



# Made to measure



**Richard Eagling reports on how the tailor-made appeal of a SSAS will be further boosted by the new pension freedoms and a relaxation of the death benefit rules**

**Given the choice, most people would prefer to have something made specifically to match their requirements. This is certainly the case for many company directors and owners of small to medium-sized enterprises (SMEs) when looking to set up a pension scheme. Rather than squeezing into an ill-fitting, off-the-peg product, an individually tailored retirement solution is much more likely to appeal. And when it comes to opting for a tailor-made pension scheme, it is becoming increasingly difficult to ignore the unparalleled flexibility and control offered by a Small Self-Administered Scheme (SSAS).**

Following pension simplification and the phenomenal growth of the SIPP market, many experts were predicting the demise of the SSAS, but nearly a decade on sales are thriving again. "In our experience 2014 was certainly a record year for new SSAS schemes," comments *Nigel Bennett, Sales & Marketing Director at InvestAcc Pension Administration Limited*. "We continue to see new schemes set up to take advantage of the loan facility, although we are also seeing schemes established for other reasons, including future-proofing should a loan be

required in future. The positive trend has continued into 2015, seeing us break monthly records twice already this year, and so we know that this is shaping up to be another record year. The surge in 2015 is in no doubt being influenced by the UK Government's Freedom and Choice reforms, which are driving increased interest and confidence in pensions generally."

The extent to which the SSAS market has grown over the last 12 months is highlighted in the findings from our own survey of 30 different SSAS providers. The survey found that the total number of SSASs held has risen from 16,973 last year to 18,030 now, an increase of 6.2% over the last 12 months.

**Figure 1** on page 15 shows the portfolio information of each SSAS provider, detailing the number of SSASs held, SSAS funds under administration and the proportion of SSAS assets held as property.

"2014 was another good year for SSAS," agrees *Jeff Steedman, Head of SIPP/SSAS Business Development at Xafinity SIPP Services*. "Our pipeline of new business is also strong and interest has certainly grown following the pension freedoms announcements and the publicity that

followed them. Interestingly, scheme closures are at a record low. Investment activity in connected party loans remains significant and we have seen a huge 45% increase in commercial property purchases, showing that real self-investment activity, which should be at the heart of a SSAS, is high. With the general UK economic outlook more positive we are also seeing increased activity in large one-off contributions being paid by employers into SSAS, often utilising carry forward."

#### SIPP boost

The close relationship between SIPP and SSAS means that some of the recent trends in the SIPP market could also inadvertently be boosting the fortunes of SSAS. There is a suggestion that by encouraging some SIPP providers to restrict what they will allow their customers to do, the increasing regulatory scrutiny in the SIPP sector could be pushing more business owners and directors towards the greater control and freedom offered by a SSAS instead.

"The regulator is continuing to change how much freedom is allowed within the confines of a SIPP wrapper, and so high net worth individuals, particularly business owners, will continue to be drawn to SSAS where they can operate their pension savings much more like a family trust," argues *Andrew Roberts, Partner and Head of SSAS at Barnett Waddingham*. "As a SSAS is an occupational pension scheme, the trustees are potentially subject to the requirements of the various Pensions Acts and The Pensions Regulator, rather than the increasing regulatory scrutiny imposed on SIPPs by the Financial Conduct Authority, although SSASs often enjoy exemptions from the regulations, particularly where all the members are trustees."

Andrew Roberts continues: "In addition, HMRC treats the SSAS trustees as the scheme administrator. With a SIPP, the trustee and scheme administrator is usually the SIPP provider. These differences in regulation and constitution may therefore encourage a continuation of - or even increase - demand for SSASs throughout 2015 and beyond from the traditional purchasers of such pension vehicles."

#### Changing adviser attitudes

Another reason that SSAS is beginning to re-emerge from the shadow of its SIPP sibling is the changing attitude of advisers towards SSAS, partly driven by the Retail Distribution Review (RDR). Some commentators predicted that the SSAS would be a good fit with advisory fee work in the post-RDR landscape and this appears to have been borne out.

In the past there has been a tendency for SSASs to be overlooked in favour of SIPPs even though a SSAS boasts some notable advantages. However, awareness and understanding of SSAS as an option among advisers has improved considerably in recent years. There is also now a growing

Figure 1: SSAS Provider Portfolio Information

Provider	Number of SSASs	Funds under administration	Property as % of assets under administration
A J Bell	712	£723 million	Not disclosed
Alltrust Services Ltd	116	£82 million	45%
Astute Trustee Services Ltd	45	Not disclosed	Not disclosed
Barnett Waddingham	2,435	£4.3 billion	35%
Berkeley Burke	240	£250 million	70%
Bespoke Pension Management	100	£52.5 million	30%
Brooklands Trustees Ltd	35	£21 million	39.6%
Carey Pensions UK LLP	22	£8 million	30%
Central Tax & Trustee Planning LLP	76	Not disclosed	Not disclosed
City Trustees	296	£230 million	Not disclosed
D A Phillips & Co Ltd	410	Not disclosed	Not disclosed
Dentons Pension Management Ltd	712	£0.87 billion	40%
Hornbuckle Mitchell	606	Not disclosed	Not disclosed
InvestAcc Pension Administration Ltd	227	£161.6 million	51.78%
I.P.M Trustees Ltd	460	£230 million	50%
James Hay Partnership	1,556	£2 billion	Not disclosed
JLT Premier Pensions	842	£935.2 million	44.5%
Lindley Trustees Ltd	135	£200 million	40%
Mattioli Woods	1,421	£1.286 billion	Not disclosed
MDP Administration Services LLP	108	Not disclosed	60%
Michael J Field Consulting Actuaries	700	Not disclosed	Not disclosed
Momentum Pensions Ltd	65	£60 million	60%
PensionAdmin Ltd	91	Not disclosed	Not disclosed
Redswan Pensions	Not disclosed	Not disclosed	Not disclosed
Rowanmoor Group plc	3,500	£2,848 million	37%
Scottish Widows	500	Not disclosed	Not disclosed
Talbot & Muir Ltd	688	£603 million	55%
Westerby Trustee Services Ltd	117	£62.5 million	54%
Whitehall Group (UK) Ltd	515	£243 million	39.7%
Xafinity Consulting	1,300	£1.2 billion	38.8%

acceptance that while a SSAS may not necessarily be the most suitable solution for some clients, it should at least be considered as an option when providing retirement planning advice to all directors.

"My view is that there was a knowledge gap, but this has largely been addressed in the last few years as a by-product of the Retail Distribution Review and a need to look at SSAS as SIPP options become more restricted," explains Andrew Roberts. "Historically, financial advisers viewed SSAS as somewhat esoteric and non-mainstream, and a SIPP was a far easier pension arrangement to understand and recommend. However, for those who wish to define themselves as an 'Independent Financial Adviser' in the post-RDR world, both products have to be considered and fully understood, in order to ensure the most appropriate client outcome for pension planning."

Particularly encouraging for the SSAS sector is the increasing number of advisers showing an appetite to learn more about SSAS and become more active in the market. "We are

receiving an increased number of enquiries about SSAS from accountants and financial advisers, with many keen to remind themselves of the flexibilities that SSAS can offer their clients," says Jeff Steedman. "But we have also noticed a whole new generation of advisers keen to get up to speed on SSAS; the future of SSAS hasn't looked this bright for decades."

#### SSAS qualities

So, for those financial advisers looking for a SSAS refresher, or for those new to the market, what are the most appealing qualities of a SSAS and what issues should they be aware of?

#### Loanbacks

One of the most attractive features of a SSAS, and a major advantage over a SIPP, is the ability to loan money back to the sponsoring company. This will often be to help finance business expansion, fund the purchase of new machinery or simply aid cashflow, and can provide a valuable lifeline when a bank loan is not forthcoming. By contrast, a SIPP can only lend to unconnected third parties.



The loanback option has become increasingly popular among SSAS clients, with some industry estimates suggesting that between 10-15% now utilise this feature. "Over the past few years we have seen a rise in enquiries for loanbacks through a SSAS," says Robert Graves, Head of Pensions Technical Services at Rowanmoor Group. "Reluctance by banks to lend and unattractive interest rates are drawing individuals to the benefits of using a SSAS for their business needs; it is also the only type of pension scheme where a loan to a connected party is possible. The bank base rate has been at a low level of 0.5% for over six years now; if this continues, it may offer an opportunity to set up a loan before the base rate goes up, thereby fixing an interest rate as low as 1.5% over a five-year term. This is a favourable borrowing rate in comparison with commercial terms."

Even if a loanback is not immediately needed, having the option readily available could prove to be beneficial in the future, especially if the timescales within which to access extra funding are tight. "Many customers may not actually use the facility on day one, but if and when a loan is required it is advantageous to have the correct scheme already in place," argues Nigel Bennett. "SIPPs can be transferred to SSAS, but being in the right place at the outset can remove the need to transfer."

Although a loanback can be a highly attractive option, advisers should ensure that their SSAS clients are fully aware of the employer loan requirements, as failure to comply can result in tax penalties for the SSAS and the borrower. To be eligible as an authorised employer loan, five key criteria must be met:

1. The maximum employer loan must not exceed 50% of the net value of the SSAS assets at the time of the advance.
2. The maximum term of the loan cannot exceed five years (on just one occasion a rollover for a further five years is permitted, but only if the borrower is experiencing financial difficulties).
3. The loan must be secured as a first charge of at least equal value to the face value of the loan including interest.
4. The loan must be repaid by equal instalments of capital and interest in each year of the loan.
5. The interest rate charged must be a minimum of 1% above base rate.

"There is clear guidance from HMRC; security, interest rate, minimum and maximum terms of the loan and repayment terms must all be agreed to avoid any unauthorised payment charges," comments Robert Graves. "However, once these are agreed, the benefits to the business are favourable. For example, the loan interest payments would be a tax deductible expense by the business repaying the loan and can be offset against corporation tax. This is preferable to making interest payments to a

bank, and the trustees of the SSAS can benefit from the interest as an investment return for lending scheme funds."

While the HMRC requirements for an eligible authorised employer loan are not too complicated, whether they will prove acceptable to a SSAS client is another matter entirely. "Often when the detail is discussed, the requirements of HMRC are too onerous," points out Christine Hallett, CEO at Carey Pensions UK. "In particular, the requirement to have first legal charge on an unencumbered asset is often the stumbling block for many."

**"The fact that a SSAS is unique in terms of its construction means it can be tailored to meet the needs of its members."**

#### Greater control

Another defining attribute of a SSAS is its structure, which permits an unparalleled level of control. SSASs are set up under trust for the benefit of the scheme members, all of whom are usually trustees. Since each SSAS is written under its own individual trust, it can be designed to meet the specific needs of its members and can be written to allow as much flexibility as possible, subject to remaining within HMRC rules.

"The fact that a SSAS is unique in terms of its construction means it can be tailored to meet the needs of its members, whether that be investment flexibility, cost or contribution levels," adds Robert Graves. "It affords its members a certain amount of control that may not be available through a SIPP."

As trustees, scheme members can be more involved in the day-to-day administration of the pension scheme and enjoy considerable control over the investment policy and underlying assets of the SSAS. This control also extends to being able to make decisions over changing the scheme administrator relatively easy.

"The loanback is the USP for SSAS compared with SIPP, but I also find that having more control over how the pension scheme is run can be important, too," comments Andrew Roberts. "This could be as simple as selecting their own property managers, choosing how to manage funds between family members or payroll dates."

The pooled nature of a SSAS, whereby all contributions and transfers are held in one fund to be used to make any investments or pay benefits, can also be beneficial. This is evident when a member transfers or retires, as trustees have flexibility with regards to where to pay benefits from, avoiding the need to sell particular assets. "Multi member SSAS arrangements benefit from extra flexibility, such as the ability for the scheme to borrow funds to pay a transfer value in respect of a member leaving the scheme," adds Nigel Bennett. "With a SSAS, the borrowings are calculated at scheme level, including the share of the funds relating to the exiting member. We have seen SIPP cases where additional capital is required to be input, for example to buy out a member's share of a property, whereas a SSAS would have a higher borrowing facility because that member's share could be included in the borrowing calculation on that particular day."

#### Defined Benefit SSAS

Another potentially attractive SSAS option, and one that is perhaps less well-known, is the so-called Defined Benefit (DB) SSAS. This type of SSAS allows employers to provide benefits for their directors and key employees within specific funding limits, and enables them to maximise the provision of pension benefits in a particular year.

"The DB SSAS is now being considered as an effective tool by advisers to assist businesses and company directors with both company tax and pension planning," comments Christine Hallett. "A DB option can play positively for a company that is making large profits and the partners/directors want to mitigate corporation tax by making employer contributions into a pension scheme. By using a DB SSAS the ability to have the initial funding calculations done by an actuary may enable contributions to be higher than the annual allowance and assists companies and their partners/directors when the company is having a good profitable year."

#### Investment options

A SSAS is also unrivalled in the range of investments that can be selected, with two opportunities in particular worthy of a mention: the ability to purchase commercial property and the ability to purchase shares of the sponsoring company.

"With commercial property being a typical investment for small businesses, a common scenario is where the company directors purchase commercial premises for their company to operate from and make the rental payments back into its own pension scheme," explains Robert Graves. "Where several directors are involved, one SSAS can be more cost-effective than separate individual arrangements (for example SIPPs), and the common trust structure of the SSAS enables greater succession planning, providing the member trustees with more discretion over the type of property they wish to purchase and its ongoing management."

A SSAS has the ability to borrow to finance a property purchase, although the maximum borrowing (including any existing borrowing) cannot exceed 50% of the net value of the scheme assets. Meanwhile, in terms of purchasing shares of the sponsoring company, a SSAS can invest up to 5% of its net assets in shares in each sponsoring employer. However, it cannot invest more than 20% of its net assets in total in such shares.

### Retirement benefits

Of course, a diverse range of investment options is only one side of the equation; business owners and directors will also expect the widest possible choice when it comes to taking retirement benefits. SSAS does not disappoint here either, especially following the arrival of the new pension freedoms which allow even greater flexibility when accessing pension funds.

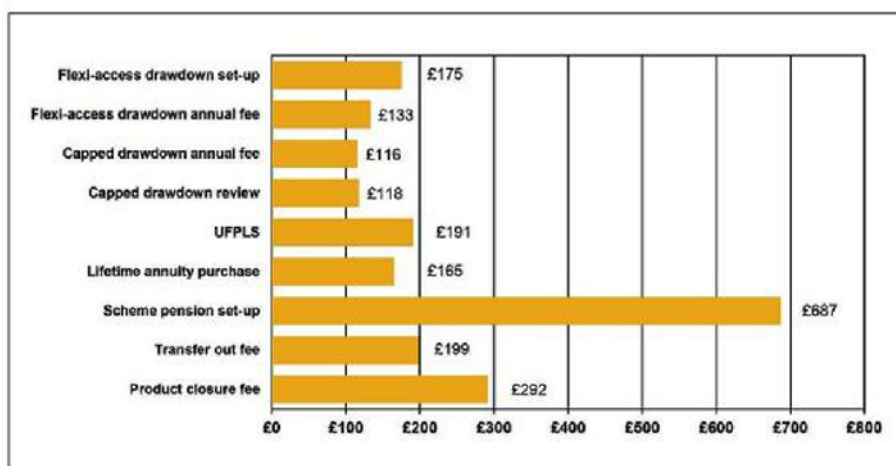
There had been fears that many pension providers would not be ready for the introduction of the new pension freedoms, but this is not a charge that can be levelled at the majority of the providers operating in the SSAS market. In our SSAS survey conducted in the weeks running up to the introduction of the new pensions regime, most SSAS providers were clear regarding which of the new pension freedoms they would be offering and the charges that would be incurred. Unfortunately, some were less forthcoming, and perhaps surprisingly, were undecided about their charging structure. However, of those SSAS providers who did respond to our survey all said that they would be offering the new options of flexi-access drawdown and Uncrystallised Funds Pension Lump Sum (UFPLS).

In the past, SSAS clients have typically taken income from the fund via income drawdown or a scheme pension, and going forward it is envisaged that this approach will continue, albeit more commonly via the new flexi-access drawdown option. "When it comes to taking retirement benefits, most of our SSAS customers keep the scheme in place and draw benefits directly from the fund," says Nigel Bennett. "We are fully prepared for the new flexible options and we anticipate that flexi-access drawdown will be the most popular option overall, but this will be an individual customer choice, typically guided by their financial adviser."

**Figure 2** provides a comparison of the average SSAS charges for the full range of retirement benefit options now available as well as average transfer and product closure costs. As the graph shows, the average set-up charge for flexi-access drawdown is £175, with an average annual fee of £133 for this option. For those looking to take advantage of UFPLS, the average charge is £191.

It is important to note that these averages mask some wide differences in the charges among SSAS providers and also the different pricing approaches adopted. For instance,

**Figure 2: Average SSAS Retirement Benefit Fees**



for those opting for flexi-access drawdown or those remaining in existing capped drawdown, some SSAS providers charge a different annual fee depending upon drawdown frequency. Furthermore, the task of comparing different SSAS charges is also not eased by the tendency of some providers to still quote charges on a "time cost" or "case-by-case" basis. For full details of the charges for each SSAS, please see pages 63-66.

### Relaxation of death benefit rules

The new pension freedoms alone should provide a boost to the popularity of all pension schemes, including SSAS, but it is the fact that they will be combined with a significant relaxation of the rules surrounding the taxation of death benefits that is generating the most excitement among SSAS experts. This is because succession planning is often cited as an important consideration among SSAS clients.

"A SSAS could be a natural fit for those wanting to retain funds within a pension wrapper for generations," says Andrew Roberts. "The incoming - and arguably, more generous than expected - reforms to the pension death benefit rules will greatly facilitate the cascading of pension funds down through the generations within a SSAS, which has long been a traditional pension funding 'wrapper' for family-run companies."

Most commentators agree that the removal of the punitive 55% tax charge on lump sum death benefits from April 2015 will strengthen the opportunities for SSAS to be used as an estate planning vehicle and aid the transfer of pension assets between generations for family-run businesses. Indeed, Xafinity has predicted that the new death benefit rules could see SSAS become the "ultimate intergenerational family tax planning vehicle", leading to the emergence of the "multi-generation" or "Family SSAS".

"The inheritability of pension funds on a tax favourable basis is a very positive change," says Robert Graves. "As a SSAS uses a

common investment fund into which all SSAS members participate and a popular investment is commercial property, which by its nature is an illiquid asset, the inheritability of funds will facilitate easier succession planning. Nominated beneficiaries could retain their inherited share of the fund within the SSAS as beneficiary flexi-access drawdown, and if income is required, they could withdraw the rental income derived from the commercial property with no income tax payable if the member died before age 75, or otherwise at their marginal rate of tax. Alternatively, they could take their share of the property as an in-specie payment, subject to the same tax consideration, although stamp duty will also be payable."

### Pension liberation fraud

While the new pension freedoms will open up plenty of exciting new opportunities, SSAS providers are also acutely aware that they will need to be on their guard to ward off the menace posed by pension liberation fraud. The fact that there is no longer a legislative requirement for a pensioner trustee has made SSAS a promising target for would-be pension liberation fraudsters.

"It is well-known in the industry that there has been some activity around this, with companies assisting individuals to establish a shell company as a sponsoring employer to establish a SSAS for transferring existing pension arrangements to, with the SSAS members being sole trustees," says Christine Hallett. "This effectively allows them to make decisions about investments and the assets. A number have been reported to Action Fraud and also to HMRC, who are now vetting new SSAS trust deeds and rules more closely than they have in recent years."

Perhaps most likely to fall victim to pension liberation fraud are orphan SSASs, who lack the guidance of a professional administrator to oversee their scheme. "Orphan SSASs, especially those who ditched their advisers some years ago and have run the SSAS themselves (or with limited accountants' help), are a huge issue and one that the



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investment scammers are already looking to take advantage of," warns Jeff Steedman. "Liberation and scam investments are much harder to achieve with a professional administrator, and the introduction of the HMRC 'fit and proper' person requirements should go some way to ensuring that SSASs have a professional administrator, as the requirements can be met by very few outside of the industry. Advisers also have a key role to play, as undoubtedly the extra protection of a regulated financial adviser to help guide clients through the benefits and investments maze is worth its weight in gold."

In an attempt to combat pension liberation fraud, last September HMRC implemented rules that require all scheme administrators to meet a 'fit and proper' person criteria. Under these requirements, an individual will not pass the 'fit and proper' person test if they do not have sufficient working knowledge of the pensions and pensions tax legislation to be fully aware and capable of assuming the duties and liabilities of the scheme administrator, or alternatively, if they do not employ an advisor with this knowledge.

However, while these 'fit and proper' person rules do add an extra layer of protection in the fight against pension liberation fraud, it is questionable whether they go far enough. "The Pensions Regulator's increased focus on the governance of defined contribution pension arrangements in recent times suggests that more formal oversight of such arrangements, including SSASs, will become more prescriptive," claims Andrew Roberts. "Ultimately, it may become mandatory again for every SSAS to have a Pensioner Trustee, or at the least, the involvement of professional pension practitioners, to ensure that the code of practice relating to adequate governance is fulfilled."

#### Another record year?

Whenever there is significant legislative change it is inevitable that winners and losers will emerge.

In the new pensions landscape most commentators expect SSAS to be firmly in the winner's camp, with the new pension freedoms and relaxation of the taxation of death benefits set to strengthen its status as the most flexible pension vehicle for business owners. As a result, the SSAS revival looks poised to continue.

"For SSAS providers there has always been a steady stream of new business, including scheme takeovers and orphan clients coming back into the fold," concludes Jeff Steedman. "The expertise is there and SSAS is gaining some well-earned publicity. Refreshed by the pensions death benefits opportunity, and the recovery of the commercial property market, 2015 should see yet another increase in new business levels."

## SSAS summarised: 5 key talking points

Five leading SSAS experts pick out some of the main challenges and opportunities in the SSAS market.



### 1. SSAS suitability

My view is that SSAS is not right unless there is a minimum of £200,000 invested, and that, of course, will rule out much of the population. I do feel some members of the public are being pushed into SSAS to avoid the regulatory issues that come with transferring to a SIPP. These people need protecting. Before 6 April 2006, SSASs could only be set up for employees of established trading companies, and that seemed sensible enough to me.

**Andrew Roberts, Partner and Head of SSAS, Barnett Waddingham**



### 2. Unnecessary transfer delays

Even though the HMRC Registered Scheme requirements now insist on the involvement of 'fit and proper' persons in the running of pension schemes, there is concern over the high degree of suspicion of SSASs still being demonstrated by life assurance companies and large pension schemes from which transfer values have been requested for payment into a SSAS. This is causing extensive delays and curtailing the freedom of choice for individuals.

**Robert Graves, Head of Pensions Technical Services, Rowanmoor Group plc**



### 3. Regulatory change

The SSAS has been around since the mid-seventies, and the rules around the SSAS have changed significantly over those years. As the SSAS stands at the moment it has a place in the pensions marketplace, but the challenges will be around regulation. Will the SSAS as an occupational scheme stay under the wing of The Pensions Regulator, or will it come under the FCA regime at some point in the future? The reputation of the SSAS is mixed and it has been linked as a vehicle that has been used for pension liberation, and to get access to some of the esoteric investments. The challenge must be how this fits with the spirit of the product, of HMRC and of the regulators.

**Christine Hallett, CEO, Carey Pensions UK**



### 4. Pension liberation fraud and investment scams

Over the past couple of years SSAS has attracted the unwanted attention of a small number who have sought to use the unregulated nature of such schemes to promote investment scams or liberation schemes, which has created an undeserved reputation for the product. Greater HMRC attention at the registration stage and a move by some banks to only accept new accounts involving Professional Trustees and/or Scheme Administrators, coupled with The Pensions Regulator's scorpion campaign, should weed out the unscrupulous, but we would like to see greater regulation in this area with a possible return of a requirement for HMRC approved Pensioner Trustees, or similar.

**Nigel Bennett, Sales & Marketing Director, InvestAcc Pension Administration Limited**



### 5. Intergenerational family tax planning

The changes to death taxes in the new legislation has opened the door for SSAS to become the intergenerational family tax planning vehicle of choice, enabling pension assets, now including commercial property, to be handed down through generations. With the right advice and planning, the mutually beneficial SSAS and employer relationship can flourish through commercial property purchase and leaseback and connected party loans, allowing generations of family-owned businesses to benefit.

**Jeff Steedman, Head of SIPP/SSAS Business Development, Xafinity SIPP Services**