



Rental income in a SIPP or SSAS? TIP it!

Are any of your clients investing directly into commercial property within their SIPP or SSAS? If so there will be a rental income stream which, in some cases, may be being utilised to repay any borrowing, or pay any annual SIPP or SSAS charges. However, a period of low interest rates may have enabled borrowing to be repaid earlier than perhaps expected (or maybe there was no borrowing to start with) – so what is happening to this rental income?

If it is sitting in the bank account, with interest rates at a record low it's probably earning little or no return. There may be alternative options.

Of course, you could suggest to your client that they make a diary note to contact your SIPP or SSAS provider on a regular basis to reinvest this money. It's not a long job but it could soon start to soak up valuable resources.

Alternatively, you could suggest that your client takes out a TIP that accepts regular payments from the SIPP or SSAS. This will allow them to establish direct debit payments at a frequency that meets their needs – allowing excess monies to be automatically reinvested in the funds of their choice and in line with their attitude to risk. As well as streamlining administration there are additional benefits from this approach:

1. If your client is moving this money out of cash and back into other assets on an ad hoc basis, are they sure they getting the best deal? Picking the best time to move money out of cash into more volatile assets isn't an exact science. There is always a risk when buying investments at one time and at one price that the timing is poor – ie the investor receives less assets for their money. Price fluctuations can have a noticeable impact on how good a deal your clients get for their money.

There's nothing new about the theory of pound-cost averaging, but it's worth considering whether your clients could benefit by making regular payments every month or quarter. When prices are high the regular contributions buy less, and conversely when they are low they buy more. By drip-feeding investments in this way, investors give themselves the possibility of making higher returns on average than they would by investing a lump sum at any given time. This also eliminated the worry of whether they are investing at the 'right time'.

2. If your client is considering moving assets out of cash into other, higher risk assets, it's likely that their attitude to risk will have to be reviewed. A portfolio planning tool could support this processes.

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TIPS: not a load of rubbish!

- A trustee investment plan (TIP), provides a convenient way for trustees of exempt approved retirement benefit schemes and self-invested personal pensions to make lump sum investments.
- They provide a way for trustees to broaden their investments, as they can invest pension scheme funds with the investment managers of their choice, without having to change the company that administers the pension.
- This enables them to diversify the assets they hold, which could help reduce risk and volatility.

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Fund selection for company schemes

Indeed risk assessment and fund selection are important for the good governance of any investment, including investments made by pension schemes provided for employees.

The movement of employer pension schemes into the defined contribution (DC) world, coupled with the recent turbulence in our economy, has naturally made some employees less than confident about making investment decisions. This is putting more pressure than ever before on employers to provide – and prove they’re providing – the most appropriate pension investment funds for their employees.

Advisers have ultimate responsibility for picking the right funds for their corporate clients and monitoring them to make sure they continue meet their clients’ needs, and the consequences of getting it wrong can be costly.

The importance of governance

Governance is about quality control. It’s about making sure the funds you choose for your corporate clients are appropriate for their scheme members and that they continue to meet their objectives. Whilst contract-based scheme governance remains voluntary, it is playing an increasingly vital role for employers offering these schemes as a means of demonstrating their quality.

There are many ways to review a pension scheme and it’s up to your corporate clients and their advisers to put a suitable arrangement in place. We understand that no two employers are the same and our aim is to support you and your client’s processes wherever we can.

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Pension planning is complex and truly rounded advice is often best achieved by a client’s financial adviser and accountant working in close collaboration.

LighthouseCarrwood advisers are experienced in working with accountants to advise clients on gaining best value from SIPP, SASS and company pension schemes.

LighthouseCarrwood is one of the UK’s leading providers of financial planning services to professional practices. We would be delighted to work with you to help your clients reduce their tax liabilities. To discuss how we could work with your firm in a way that suits you and benefits your clients and your business, please contact:

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