Investment Life & Pensions
Moneyfacts®

focus

Small Self-Administered Schemes

A better perspective

Guiding you through the SSAS maze

In association with:

Rowanmoor GROUP PLC

Barnett Waddingham

xafinity

City Trustees A MATTIOLI WOODS PLC COMPANY

investAcc Pension Administration Limited

Comparing SSAS and SIPP

Nigel Bennett looks at how SIPP and SSAS compare and highlights the potential advantages and disadvantages of using a SSAS

The first self-invested pension scheme, introduced in the early 1970s, was the Small Self-Administered Scheme (SSAS). In relative terms, their Self-Invested Personal Pension (SIPP) cousins are a recent phenomenon, having only been available since 1989, although they've certainly made up for their late start, with estimates of over one million individual SIPP members now in the UK. For many years the differences between these arrangements were significant, but they narrowed in 2006 when Pensions Simplification attempted to introduce one single regime for all UK registered pension schemes. Despite this, many differences still exist today.

A common view among advisers when considering recommending a self-invested pension is that SIPPs are the default choice for clients. However, for business owners the availability of an employer loan, which is exclusive to SSAS, can be a very useful option, although there are other examples of how a SSAS can achieve something that a SIPP cannot.

The relative popularity of SIPPs leads to making obvious assumptions that they're in some way better, however, our experience is that there are important differences that should be considered on a case-by-case basis. There are significant benefits that a SSAS can offer when a SIPP would not be the right option.

In this article, we'll explore some of these differences further, highlighting some key aspects along the way.

Requirement for a sponsoring employer

A SSAS requires a sponsoring employer to establish the scheme, normally for the benefit of one or more of its employees. After the scheme has been established, anyone that has the power to be appointed as a trustee can be invited to join, although we find that a SSAS works best when membership is limited to a very small group of people, typically one to four members that own and manage the business.

SIPPs do not have a sponsoring employer, which opens them up to a much wider population, and is one of the reasons they are more popular.

Power to make decisions

When it comes to a SSAS, the client has more control; once the scheme is established it is their scheme and the "provider" or independent trustee and/or scheme administrator can be removed and replaced at any time. Having these powers means that they do not have to suffer with a poorly performing provider, and may move relatively easily without the need to transfer the scheme or its assets. Indeed, some customers move their schemes to us for this reason.

With a SIPP, the provider establishes and operates the scheme, typically for a large number of members, and so a customer that wants to move providers would have to transfer the scheme assets to another provider that is willing to accept them. This may involve increased costs, particularly when moving commercial property.

Investments

Having different regulators has led to different potential investments. SSAS is regulated by The Pensions Regulator, which has a mandate to protect pension scheme members in the UK (of all types, not just SSAS), so it covers a vast array of schemes and members.

SIPP operators are regulated by the Financial Conduct Authority (FCA) who have expressed concerns about due diligence undertaken by SIPP operators on certain, mostly unregulated, investments. To tackle this, rules and regulations have been made by the FCA to discourage certain investments. This, however, has led to a position where some investments may be acceptable to a SSAS, but not to a SIPP. Take the example of a commercial property

that may be allowed in both types of scheme - SIPP trustees would need to perform full due diligence, including getting a surveyor's valuation report and asking a solicitor to prepare a report on the title and perform all relevant searches. All these things take time, but they're essential aspects of the trustee's requirements.

With a SSAS, if the customer wants to make the purchase in a matter of days, rather than weeks, it may not be possible to perform all the checks in time. In this scenario, a SSAS could purchase the property in the name of the member trustees with a restriction placed at HM Land Registry that would prevent the property being sold without the professional trustee's written permission. You may wonder why that would be wise, but it is entirely possible that the client may already own the property personally, or via their company, in which case satisfying the due diligence requirements of the pension scheme provider for a property the client already owns may not be in the best interests of the client. For this reason, a SSAS could be the more appropriate vehicle for this scenario.

It should be noted that the apparent difference in regulatory treatment of SIPP and SSAS has concerned the FCA, leading them to state that if they have evidence that a SSAS is being used as a vehicle to avoid a higher regulatory standard, they may consider bringing SSAS under their remit in the future.

Timescales

It typically takes up to a month to establish a new SSAS, taking into account the application process, obtaining HMRC registration and having a bank account open and ready to accept funds.

A SIPP scheme, on the other hand, will often already exist, so adding a new member to that scheme can generally be achieved within 24 hours, with banking arrangements already in place.

Loans to the sponsoring employer

A SSAS has the unique ability to be able to make a secured loan to the sponsoring employer on commercial terms for any commercial purpose. Even if the loan facility is not of interest immediately, it may be an extremely useful option for the future.

Table 1: Comparing SSAS and SIPP

	SSAS	SIPP
Introduced	1973	1989
Regulated by	The Pensions Regulator	Financial Conduct Authority
Legal structure	Trust based, all members are trustees, one common investment fund, decisions made by unanimous agreement of all trustees	Trust based, all adult members are typically trustees. Individual member funds
Trustee responsibilities	Determined by scheme rules, but support given by professional trustee and scheme administrator	Provider is responsible for operating the scheme and most trustee duties
Aimed at	Business owners, requires a sponsoring employer at establishment of the scheme	Anyone
Investment Options	Determined by scheme rules	Determined by scheme rules and SIPP provider's permitted investment list
Maximum number of members	11	Unlimited
Fees	Typically set per scheme	Typically per individual member

Table 2: Possible SSAS advantages and disadvantages

SSAS Advantages	SSAS Disadvantages
Loan facility - up to 50% of the net total fund can be loaned back to the sponsoring employer	Requires a sponsoring employer at the point the scheme is created
Control of investment making decisions rest with the member trustees	Relatively slow to open scheme, get it registered with HMRC and open banking arrangements
Speed of investment making decisions - for example, commercial property can be bought extremely quickly if the member trustees wish, once the scheme is established	Needs all decisions to be made by unanimous agreement, if trustees fall out, then this can be a problem
Fees do not usually depend on the number of members of the scheme	A one-member SSAS can be relatively expensive compared with SIPP, particularly if a SIPP would have met client needs at the time

Fees

Looking at our own fee structures, as a general rule of thumb, a SSAS scheme with any number of members will typically cost about the same to run as a two-member SIPP scheme.

Administration and trustee duties

A good SSAS provider will also usually take on the scheme administrator duties. They will guide the member trustees in the processes and their duties, and, in our case, we also arrange and minute yearly trustee meetings. With a SIPP, these aspects would all be the responsibility of the provider.

Bank account

SSAS and SIPP schemes both need banking arrangements in place to handle payments in and out of the scheme.

With a SSAS, there will be an account held in the name of the pension scheme, usually with all trustees as signatories, including the independent trustee. As such, there is likely to be a scheme chequebook and many in the industry can recall tales of clients writing cheques that have caused problems. We avoid this by keeping the physical chequebook at our offices to prevent that sort of thing and reduce the likelihood of fraud. Most payments out of the SSAS can actually be handled without the need for cheques to be posted to and fro.

SIPP banking arrangements will be controlled entirely by the SIPP operator.

Pooled or individual investments

A key aspect of SSAS is that there is one investment pool that can be shared across a number of members of the scheme. This means that because they control the scheme together, all decisions need to be by unanimous agreement. We do occasionally see SSAS members that fall out, which can cause problems.

With SIPP, each member has their own individual fund, although they can still pool investments e.g. if a number of individuals want to collaborate to jointly purchase a commercial property.

Choosing a provider for SSAS or SIPP

Offering both types of scheme makes us impartial when it comes to the choice of a SSAS or SIPP (possible SSAS advantages and disadvantages are highlighted in **Table 2**).

Some providers only offer one, rather than both options and therefore may have a vested interest in promoting the benefits of one over the other. We're happy to discuss potential enquiries with advisers.

Nigel Bennett is Business Development Manager at InvestAcc Pension Administration Limited