

SEPTEMBER 2009 NEWSLETTER

This Newsletter is not intended for members of the general public. It is written for professional Advisors

The Corporate SIPP

We were one of the first companies to see the advantages of Corporate SIPP (CSIPP) and have been extolling their virtues since 2004.

A Corporate SIPP is the ideal method of pension provision for the traditional “caring” employer i.e. one who wants to ensure that they can assist their employees in having the opportunity for a decent income in retirement, but with a strict control on costs. The advantages of a CSIPP are:

For the employer

- They are seen to provide a pension scheme for their employees
- Each employee has their own SIPP
- Costs are known in advance
- Costs are strictly under the control of the company
- They are not seen to be “endorsing” a particular insurance company, as they are with a traditional Stakeholder policy
- Administration costs are significantly lower than a traditional Group scheme
- Salary sacrifice opportunities for employees may result in NI savings for both employer and employee – see later

For the employee

- Their employer provides them with the opportunity to make provision for their retirement
- Each employee has their own SIPP
- Flexibility in terms of contributions each month
- They have control of their pension
- Investment advice could be available at no cost to them (assuming that the employer will meet this cost – see below)
- Investment changes are easy to effect, assuming a platform is used
- Salary sacrifice option may be advantageous and result in a saving of NI contributions – see later
- They have the option to pay some or all of any bonuses into their SIPP, which may be tax effective.
- The option for consolidation of all their old accrued deferred pensions - they can transfer other existing pension pots into their SIPP
- Portability – they can take their SIPP with them to a new employer

For the IFA

- A lot of new individual clients
- The opportunity to discuss with them their other financial needs eg ISA, mortgage, IHT planning etc
- Guaranteed repeat income, assuming they agree a repeat fee (fixed or percentage of fund, perhaps with a minimum and maximum)

Of course SIPPs are not suitable for everyone, and drawdown for example has its own risks. All the pros and cons would need to be spelled out as part of the take on process. We would be delighted to assist in this process

How does the Corporate SIPP work?

In essence, a CSIPP is a collection of individual SIPPs i.e. each employee has their own separate SIPP. Because they are all for the same employer, it makes the administration easier, because once the system is set up to enable contributions to go from the payroll system into the SIPP each month, it is the same process for every member.

The real trick though is that CSIPPs work most efficiently on an investment platform. That not only simplifies investment changes, it significantly reduces the administration costs. It makes CSIPPs viable in a way that they were not in 2004.

For a CSIPP, investments would be limited to those available on the platform (including cash of course) – but there are still 1000s of funds available.

What about costs?

Our fees for a Corporate SIPP are, for each member (VAT is additional):

Set up: £100

Annual: 1%, minimum £200, maximum £400

Transfers in from other schemes: nil, assuming IFA liaises with the other schemes, so that our only involvement is to sign off the relevant transfer forms.

For larger employers (say over 100 members), these fees will reduce to reflect the benefits of volume.

The employer would typically pay all, or a substantial part, of the administration fee whilst the member was employed by them, but obviously it is for each individual employer to decide what they will pay, given their own circumstances.

Similarly, we would normally expect the employer to pay for each individual member to meet with the IFA to the scheme for an initial discussion when they join, and on an annual basis thereafter (say for up to 30 minutes). In practice, normally only a few members would opt for an annual meeting.

With the demise of final salary schemes, we see real opportunities for IFAs to discuss CSIPPs with their corporate clients. Most employers want to make some kind of pension provision for their employees but understandably are terrified of uncontrolled costs.

Salary Sacrifice

Genuine salary sacrifice has been an option for many employees for a number of years. Typically they opt to take a lower salary in return for some other form of compensation, eg higher company pension contributions, better private healthcare, larger company car etc. Employers (and employees) need to take professional advice on any such proposed salary sacrifice arrangement – we cannot give that advice. The reason for doing it is usually a reduction in NI contributions by either the employer and/or the employee.

The tax changes announced from 2010 mean that there is a new potentially advantageous salary sacrifice option for some. From April 2010, if an individual's gross salary is above £100,000, their personal allowance reduces at a rate of 50p per £1 over the limit. Those earning above £112,950 will see it wiped out entirely.

This means that there is a band of income where the marginal rate of tax is 60% - because the additional 20% (over and above the top tax rate of 40%) is created by each £1 that pushes another 50p into the 40% tax bracket.

Someone earning £112,950 will therefore pay tax of £38,240, whilst someone on £100,000 pays tax of £30,470.

So a salary sacrifice of £12,950 reduces the tax paid by £7,770.

This may be something that IFAs will want to discuss with their clients.

Gilt yield for drawdown rates

The gilt yields to be used for drawdown calculations are:

July 2009	4.0%
August 2009	4.0%
September 2009	4.0%

We do not give financial advice and no comments here are intended as such. The above information is based on our understanding of the legislation governing pensions at the time of writing. Before taking any action you should consult a qualified financial and/or tax adviser.

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