet certain standards on issues including access and charges. These are designed to make the pensions easily accessible to people on low or zero incomes and to make charges transparent.

Stakeholder pensions accept contributions from £20 and investors can stop their contributions, at any point, without penalty. The annual management charge (AMC) is capped at 1.5 per cent for the first ten years, and one per cent after that. This is the only charge allowed, so there are no fees for transfer or early retirement.

Stakeholder pension providers must offer a "lifestyling" fund, which means that when an investor nears retirement, they will be switched out of equities and into fixed interest securities and cash.

These are often the only alternative from some providers, such as banks and building societies, while some providers offer access to investments managed in-house, and which may involve some limited use of externally managed and tracker funds.

As a result, stakeholder pensions are a good option for people without the option of a company pension scheme but some investors may find the limited investment options - due to the restrictions on charges - too rigid.

Personal pension plans

Personal pension plans, or PPPs, have a similar legal structure to stakeholder plans but have a different charging structure. Some charge an AMC of 1.5 per cent or more, although investors with substantial sums may receive a rebate.

PPPs offer many more funds to investors than stakeholder pensions, typically between 50 and 100 different funds, with some managed internally and some provided by external investment houses.

This makes it easier for investors to move between funds and fund management groups, depending on their circumstances and the market.

Potential investors in a PPP need to balance the greater accessibility to funds and fund management groups against the possible costs in deciding whether this is the right choice for them.

Self-invested personal pensions

A self-invested personal pension, or SIPP, is a kind of PPP that gives you greater control over your investments. Available from SIPP providers approved by the Financial Services Authority, they come as "hybrid" or "pure" SIPPs.

The hybrid (or deferred) SIPP is usually offered by insurance companies, who require the investor to put some money into the provider's funds. In some cases, the provider will offer SIPPs better terms than for other investments.

Pure SIPPs provide access to most investments, including cash deposits, commercial properties, equities, fixed interest securities and futures and options.

SIPP members can manage their funds themselves, or employ a professional fund manager to do so. There will be an annual charge for this, plus fees for advice and administration.

A SIPP wrapper - the vehicle by which the SIPP is managed, which is separate from its actual contents - will also come with a setting up charge, an annual fee, plus transaction fees, depending on the type of investment.

For investors with larger sums to invest, SIPPs are likely to offer greater benefits than the stakeholder and PPP plans.

But everybody's personal circumstances are different - so seeking the advice of a qualified professional is essential to ensure that you make the right choice.



Pension Planning: Protecting your Benefits

Putting pension arrangements in place is only half the story: it's also important to think about what might happen to the benefits after your death. There are a number of different options.



Doing nothing

When a pension scheme member dies, the scheme trustees have two years in which to pay out death benefits without inheritance tax (IHT) being paid. During that time, there is no income tax to pay on income produced by the pension fund.

Death benefits are usually transferred to the deceased person's estate, to be dealt with according to the terms of their will. Where pension funds are left to the surviving spouse or civil partner, there are no IHT implications. Otherwise, the funds will form part of the deceased's estate, which is liable to IHT at 40 per cent on any assets over £300,000.

In some cases, even where the deceased has not specified this, the trustees may pass funds to the surviving spouse or civil partner, rather than to the estate, if they consider that the he or she needs these. They may also be willing to consider a case put to them by executors.

Nominating a beneficiary

In many cases, an individual nominates their spouse or civil partner to receive the pension benefits on their death, thus avoiding IHT. Alternatively, they could nominate their children or other loved ones to receive the benefits, which would also remain IHT-free.

Pension scheme trustees will consider pension nominations, but are not legally obliged to follow these. Their priority will be to make sure that the surviving spouse or civil partner is financially secure.

Transferring to trusts under a nomination

An individual may choose to nominate a trust to receive their death benefits. If this happens, the only IHT payable will be the periodic and exit charges (payable every ten years or where funds are removed between the ten year anniversaries respectively). This is levied on any

funds above the IHT threshold at that time - the rate is currently six per cent.

Settling pension benefits on a second trust

This is a more secure way to ensure that death benefits reach their intended beneficiary.

The individual settles their pension plan on a trust during their lifetime, with the pension held for their own benefit. The death benefits are held for the trust beneficiaries.

On the individual's death, the trustees must pay the death benefits into the trust, for tax-efficient distribution. There is no IHT to be paid on any transfers from the new trust, as long as these are made within two years of the death.

Again, these issues can be complex and it is wise to seek the advice of financial professional or solicitor on the most appropriate options for you.

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