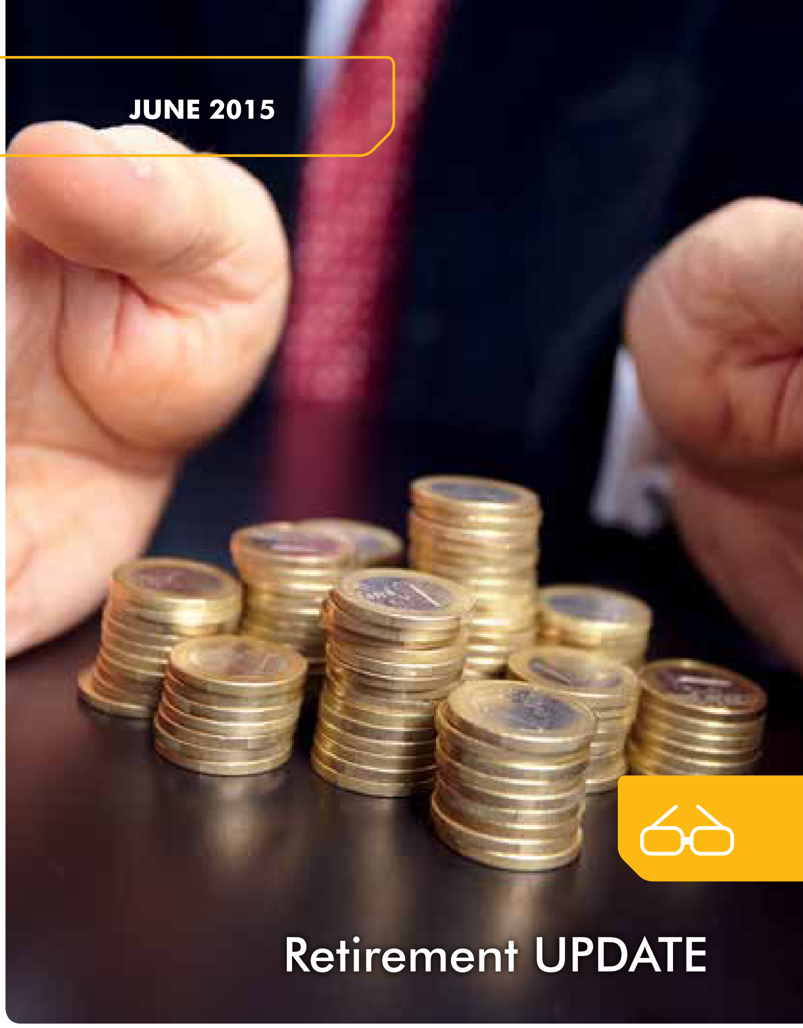
Teachers Financial Planning



Directors' pensions: time to take stock?

This article looks at the retirement options open to people who are directors of businesses

Directors live right in the middle of the swirling cacophony of the daily functioning of a business. From high level strategy to the more mundane aspects of running a company, the demands on a person's time, energy and concentration can be high. It is perhaps unsurprising then that many directors expect to be rewarded for their efforts with a healthy income in retirement.

Without active interest and participation, however, this is not always the case.

To some extent, the reluctance of many people to pour money into a pension was understandable as many pensions were inflexible and did not offer value for money. However, thanks to the recent pension reforms and options such as stakeholder pensions introduced in the last few years, those retiring in the future could have much brighter prospects. This is particularly true for directors of companies.

The director's cut

Before exploring what kinds of options are open to directors with regards to their pensions, we have to be aware of the limitations placed on the amount that can be invested.

Lifetime allowance

The lifetime allowance is a limit on the value of your pension schemes, whether this is in the form of a lump sum or regular income payments.

The allowance was reduced from £1.5 million to £1.25 million for the tax year 2015/16 and applies to all of the pensions that an individual might have, excluding your state pension. If the total value of all of your pension pots exceeds the lifetime allowance, you will be charged tax on the excess.

Annual allowance

The annual limit is a cap on the amount of contributions and tax relief that can be paid into pension schemes each year. The allowance is currently £40,000 a year, although it is possible to top up your allowance for the current tax year with any unused allowance from the previous 3 years.

These 2 allowances have a major effect on the kinds of pension schemes that people can have in the UK. If you were originally envisaging having a higher income in your later years, you may have to look at using a combination of pension schemes and other investments.

There are 2 schemes that could offer a relatively straightforward way of boosting retirement income. Both are flexible and give you far more control than traditional schemes.

Small self-administered pension schemes (SSAS)

Type of scheme: defined contribution.

Open to: company directors, key workers and their family members, even if they don't work for the employer.

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How it works

A SSAS is an employer-sponsored workplace pension that is set up to provide retirement benefits for up to 12 people.

A SSAS is run by its trustees, who may often be the members of the scheme.

All of the assets of the SSAS are held in the name of the trustees so there are no 'individual pots' for each member. Contributions can be made to the SSAS by the members and/or the employer. Each receives tax relief on contributions made, subject to certain conditions.

Pensions can be drawn from the age of 55.

The benefits

The assets of the SSAS can be invested in assets that aren't generally available for many other types of pension. Examples include:

- buying the company's trading premises and leasing them back to the company
- lending money to the company
- purchasing company shares.

The scheme can also borrow money for investment purposes. This could include raising a mortgage to buy the company's premises. The mortgage repayments may then be covered (totally or in part) by the rental income that the company pays the SSAS.

Contact us today to discuss your retirement.

Self-invested personal pensions (SIPP)

Type of scheme: money purchase.

Open to: no restriction, as the contract is between the individual and the pension provider.

How it works

A SIPP is essentially a personal pension with added flexibility. It puts you in control as you can decide where you want to invest the assets. Investment options include:

- quoted UK and overseas stocks and shares
- unlisted shares
- collective investments (for example OEICs and unit trusts)
- investment trusts
- property and land (but not most residential property)
- insurance bonds.

It can also be used to borrow money, for example, to raise a mortgage to part-fund the purchase of a property.

The benefits

SIPPs are extremely popular as they offer one of the most flexible ways to invest for retirement.

Unlike a SSAS, a SIPP is portable. If you change jobs, or stop working, you can continue contributing to it because it is your scheme.

Most SIPPS offer a drawdown facility. This means you can simply draw an income from the funds, instead of buying an annuity.

Under current legislation, you can start drawing retirement benefits from the age of 55 and you don't have to stop work to draw benefits.

We can help you pick the right pension option.

Is a SSAS or a SIPP right for you?

Both types of pension are popular choices for directors and other high earners, but whether they are right for you will depend on your individual circumstances, your age, attitude to risk and your aspirations.

As you may imagine, we've only been able to provide brief details about each of the schemes here. If you like the idea of a pension that gives you more flexibility and more control, we would be delighted to provide full details to help you make the right choice.

Get in touch with one of our team today to find out more.