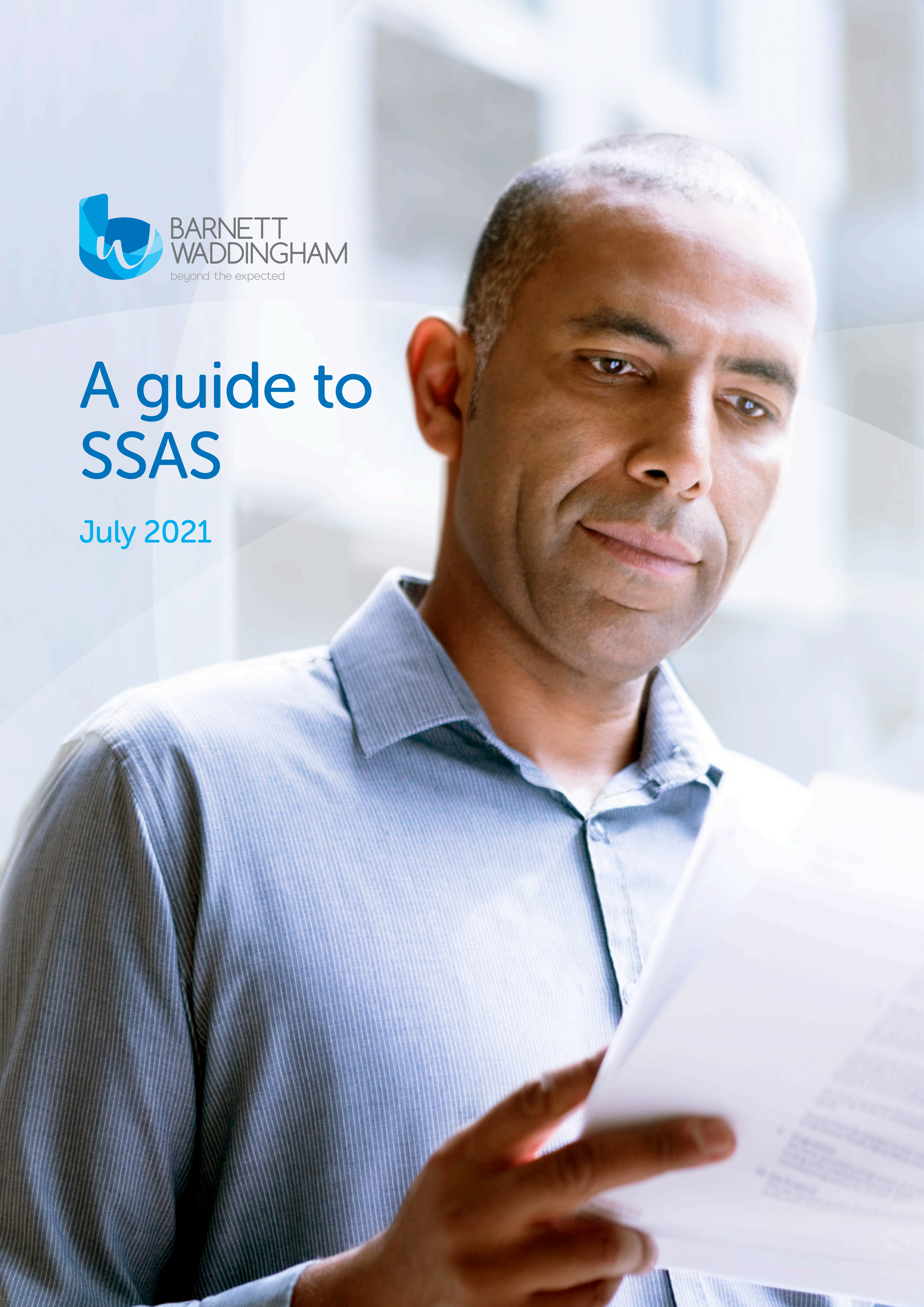
BARNETT WADDINGHAM
beyond the expected

A guide to SSAS

July 2021



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Introduction

A Small Self-Administered Scheme (SSAS) is a particular type of occupational pension scheme that is often used by business owners as a means of saving for retirement, whilst retaining more control over the use and investment of monies than is usually the case in other types of pension arrangement.

A SSAS is often used as a more flexible alternative to a Self-Invested Personal Pension (SIPP), particularly where there is likely to be more than one person saving for retirement.

How is a SSAS structured?

A SSAS is a specific form of trust, established by an employer, which complies with the requirements of the Finance Act 2004 (as amended from time to time) to qualify as a registered pension scheme. Each SSAS is registered with HM Revenue & Customs (HMRC) allowing it to have the same favourable tax treatment as any other registered pension scheme in the UK.

A SSAS is usually, but does not have to be, set up on a money purchase (or 'defined contribution') basis. This means that the benefits paid to its members are based on the value of their accrued funds built up as a result of contributions, transfers in and investment returns (less charges).

> One important feature of a SSAS is that its members should all be trustees and can direct how their pension monies are invested, within certain rules.

This means that a SSAS has many exemptions from pension legislation applicable to other pension schemes and so permits a greater range of investments and fewer administrative requirements than other occupational pension schemes.

What makes a SSAS different from other pension schemes?

If all members are trustees, they are more involved in the day-to-day administration of the pension scheme, which is why SSASs are termed 'self-administered'. 'Small' reflects the fact that there can be no more than eleven members in the SSAS.

A SSAS may interact with the sponsoring employer(s) in a number of ways. The trustees may lend money to, lease commercial property to, own an asset with, or even own shares in a sponsoring employer.

A SSAS is not tied to a particular provider: it is a scheme in its own right and the trustees can choose where to invest their monies, who will prepare financial statements and how to operate benefit payments.

Who can have a SSAS?

A SSAS is set up by an employer, usually for its business owners, directors or key personnel. Although there is no lower or upper age limit for members, there is a minimum age of 18 in order to act as a trustee. An employer may set up more than one SSAS.

Barnett Waddingham

Barnett Waddingham is proud to be a leading independent UK consultancy at the forefront of risk, pensions, investment and insurance.

We have a team of over 50 SSAS specialists spread over five offices: Amersham, Cheltenham, Glasgow, Leeds and Liverpool.

What does Barnett Waddingham offer to SSASs?

We offer a wide range of services for SSASs, so you can decide what aspects you need us for. We can meet with businesses interested in setting up a SSAS and their advisers, provide the trust documentation and other paperwork to establish the SSAS, register it with HMRC, provide a professional trustee to act alongside the member trustees, manage the day-to-day administration, organise retirement and death benefits and close down the SSAS once it has served its purpose.

What are your fees?

We generally charge on a time-cost basis, though there is a fixed fee for setting up a SSAS and a minimum annual fee where we act as professional trustee. Our charges would normally be met by the sponsoring company but fall upon the SSAS if the company fails to pay, or if there is no such company. Alternatively, the SSAS can meet the fees from the outset if this is desired.

What is your commitment to SSASs?

We have been involved in the self-administered pensions market for the whole of our history since 1989 and we remain a strong supporter of such pension arrangements. We continue to manage one of the largest portfolios of SSASs in the UK.

Can you provide investment or financial advice?

We are not regulated to provide investment and financial advice to either the trustees or the members. You may wish to seek your own investment and financial advice via your existing financial adviser.

Alternatively you can find details of advisers local to you at: www.findanadviser.org. Or you can contact the Personal Finance Society on 020 8530 0852.

We are happy to work with other professional advisers to implement investment decisions and strategies.

MoneyHelper

MoneyHelper is the new consumer brand from the Money and Pensions Service, bringing together the services previously provided the The Pension Advisory Service and The Money Advice Service. They also provide the Pension Wise service.

MoneyHelper offers a single place for people to go to be clear on their money and pension choices.

You can find more details of this service at moneyhelper.org.uk

Pension Wise

Pension Wise is a free and impartial service from MoneyHelper, a government backed organisation. They offer guidance face-to-face, over the phone and online.

You can find more details of this service at: www.pensionwise.gov.uk or by contacting them on 0800 138 3944.

Administration

How do I set up a SSAS?

Trust documentation is required which the employer and initial trustees will need to sign. We will provide this for you once you complete the application forms.

The trust will need a bank account to receive monies and we can also help with this.

The trust will need to be registered with HMRC before contributions or transfers are received. We will arrange this as part of the set up process.

Who can I appoint as trustees?

We recommend that all members be appointed as trustees to be exempt from onerous legal requirements for dealing with members who are not trustees. Where we are establishing a scheme, we also require that our professional trustee company is a trustee.

> Whilst this is not a legal requirement, it provides comfort to HMRC and you should benefit from having a trustee who is aware of the specific requirements that apply to pension trusts and ensure that any legislative changes are enacted swiftly and correctly.

A short guide to the role of a trustee to assist member trustees in understanding their requirements can be downloaded from our website at www.bwssas.co.uk.

What work is involved in running a SSAS?

The trust finances have to be managed, meaning that the trustees are responsible for dealing with income, expenditure and investment transactions. Further, there are specific reporting requirements that apply to pension trusts, such as notifications to members, reports to HMRC and dealing with The Pensions Regulator (TPR). Our trust company will deal with compliance and administration whereas the member trustees will deal with investment decisions.

Who would perform the day-to-day management?

The scheme administrator would deal with day-to-day management. The scheme administrator can be any person or company but it is usual for the trustees to carry out this role, which they may delegate to a managing trustee or a professional trustee.

> We act as the day-to-day HMRC registered Scheme Administrator for the great majority of our existing clients.

For all new schemes, or existing scheme takeovers, we will act as joint Scheme Administrator with the member trustee(s) and/or sponsoring employer.

How do I know what my pension fund is worth?

The trustees should ensure that there are financial statements prepared every year setting out how much the fund is worth in total, and supplement this by allocating the total fund between the members. We can assist with preparation of unaudited financial statements and allocations between members.

The financial statements can take the form of a simple balance sheet, more formal accounts or even audited accounts, depending on the trustees' requirements.

In between accounting periods, the scheme administrator can commission informal updates.

What if my circumstances change?

Any member can transfer their assets to another registered pension scheme or buy an annuity with their share of the SSAS fund, if they no longer want to be part of a SSAS. Members aged 55 or over can also choose to withdraw their whole fund, most or all of which will be subject to income tax.

> The SSAS can be wound up once all members' benefits have been transferred elsewhere or secured by the purchase of insured annuities.

There are costs involved in closing the trust and reporting its closure to the various regulatory authorities.

Where can I find out more about HMRC requirements?

The government issues guidance on pension scheme administration at:
www.gov.uk/business-tax/pension-scheme-administration

HMRC's 'Pensions Tax Manual' provides information for scheme members, scheme administrators, sponsoring employers and more technical details.

www.gov.uk/hmrc-internal-manuals/pensions-tax-manual

Contributions

How much can an employer contribute?

There is no specific salary-related limit to how much an employer can contribute, but the employer will only receive corporation tax relief on the contributions that are 'wholly and exclusively for the purpose of the business' i.e. are justifiable by reference to what the SSAS member does for the company.

However, income tax is charged to the member if total contributions from all sources exceed the Annual Allowance (AA) (which is £40,000 gross for 2021/22 or £4,000 gross for those who have flexibly accessed their pension rights).

Corporation tax relief is granted by the local HM Inspector of Taxes and can be spread across two or more tax years in certain situations.

Income tax is charged to the member if total contributions from all sources exceed the AA.

What are the limits for personal contributions?

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, together with any employer contributions, doesn't exceed your AA.

What are relevant UK earnings?

For most people, this is employment income taxable in the UK and self-employed income which is chargeable under Part 2 of ITTOIA 2005 (Income Tax (Trading and Other Income) Act 2005).

Should I make employer or personal contributions?

Employer contributions are paid gross directly from the company and so the gross funds are available immediately for investment and there is no National Insurance contributions applicable.

Personal contributions can be paid net of basic rate tax, if the scheme has been registered for 'Relief at Source', in which case the pension scheme administrator will need to reclaim any basic rate tax relief for which you are eligible from HMRC. Alternatively, personal contributions can be paid gross, in which case any tax relief would have to be claimed via self-assessment.

> For a small scheme such as a SSAS, paying gross personal contributions saves the administration of dealing with 'Relief at Source', which is designed for larger schemes.

What if I am a higher rate taxpayer?

If you are a higher rate taxpayer and only basic rate tax relief has been claimed by the scheme administrator on your net contribution, you can usually claim the balance of tax relief from HMRC through self-assessment.

Can contributions be made even though I am receiving retirement benefits?

Yes, although you cannot fund contributions by using your retirement lump sum (see page 22). Personal contributions made after you have attained age 75 do not attract tax relief.

Can I or my employer make up for previous years when no contributions were paid?

If you have been a member of any pension scheme during any of the previous three tax years and not contributed up to the relevant AA in those years, you may have an extra amount which you or your employer can contribute using 'carry forward' rules (provided that you have already contributed the maximum for the current tax year). These rules are complex and you should speak to your financial adviser if you think this may apply to you.

If you have 'flexibly-accessed' any pension rights on or after 6 April 2015, you lose any carry forward of unused allowances as well as being subject to the Money Purchase Annual Allowance (MPAA) as opposed to the AA (see page 30).

Can contributions be made for me if I have a form of Lifetime Allowance Protection?

Some people have registered with HMRC for protection against the Lifetime Allowance (LTA), which gives them exemption from the LTA Charge if they have Enhanced Protection (EP), or a higher LTA if they have Primary Protection (PP), Fixed Protection (FP), Fixed Protection 2014 (FP14), Individual Protection 2014 (IP14), Fixed Protection 2016 (FP16) or Individual Protection 2016 (IP16). Registration is closed for all of these, other than FP16 and IP16 for which there is no stated deadline.

> Contributions are only permitted under PP, IP14 and IP16: if contributions are made, the higher LTA is still maintained.

If you have EP, FP, FP14 or FP16, then the protection will be lost if you or your employer pay contributions. You should also not set up a new pension arrangement other than to receive a transfer from an existing pension arrangement. This includes setting up or varying life cover for your SSAS, (unless an Excepted Group Life Policy is effected).

More information about the LTA can be found on page 22.

Can contributions be paid in-specie in the form of property or shares?

Possibly, but you should seek specific advice before proceeding. In-specie contributions of this type are only tax efficient if carefully documented. There are additional costs involved with this type of contribution compared with making cash contributions.

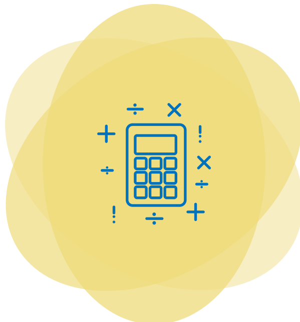
Will my Annual Allowance be subject to tapering?

Possibly. From 6 April 2016 legislation has been introduced to reduce the AA for 'high earners'. You are defined as a high earner if your 'adjusted income' in a tax year exceeds £240,000 and your 'threshold income' exceeds £200,000.

Where tapering applies, your AA will be reduced by £1 for every £2 of adjusted income above £240,000 up to a maximum reduction of £36,000 for those with 'adjusted income' of £312,000 and over in a tax year.

Can Barnett Waddingham give me advice on what contributions to pay?

No. We can provide you and your advisers with information about contribution rules and allowances, but not what level of contribution is suitable for you in your circumstances.



A high earner means 'adjusted income' in a tax year exceeds £240,000 and 'threshold income' exceeds £200,000

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Transfers

Can I transfer existing pension benefits into a SSAS?

Yes. Transfers can be received, even if you have drawn benefits from the other scheme. If you are in Capped Drawdown, there may be a reassessment of your maximum pension following transfer and so you should confirm the position with your adviser.

If you are not drawing benefits you may wish to check with your adviser whether there are any beneficial rights that you may lose on transfer, such as guaranteed annuity rates, life cover or higher lump sums on retirement.

There is no tax relief on a transfer from a registered pension scheme and transfers coming from other registered pension schemes do not count towards the AA.

Can I transfer in Protected Rights?

Yes. The distinction between Protected Rights and other pension monies disappeared with effect from 6 April 2012.

Can you give me advice on whether to transfer?

No. You may wish to seek your own regulated financial advice via your existing financial adviser. Alternatively you can find details of advisers local to you at: www.findanadviser.org or you can contact the Personal Finance Society on 020 8530 0852.

Obtaining financial advice in relation to a proposed pension transfer is now a legislative requirement for transfer values of £30,000 and above from a defined benefit pension scheme, or any scheme with safeguarded rights (such as a guaranteed annuity rate).

Can I transfer my existing SSAS to Barnett Waddingham?

Our trustee company could act as the professional trustee to your existing SSAS, replacing the incumbent professional trustee if there is one.

> You could just use us as an authorised practitioner for the scheme whereby we could provide guidance to the trustees on various matters without actually being appointed as a trustee.

Whilst this is potentially easier to set up, we do find that errors (which can result in severe tax penalties) are more likely to occur where there is no professional trustee.

Investments

How can the SSAS funds be invested?

The powers that SSAS trustees have to invest are set out in each individual scheme's trust deed. This may give the trustees the power to invest in most assets, but it should be noted that the overriding legislation imposes taxes to discourage certain investments.

This section sets out details of tax efficient investments, which are known as acceptable investments, and tax inefficient investments, known as non-acceptable investments.

Can the trustees hold cash?

Yes, and in fact a current account will be needed to take care of income and expenditure, to pay benefits and to receive contributions and transfers.

> Where we act as professional trustee, we prefer the SSAS to set up a current account with Cater Allen.

We have a good working relationship with them and both we, the trustees and other scheme advisers have the facility to view account balances and transactions up to the previous working day. Full details are provided before you set up the account. Other bank accounts may be used, though it is likely that our fees will be higher because administration becomes more time consuming if we are not dealing with our relationship bank manager.

What are the other acceptable investment options?

Acceptable investments include:

- bank and building society deposit accounts
- National Savings and Investments
- stocks and shares
- unquoted shares*
- commercial property and land
- Trustee Investment Plans and bonds
- Executive Pension Plans
- loans to sponsoring employers*
- loans to unconnected companies
- hedge funds
- unit trusts / OEICS
- investment grade gold bullion
- traded options**
- financial and commodity futures**
- copyrights

Investments can be made in the UK and, in principle, overseas, and can be made jointly with other investors if needs be.

Your SSAS can buy or sell assets from/to you, your family or your business, provided the transaction takes place at market value.

Whilst a scheme can hold an interest in a property investment LLP, income and capital gains are subject to income tax and capital gains tax respectively.

* subject to certain limits and criteria, detailed overleaf
** provided the maximum loss is limited

What are the non-acceptable investments?

Direct or indirect investment into the following non-acceptable assets should be avoided:

- residential property
- tangible moveable property*
- loans to any individuals or their relatives
- loans to connected companies
- investments that are viewed as trading activities

* Tangible moveable property includes:

- vintage cars and yachts
- plant and machinery
- works of art, stamps, antiques, fine wine

Ground rents relating to residential property are treated as residential property.

Residential property and tangible moveable property are classified as 'taxable property' and are subject to tax charges. More details are given overleaf.

Tax charges may also arise if loans are made to sponsoring employers that do not qualify as authorised employer loans, or if the SSAS uses too much of its funds to purchase shares in sponsoring employers.

What are the criteria for an employer loan?

An authorised employer loan has to satisfy certain key criteria in relation to amount, security, interest rate, term, and repayment terms.

Total employer loans cannot exceed 50% of the net assets of the SSAS at the time advances are made. Loans must be secured throughout by a first charge over the security of adequate value. The interest rate must be a minimum of 1% over base rate, although during periods of low interest rates, a higher rate might be viewed as more commercially appropriate.

> The term of an authorised employer loan should be no more than five years, and can only be extended once if the borrower is experiencing genuine financial difficulties, in which case dividends should not be paid in preference to servicing a loan.

An authorised employer loan must be repaid in equal instalments of capital and interest for each complete year of the loan. Failure to adhere to these terms could incur tax penalties for the SSAS and the borrower.

What are the limits on buying shares in the sponsoring employer(s)?

The SSAS can invest up to 5% of its net assets in shares of each sponsoring employer and can invest no more than 20% of its net assets in such shares in total.

The shares will need to be purchased at a price backed up by an independent valuation – which could be prepared by the company's auditor, but not by the company's in-house accountant.

Can the trustees borrow money to fund investments?

Yes. The trustees can borrow from any commercial lender of their choice (or from the employer or a SSAS member provided that this is done on 'arm's length' terms).

The maximum borrowing (including any existing borrowing) must not exceed 50% of the net value of the SSAS each time any borrowing takes place.

What are the rules for buying the premises owned by my company?

The transaction would have to happen at market value as though it were an arm's length transaction, and would go through a proper conveyance. The usual Stamp Duty Land Tax and VAT considerations would apply. To demonstrate the market value, there should be an independent property valuation supporting the transaction price, undertaken by a professionally qualified surveyor.

What are the rules for leasing premises to my company?

The lease terms would have to reflect commercial terms available in the market and this requires an independent rental valuation supporting the annual rent and term of the lease.

What is an indirect holding of taxable property?

If a SSAS holds an interest in an entity, such as owning share capital of a company, which itself owns taxable property, then the SSAS is treated as owning the whole or part of that taxable property.

What are the consequences of investing in taxable property?

If a SSAS is holding taxable property, either directly or indirectly, then there are tax charges on the purchase price, tax charges on the income (or deemed income) and tax charges on the capital gains.

These tax charges outweigh the benefits of getting tax relief on contributions to pension schemes and therefore ownership of taxable property should be avoided.

Are there any exemptions of indirect holdings of taxable property?

Indirect investments held through 'genuinely diverse commercial vehicles' will not be subject to tax charges when held as a SSAS investment. HMRC lists three categories of genuinely diverse commercial vehicle: UK Real Estate Investment Trusts (REITS), Trading Concerns and 'other kinds of vehicle'. Specific conditions still need to be met and so specialist advice should be taken.

What if I have an existing SSAS which already holds taxable property?

Transitional protection may be available in certain circumstances for holdings owned by a SSAS prior to 6 April 2006, but will be lost if, for example, that taxable property is added to or improved, or transferred to a different pension scheme.

Indirect investments held through 'genuinely diverse commercial vehicles' will not be subject to tax charges when held as a SSAS investment.

Can I use assets owned by the SSAS for my personal use?

No. As most assets that might be suitable for personal use qualify as taxable property (e.g. holiday homes and cars), it is unlikely that this opportunity will occur.

What is meant by residential property?

HMRC sets out that residential property can be in the UK or elsewhere and is:

- a building or structure that is used or suitable for use as a dwelling;
- any related land that is wholly or partly the garden for the building or structure;
- any related land that is wholly or partly grounds for the residential property and which is used or intended for use for a purpose connected with the enjoyment of the building;
- any building or structure on any such related land;
- in limited situations a hotel, which includes an inn, or similar accommodation, will be counted as taxable property though this will usually only be where it provides accommodation rights such as timeshare; and
- a beach hut.

Are there any exemptions as to what is residential property?

HMRC has clarified that a building used for any of the following purposes is not residential property:

- a dedicated children's home or other institution providing residential accommodation for children;
- a hall of residence (not flats) for students;
- a home or other institution providing residential accommodation with personal care for persons by reason of old age, disability, past or present dependence on alcohol or drugs or past or present mental disorder;
- a hospital or hospice; and
- a prison or similar establishment.

If a building is not currently in use and was last used for one of the non-residential purposes set out above, it is not treated as residential property. If the building has never been used and is more suitable for one of the uses specified above than for any other purpose it is not treated as residential property regardless of its suitability for use as a dwelling. Certain 'job-related' accommodation will not be treated as residential property.

What is 'job-related' accommodation?

There are two categories of 'job-related' accommodation.

The property is (or, if unoccupied, is to be) occupied by an employee who:

- is neither a member of the pension scheme nor connected with such a member,
- is not connected with the employer, and
- is required as a condition of their employment to occupy the property.

An example is a caretaker's flat.

Secondly, the property is (or, if unoccupied, is to be):

- occupied by a person who is neither a member of the pension scheme nor connected with such a member, and
- used in connection with business premises held as an investment of the pension scheme.

An example is a pub with the landlord living above.

How do the trustees arrange for investments to be made?

The member trustees select the investments and liaise with the investment provider (or their investment adviser) to obtain appropriate investment forms for a trust to invest. These forms should be completed and sent to the professional trustee (if applicable) for verification, and countersignature.

Are there any penalty tax charges relating to investments?

Yes, if an unauthorised payment is made, (for example, if there is excessive borrowing, if investment transactions are not carried out at market rate, or if rent is not paid when due by a connected tenant). Where we are professional trustee, we minimise the possibility of an unauthorised payment being made by becoming a mandatory co-signatory on the pension scheme bank account.

The scheme administrator must report all unauthorised payments to HMRC and the tax charge on you personally/ your company would usually be 40% (or 55% in excessive cases) of the unauthorised payment amount, and your scheme would also be subject to a further minimum tax charge of 15% of the unauthorised payment amount.

Are there any other general investment points to be aware of?

Pension schemes could be subject to tax on trading profits where HMRC deems the pension scheme to be trading. There is no definition of what constitutes trading, but investing the fund in such a way that the fund is operating as an investment company might incite this.

How are the investments cashed in to pay benefits, fees or other costs?

The member trustees should give instructions to sell investments, which would be countersigned by the professional trustee (if applicable).

Can Barnett Waddingham give the trustees advice on investments?

No. You may wish to seek your own regulated financial advice via your existing financial adviser. Alternatively you can find details of advisers local to you at: www.findanadviser.org or you can contact the Personal Finance Society on 020 8530 0852.

Drawing Benefits

When can I take benefits?

You can start to take benefits from age 55. If you are in serious ill health, or in a recognised qualifying occupation, or have a protected pension age, you may be able to take benefits earlier.

How are my benefits calculated?

Your benefits are based on the value of your share of the scheme assets at your benefit date, as agreed between you and the trustees.

What is the maximum amount of benefit I could have?

There is no limit on the overall value of your apportionment within the SSAS. However, if the total value of all your registered pension schemes exceeds the LTA, which is £1,073,100 for the 2021/22 tax year, then a tax charge may apply on the excess amount above the LTA. Your LTA may be different if you have a form of LTA protection, evidenced by a certificate or reference number issued by HMRC (for example, Fixed Protection).

If the total value of all your registered pension schemes exceeds the LTA, which is £1,073,100 for the 2021/22 tax year, then a tax charge may apply on the excess amount above the LTA.

What is the Lifetime Allowance?

The LTA is the total amount you can save into pensions in your lifetime while still getting tax relief. As stated overleaf, the standard LTA is £1,073,100 for the 2021/22 tax year.

If you go over the LTA you will pay a tax charge on the excess when you draw out your savings as cash or pension.

Your SSAS entitlement will be assessed against the relevant LTA when you take benefits, and again when you buy an annuity, or reach age 75. Each time you take new benefits a portion of your LTA is used up.

> Where you exceed the LTA you pay tax on the excess amount called the 'Lifetime Allowance charge' at 55% if taking the excess as a lump sum, or at 25% if you take it as income. (If you take it as income you will also pay tax on it at your marginal Income Tax rate).

The trustees/scheme administrator must deduct the LTA charge before paying any benefits. If you have a form of LTA protection, (for example, Enhanced Protection), this may serve to reduce or eliminate any LTA charge that would otherwise be payable.

If you die leaving untouched pension savings that exceed the LTA and they have not already been assessed against it, then your nominated beneficiary will be liable for the extra tax charges on the amount that exceeds the LTA. This applies whether you die before or after age 75. Pension funds can normally pass tax-free to nominated beneficiaries if you die before age 75 (see page 33).

Can I have a tax-free lump sum?

This is now known as a 'pension commencement lump sum'. You will usually be able to take up to 25% of your scheme entitlement (or 25% of your available LTA, if lower) as a pension commencement lump sum, which is tax-free. There may be a tax charge levied by HMRC if you 'recycle' this lump sum to increase your normal pension contributions.

If you have registered with HMRC for Enhanced, Primary, Fixed or Individual Protection, or have a scheme-specific protected lump sum, then different rules apply on the amount of your pension commencement lump sum and you should seek specific confirmation from the SSAS Trustees or Scheme Administrator. If you have Enhanced Protection for example, you may be limited to a lower percentage of your unrestricted fund, or you may be subject to the standard rule of no more than 25% of the LTA.

Can I receive an income?

Yes, by purchasing an annuity, and/or by drawing an income directly from your fund (via 'Capped Drawdown' or 'Flexi-Access Drawdown') and/or by taking one or more part-taxed cash sums (an 'Uncrystallised Funds Pension Lump Sum') and/or by having the trustees provide you with an inflexible income ('Scheme Pension').

The annual income from an annuity is decided by the insurance company you select to provide the annuity. The maximum annual income under Capped Drawdown is calculated by the Scheme Administrator using government-issued tables. However, selecting this income option is no longer possible from 6 April 2015.

With Flexi-Access Drawdown, however, there is no annual income limit and you may decide how quickly you draw down your pension fund.

The level of Scheme Pension is decided by the trustees. Actuarial advice is recommended before doing this.

When can I purchase an insured annuity?

You can purchase an insured annuity (that is, a guaranteed income for life) at any time after you are able to access benefits with all or part of the value of your SSAS entitlement (usually from age 55, under current legislation). You would choose the insurance company. Annuity purchase will trigger a check against the prevailing LTA, (see 'What is the Lifetime Allowance?' above).

There are a number of different types of guaranteed incomes for life, including:

a. An 'escalating' guaranteed income increases over time to keep up with the increasing cost of goods and services, known as inflation. Your income will start at a lower level and will increase by your chosen percentage each year;

b. A 'level' guaranteed income will remain fixed. Your income will start at a higher level than an 'escalating' guaranteed income, but as you get older, inflation may increase, which means that you would buy less with the same income;

c. A guaranteed minimum payment term can be incorporated, even if you do not survive to the end of that term;

d. A guaranteed income based on your medical history and lifestyle factors, (for example, if you smoke, have high blood pressure, are on prescribed medication or have a medical condition). You may be eligible for an 'enhanced' guaranteed income (also known as 'impaired', 'lifestyle' or 'underwritten' annuity). These tend to pay a higher amount of income on the basis that your life is expected to be shorter, and so the income will not be paid out for as long; and

e. A guaranteed income that provides an income just for you is known as a 'single life annuity'.

Some guaranteed incomes can provide an ongoing income for a nominated beneficiary should you pre-decease them. These are known as 'joint life annuities' and provide a slightly lower income initially, but payments will continue to your dependant after you die, and/or for a guaranteed period (see (c) above).

You could also consider protecting your annuity payments through 'value protection'. Value protection is an option that, if you die without having received the full value of your pension fund, returns a lump sum (minus total gross payments made and tax). As a result, value protection gives the ability to protect up to 100% of the original amount used to purchase the annuity.

> Therefore, an annuity will normally pay you an income for the rest of your life. It provides certain security over the income for your life rather than the flexible, but not guaranteed, future benefits provided by Flexi-Access Drawdown (see below).

If you purchase an annuity with the full value of your scheme entitlement, you will have no further benefits in the SSAS in your own name, but may be able to continue as a trustee, with the agreement of the other trustees.

It is important to 'shop around' to find the best annuity for you, as you would with any other purchase, as it is worth comparing what each annuity provider can offer.

Please note that Barnett Waddingham is not an annuity provider.

The Pension Wise website provides more information on shopping around at www.moneyhelper.org.uk/en/pensions-and-retirement/taking-your-pension/annuity-options-and-shopping-around

How does Flexi-Access Drawdown work?

From 6 April 2015, the method of providing drawdown income for those not already in drawdown is from a Flexi-Access Drawdown fund.

Flexi-Access Drawdown allows you to draw pension income without limit. In other words, you are not restricted by the annual Government Actuary's Department rate mentioned opposite for Capped Drawdown.

Funds designated as available for Flexi-Access Drawdown will remain invested in the pension arrangement and withdrawals can be made with payments being taxed as income. Tax should be deducted at source under PAYE.

> There is no limit, other than availability of funds, on how much can be drawn out each year, which includes the possibility of drawing out the entire fund in one taxable instalment.

If this is the intention when funds are first accessed, then an Uncrystallised Funds Pension Lump Sum (UFPLS) may represent a more appropriate method of accessing funds (see 'How does an Uncrystallised Funds Pension Lump Sum work?' below).

Because there is no annual income limit, (as with Capped Drawdown) there is also no concept of a 'pension year', or a need to undertake three-yearly, or annual, income recalculations. There is also no requirement to purchase an annuity at any stage, although this remains an option.

How does Capped Drawdown work?

If you commenced Capped Drawdown before 6 April 2015, you are able to continue with it after that date, or voluntarily convert it to Flexi-Access Drawdown (see above).

It is not now possible to set up a new Capped Drawdown fund (other than for transfers of existing cases), or a new 'Flexible Drawdown' fund, (a former drawdown option available prior to 6 April 2015).

Capped Drawdown allows you to retain full flexibility over your chosen investments in the scheme.

The maximum annual income amount is calculated in line with the annuity income your fund would otherwise provide, using tables provided by the Government Actuary's Department (GAD). The maximum income is set at 50% higher than the tabled annuity income rate.

These rates take account of your age and yields on fixed interest government stock ('gilts') at the time of the calculations. The rates are not related to the income the SSAS receives from its investments and this can result in the amount available for maximum Capped Drawdown being less than the income received from high-yielding assets.

The maximum income is calculated when each part of your fund comes into payment and again at three yearly intervals prior to age 75, and annually thereafter.

> You can request an interim review on an anniversary of the date you began Capped Drawdown and this might be useful to ensure your chosen income is sustainable and will not deplete your fund. There is no minimum income payment.

It is up to you to decide if and when you use up your maximum income allowance during any pension year, but you should not exceed the maximum. If you do exceed the maximum, you will automatically convert to Flexi-Access Drawdown, which then has implications for any future contributions into the scheme (see 'What is the Money Purchase Annual Allowance?' (MPAA) below). You cannot carry forward any unused contribution amounts to subsequent tax years once you are subject to the MPAA.

Although not required by legislation, you should regularly review your chosen level of income if you intend for your SSAS to provide a sustainable pension in the future.

How do I convert from Capped Drawdown into Flexi-Access Drawdown?

An existing Capped Drawdown fund can be converted to a Flexi-Access Drawdown fund on or after 6 April 2015 by:

- notifying the scheme administrator and receiving acceptance from them; or
- drawing more than the current maximum capped amount; or
- where there is a transfer, notifying the scheme administrator of the receiving scheme as part of the transfer process. Whilst converting to Flexi-Access Drawdown will save the cost of pension reviews, (which could include the cost of updating property valuations), it does come with the downside of invoking the MPAA, and so may not be suitable for everyone.

> If there is an existing Capped Drawdown fund in place on 5 April 2015, any additional unvested funds requiring to be drawn after 5 April 2015 can be allocated to the existing Capped Drawdown fund rather than to a new Flexi-Access Drawdown fund.

This would enable the pension commencement lump sum and Capped Drawdown income to be paid without triggering the MPAA.

How does an Uncrystallised Funds Pension Lump Sum work?

This option constitutes an alternative way of drawing out, in one go, all of the funds being accessed, when compared with receiving a pension commencement lump sum and then asking for the whole of a Flexi-Access Drawdown fund to be extracted.

The differences from the pension saver's point of view are hard to spot, but relate largely to the administration of the payments.

The tax-free cash element of the Uncrystallised Funds Pension Lump Sum (UFPLS) is usually 25% (it may not be if paid after age 75 and there is insufficient LTA available). As such, an UFPLS is, in almost all cases, taxed as income on 75% of it, with the remainder tax-free.

However, the date of the LTA calculation for an UFPLS must be the date on which it is actually paid. This could delay the payment date, if the funds are invested in assets whose final value cannot be ascertained until the cash equivalent is received, (for example, shares).

In addition, the payment of an UFPLS is treated as flexibly accessing pension, and so will trigger the MPAA if this has not already been triggered by an earlier event (see 'What is the Money Purchase Annual Allowance?' below).

Who is eligible for an Uncrystallised Funds Pension Lump Sum?

The simplified treatment of tax-free cash means an UFPLS is not available to all pension savers.

In fact, the legislation states that an UFPLS cannot be paid from funds that:

- are already in drawdown; or
- would trigger a LTA excess tax charge; or
- are designated as being disqualifying pension credits; or
- relate to a member with lump sum protection (see below).

Furthermore, the UFPLS must be paid on or after 6 April 2015 in respect of a money purchase arrangement, and can only be paid when the member has reached normal minimum pension age (or an earlier age, if the ill-health condition applies).

The lump sum protection that is relevant here is the protection of lump sum rights of more than £375,000 for members with either Enhanced Protection or Primary Protection.

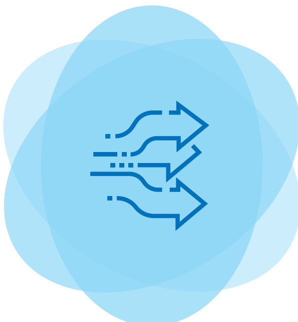
It also includes members whose maximum remaining pension commencement lump sum is less than 25% of their fund, where they have an enhanced LTA, as a result of Primary Protection, or various other reasons.

Members entitled to lump sums in excess of 25% of their fund, but less than £375,000, may effect an UFPLS, but would find their tax-free element restricted to 25% of the fund.

Can I mix my benefit options?

Yes. You can choose a combination of the benefit options over time or over your total SSAS fund, whichever suits your needs.

For example, you could normally take 25% of your SSAS fund tax free, use half to buy a guaranteed income for life, and take the remaining quarter as a flexible income.



When choosing your options, you need to consider how much income you require now and for the rest of your life. You also need to consider how important it is to you that this income is guaranteed.

What is the Money Purchase Annual Allowance?

If you flexibly access your pension, such as by receiving income from a Flexi-Access Drawdown fund or receiving an UFPLS, the consequence is that you will be subject to more restrictive rules on how much you can save tax-efficiently within a money purchase pension fund for the rest of your life.

The restriction was brought in to forestall abuse of the new pension freedoms, which enable salary to be paid into a pension plan and then drawn out, more or less immediately, with a view to saving income tax.

> The standard AA is £40,000 gross per tax year and you can also 'carry forward' up to three previous tax years of unused contributions, where available.

If you flexibly access your pension, a reduced AA, known as the MPAA then applies to subsequent contributions to a money purchase pension arrangement.

The MPAA is £4,000 gross per tax year, with effect from 6 April 2017, and, furthermore, the ability to carry forward any unused allowances is lost. However, those members who have defined benefit pension arrangements (for example, a 'final salary' occupational pension scheme) will still be able to accrue up to a further £36,000 gross worth of benefits in those arrangements per tax year, on top of the £4,000 gross MPAA. Please note that it is the first payment of income, rather than the establishment of a Flexi-Access Drawdown fund that triggers the application of the MPAA (unless you were already in Flexible Drawdown prior to 6 April 2015).

This means that the pension commencement lump sum can be paid in isolation, and a Flexi-Access Drawdown fund set up, without causing a reduction in the AA – until such time as income is drawn from the Flexi-Access Drawdown fund.

The MPAA is also triggered for payments from a pre-6 April 2015 Capped Drawdown arrangement that exceeds the cap, and in certain other limited circumstances.

If you exceed the MPAA a tax charge is made, which claws back any tax relief that was given at source. If your earnings in the year are below the MPAA then tax relief on defined contribution pension savings is limited to 100% of your earnings, (or £3,600 gross if you have no earnings, and the SSAS operates on a 'Relief at Source' basis, which, in practice, is rare).

How does Scheme Pension work?

Scheme Pension can be offered by the SSAS trustees, usually as an alternative to purchasing an annuity or going into Flexi-Access Drawdown. The trustees will offer you either a pension income from the trust, or a fund to purchase an annuity.

We strongly recommend that the trustees seek actuarial advice on the level of Scheme Pension to offer. It is then up to the member to decide whether to accept the Scheme Pension offer.

The Scheme Pension is designed to be paid to you on a regular basis for the rest of your lifetime, and the trustees will decide how to invest the fund backing your Scheme Pension.

Scheme Pension from a SSAS cannot be converted later into a Flexi-Access Drawdown fund. The only 'exit route' is by purchase of an annuity, and transfers out of the SSAS may be limited.

Is pension income subject to tax?

Pension income, whether from an insured annuity, Capped Drawdown, Flexi-Access Drawdown or Scheme Pension, is treated as earned income and taxed under the Pay-As-You-Earn (PAYE) system.

A PAYE scheme should be set up for the SSAS in its own right and we can assist the trustees in effecting this. The PAYE administration must comply with HMRC's Real Time Information (RTI) requirements. Gross pensions cannot be made directly to members.

Pension income is not subject to National Insurance.

What about pension scams?

Beware of pension scams; for example, people contacting you unexpectedly about an investment or business opportunity that you've not spoken to before. You could lose all your money and face charges of up to 55% and extra fees. Speaking to Pension Wise or the new Money and Pensions Service or dealing with a financial adviser can help minimise the risk of falling victim to a scam and from 9 January 2019 a 'pensions cold-calling ban' has been introduced, with potential fines of up to £500,000 for companies that break the rules. For more information on how to protect yourself from scams, visit the Financial Conduct Authority's "ScamSmart" website: www.fca.org.uk/scamsmart

Do I have to purchase an insured annuity when I reach age 75?

No. Your benefits are checked against the LTA at age 75 and any excess over the LTA may be subject to tax.

Can Barnett Waddingham give me advice on what benefits to take?

No. Our client managers will be able to detail the various benefit options available to you, but they will not be able to advise which option is the best for your personal circumstances.

We are happy to work with your existing advisers to implement any decisions you have made.

Where can I seek help?

There are a number of ways that you can find out more about your pension options:

- Pension Wise - the free and impartial Government service (see 'Where can I seek guidance?' below) www.pensionwise.gov.uk (0300 330 1001)
- Money and Pensions Service - a body sponsored by the Department for Work and Pensions to ensure people have access to information and guidance to make effective financial decisions.

  MAPS provide the MoneyHelper and Pension Wise services: contact@maps.org.uk (0115 965 9570)
- A financial adviser: The Personal Finance Society provides an online directory of regulated advisers: www.findanadviser.org

Where can I seek guidance?

Pension Wise is a free, impartial government service that helps you understand what you can do with your pension fund. It offers guidance on the Pension Wise website about the options for taking your pension fund and can help you understand the tax implications.

If you are aged 50 or over, it also offers free guidance appointments over the telephone or face-to-face, where you can talk through these options, ensuring you have the information you need to make the right decision for you. Pension Wise will not recommend any products, or tell you what to do with your money.

Death Benefits

What has changed since 6 April 2015?

The death benefits that can now be provided from a SSAS are more tax-efficient and available to more classes of beneficiary, following the introduction of the Taxation of Pensions Act 2014 and the Finance Act 2015.

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

The key point is that where a SSAS member dies under age 75, their beneficiaries (in most circumstances) will be able to receive any remaining pension savings completely free of tax. There are, of course, caveats to this general statement, such as availability of the member's LTA, which are explained below.

Therefore, 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 as a tax-free pension. Lump sum payments should also 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, lump sums paid to individuals will be taxed at the recipient's marginal rate of income tax, whereas lump sums paid to non-individual entities (for example, a trust) will be subject to a 45% tax charge, deducted at source by the Scheme Administrator. Pensions will be taxed at the recipient's marginal rate of income tax.

Any tax must be paid to HMRC in cash and SSAS trustees should ensure they have adequate plans or provision to settle this liability.

You are able to nominate one or more non-dependants to receive your death benefits instead of, or in addition to, your dependants.

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

Please note that any dependant receiving a drawdown pension that was set up before 6 April 2015 will continue to have their withdrawals taxed as earned income.

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 (see below).

Who decides who receives death benefits?

Our SSASs are set up as discretionary trusts, which means that death benefits paid from them are paid at the discretion of the trustees, and so should not suffer Inheritance Tax.

Note that where there have been unusual contributions in the two years prior to death, HMRC may determine that contributions have been paid to deliberately avoid Inheritance Tax, and so seek to include the value of those contributions in the value of the deceased's estate.

The new death benefits taxation regime means that completing an Expression of Wishes form, and then keeping that form up to date, has become increasingly important; despite the fact that these forms are not legally binding. Maintenance of a comprehensive, and contemporaneous, Expression of Wishes form will greatly help the trustees decide who should receive death benefits.

What tax is now payable on lump sum death benefits?

The tax applicable to lump sum death benefits has reduced for payments made on or after 6 April 2015, even if death occurred before that date.

If the member dies before reaching age 75, then lump sums are now paid tax-free (to an individual, trust, or non-individual recipient) provided payment is made within two years of death.

Payments made to individuals outside of this time frame are subject to the recipient's marginal rate of income tax and are paid to them as pension income, via PAYE. Funds not crystallised by the member prior to their death are tested against the member's available LTA, with any excess taxed at 55%.

Lump sum death benefits paid to a trust, or non-individual recipients outside of this time frame will, however, be subject to a 45% tax charge deducted by the scheme administrator at source, and will not be paid via PAYE.

If the member dies having reached age 75, lump sum death benefits paid to individuals are also subject to the recipient's marginal rate of income tax and paid to them via PAYE.

Lump sum death benefits paid to a trust, or non-individual recipients where the member dies on or after their 75th birthday will be subject to a 45% tax charge deducted by the scheme administrator at source, and not paid via PAYE.

Where death benefits are paid to a trust, income and capital gains tax on investments within the trust will be taxed in the normal way, and a periodic Inheritance Tax charge may also apply, in the case of a discretionary trust.

However, no inheritance tax or income tax should apply to later capital payments made to a beneficiary.

If a lump sum death benefit is paid from a drawdown fund relating to a beneficiary such as a dependant, rather than the original member, then the tax position depends on the age of the beneficiary on their death.

What happens if I die whilst receiving an income from an annuity policy?

The benefits from an annuity policy will depend on the features built into the policy when it was taken out. They could include a surviving spouse's pension and/or a continuation of the pension for the guaranteed term decided at outset.

Whereas the Taxation of Pensions Act 2014 deals with the taxation of lump sum death benefits and drawdown death benefits under the new regime (see below), the Finance Act 2015 sets out the death benefits potentially available under lifetime annuities, with effect from 6 April 2015.

As with all options available to determine the 'shape' of an annuity, the annuitant must select which death benefits are required at the point of purchase.

These include:

- survivors' annuities - from 6 April 2015 it is possible for these to be paid to nominees and successors as well as to dependants (unless the annuitant died before 3 December 2014 – in which case, the 'dependants-only' restriction will continue to apply);
- ongoing annuity payments under a guaranteed payment period (where the period is no longer restricted to ten years for annuities purchased on or after 6 April 2015); and
- 'value-protected' lump sums - or lump sums payable in respect of any remaining guaranteed payments up to the value of £30,000.

Annuity payments to a survivor (and payments under a guaranteed payment period) may be subject to an income tax exemption where all of the following are true:

- the member's annuity payments started on or after 6 April 2015; and
- the member died on or after 3 December 2014; and
- the member died under age 75.

Lump sum payments (either 'value protection' or lump sums payable in respect of any remaining guarantee payments up to the value of £30,000) may also be paid tax-free, provided:

- the member's annuity payments started on or after 6 April 2015; and
- the member died under age 75; and
- the payment was made within two years of the member's death.

Otherwise, and with effect from 6 April 2016, the lump sum is taxed at the individual recipient's marginal rate of income tax and paid via PAYE.

What happens if I die whilst in Capped Drawdown or Flexi-Access Drawdown?

The value of your share of the SSAS fund will be available to your beneficiaries.

The classes of individuals that can receive drawdown pension death benefits have been extended with effect from 6 April 2015.

Those who benefit from a drawdown pension set up on the death of a member may themselves further nominate individuals to continue to receive a pension, following their death.

As such, a member may have dependants who can receive pension income on the member's death. The member may also nominate individuals (called 'nominees') to receive income. On the death of a dependant or nominee, pension income can be set up for their nominated beneficiaries (called 'successors'). On their death, another successor can inherit the remaining pension fund, and this process can continue down through the generations, if and until the funds are exhausted.

> The Scheme Administrator has to establish which individuals qualify as dependants, nominees or successors. Only dependants, nominees and successors can be set up with a drawdown fund. Neither trusts nor charities can receive drawdown income.

Withdrawals from a drawdown fund are taxed as earned income, but there is an exemption from income tax if:

- the member or previous recipient died before age 75; and
- the drawdown fund was set up within two years of the member's death.

If these conditions are not met, then income tax is payable as normal.

The two-year window only applies on the member's death, (not on the subsequent death of a dependant, nominee or successor).

As previously noted, income tax continues to apply to those dependants already in receipt of taxed drawdown income prior to 6 April 2015.

Where a fund is passed to a successor on the death of a dependant or nominee, the tax position of the payment of the fund to the successor depends on how old the dependant or nominee were when they died.

If the drawdown fund is set up from funds that the member had not yet crystallised, then there is a test against the member's available LTA, with any excess funds subject to a 25% tax charge.

What happens if I die with uncrystallised funds?

Where a member dies under age 75 with uncrystallised funds and insufficient LTA, and the funds on death are used to provide a dependant's Flexi-Access Drawdown (FAD) within two years of the member's death, the dependant will not pay income tax on their FAD withdrawals. This is a more tax-efficient use of the funds in excess of the deceased member's LTA.

How do you define who is a dependant, nominee, or successor?

A dependant is defined as:

- the deceased member's spouse or civil partner;
- a child under the age of 23*;
- a child aged over 23 if they suffer from some form of impairment; or
- an individual who was financially dependent on the deceased member.

* Legislation was introduced in September 2016 to allow the child to continue to receive their drawdown pension beyond age 23.

A nominee is defined as:

- an individual other than a dependant, who has been nominated by the member or by the Scheme Administrator.

Please note that the Scheme Administrator cannot name a nominee whilst a dependant of the deceased member remains alive.

A successor is defined as:

- someone nominated by a beneficiary* of the member to be considered for a successor's flexi-access drawdown fund on the death of the beneficiary.

* That is, a dependant, nominee or another successor

A successor can be nominated by the Scheme Administrator, but only where there are no individuals or charities nominated by the beneficiary.

A successor who is also a dependant is treated as a successor, rather than as a dependant.

What happens if I die and I am receiving Scheme Pension?

The benefits paid will depend on the death benefits agreed with the trustees as part of their Scheme Pension offer to you. This may include continued payment of income for the remainder of a set term or payment of a dependant's or nominee's income.

Does my SSAS fund form part of my estate on death?

No. As explained above, the SSAS is a trust in its own right. The value of your benefits should, therefore, not normally be included in the value of your estate.

Disclosure

The Pensions Regulator

A SSAS with more than one member is required to register with The Pensions Regulator (TPR). TPR keeps up to date records of all schemes so that former members can keep track of which scheme now has the liability to provide their benefits. Triennial returns are provided to TPR by the trustees.

The address of TPR is:

Napier House
Trafalgar Place
Brighton
BN1 4DW

www.thepensionsregulator.gov.uk

Money and Pensions Service

The Money and Pensions Service (MAPS) is a body sponsored by the Department for Work and Pensions to ensure people have access to information and guidance to make effective financial decisions.

MAPS provide the MoneyHelper and Pension Wise services.

moneyandpensionsservice.org.uk

contact@maps.org.uk

01159 659570

The Pensions Ombudsman

If a member of the SSAS is dissatisfied with the information that has been received or has an unresolved query about his or her pension entitlement, the member may ask for assistance from the dispute resolution team at the Pensions Ombudsman (PO).

The Ombudsman has 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, individuals are strongly advised to discuss any problems with the SSAS trustees in the first instance.

The address of the PO is:

10 South Colonnade
Canary Wharf
London
E14 4PU

www.pensions-ombudsman.org.uk

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beyond the expected

www.barnett-waddingham.co.uk/ssas

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

info@barnett-waddingham.co.uk

0333 11 11 222