

Unlocking financial freedom

Save, invest and grow your wealth for a secure future

A Self-Invested Personal Pension (SIPP) is a type of personal pension that provides you with greater control over how and where your retirement savings are invested. While it operates similarly to a standard personal pension by allowing you to save, invest and grow your wealth, SIPPs stand out because of the flexibility they provide. They enable you to choose from a wider range of investment options, allowing you to tailor your investments to suit your personal goals and risk tolerance.

A key benefit of pensions generally, and SIPPs in particular, is tax relief. This can substantially boost your retirement savings. When you contribute to a SIPP, the government offers tax relief according to your income tax rate. For instance, if you're a basic rate taxpayer, a £100 contribution only costs you £80, as the government adds the remaining £20. Higher and additional rate taxpayers can claim even more through their tax returns. This tax-efficient setup enables your pension fund to grow more quickly.

INVESTMENT OPTIONS AND PORTFOLIO FLEXIBILITY

Unlike typical personal pensions, which may restrict you to a limited range of investment options, the top SIPPs provide access to a wide array of assets. From individual shares and investment funds to government

bonds, commercial property and more, this flexibility enables you to create a personalised portfolio. Whether you prefer managing these investments yourself or working with a professional, SIPPs can be tailored to meet your specific requirements.

This level of customisation could appeal to experienced investors who want to actively manage their retirement fund. However, if you prefer to leave the detailed work to someone else, some providers offer managed account services or pre-selected portfolios.

HOW SIPPS WORK WITH ANNUAL ALLOWANCES

SIPPs operate within the tax rules that apply to all pension types. The annual allowance for pension contributions in the current 2025/26 tax

year is £60,000. This includes both your personal contributions and those made by your employer. However, you cannot personally contribute more than 100% of your UK-earned income or £3,600 per annum, if more, as tax-relievable contributions. Additionally, if you are a very high earner, your annual allowance might be reduced to as little as £10,000 due to tapering rules. These complexities mean that professional advice could be essential for maximising your allowances effectively.

Another important rule is the 'carry forward' provision. This enables you to use unused annual allowances from the past three tax years. To qualify, you must have been a member of a registered pension scheme during each of those years, and your earnings in the current tax year must be sufficient to support the contributions.



FLEXIBLE CONTRIBUTIONS AND EMPLOYER OPTIONS

SIPPs provide flexibility in how and when you make contributions. Deposits can be made as lump sums or monthly, usually via direct debit. Some employers might also offer the option to contribute to your SIPP. If you're already saving into a Workplace Pension, it's generally best to maximise your employer's contributions to that scheme first before considering additional savings in a SIPP.

It's important to recognise that pensions, including SIPPs, are long-term savings options; you cannot access your money until you reach retirement age. Currently, the minimum age for accessing pension savings is 55, but this will rise to 57 on 6 April 2028. Therefore, while flexibility is a key feature of SIPPs, planning ahead is crucial to ensure they fit with your wider financial plans.

OPTIONS FOR ACCESSING YOUR POT

Once you reach retirement age, you have several options for accessing your SIPP savings. Typically, the first 25% of your fund can be withdrawn tax-free, while the remaining amount is taxable under current regulations. You can choose to withdraw lump sums as needed, purchase a guaranteed lifetime income through an annuity or leave your money invested while using a drawdown facility to receive income gradually.

For those who favour financial security over investment risk, annuities offer peace of mind. They can be tailored to suit your circumstances, such as providing a spouse's pension after death or higher rates for individuals with certain health conditions. Equally important, it's prudent to compare the best annuity rates available.

SHOULD YOU CONSOLIDATE YOUR PENSIONS?

If you have held multiple jobs over the years, it's likely you've accumulated a variety of pension schemes. SIPPs can be an excellent way to consolidate these into a single, more modern and flexible account. Defined contribution pensions, such as personal pensions, can often be easily transferred into a SIPP. This simplifies management and offers better oversight of your retirement plans.

However, it is important to exercise caution when transferring pensions. Some schemes offer 'safeguarded benefits', such as defined benefit pensions or guaranteed annuity rates, which are usually best left unchanged. If you are considering making a transfer, regulated financial advice is generally required for pensions with such features.

SMART INVESTMENT STRATEGIES

When planning for retirement, your strategy should be guided by your timeline and risk appetite. If you're still some way from retiring, adopting a more growth-oriented approach, often involving equities, might be advantageous. Regular contributions to your fund can also benefit from pound-cost averaging, a method that helps to reduce the impact of price fluctuations over time.

Conversely, if you are nearing access to your SIPP, it is sensible to adopt a more cautious approach. Market fluctuations can considerably affect your savings if you intend to withdraw lump sums or purchase an annuity soon. Choosing lower-risk investment options can help maintain the value of your fund as you reach this critical stage. ■

READY TO TAKE CONTROL OF YOUR RETIREMENT?

If you'd like to learn how a SIPP could complement your retirement plan or you need help managing your investments, please get in touch with us and take the next step towards securing your financial future. We look forward to hearing from you.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE. THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

