

DENTONS

NEWSLETTER

Newsletter

INTRODUCTION

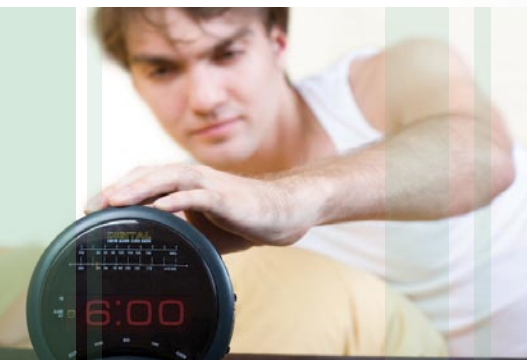
This quarter's publication focuses on the Financial Services Authority's (FSA) regulation of Self Invested Personal Pensions (SIPPs), its implications on procedures and for the market in general, as well as the changes introduced by the March budget. We also review the procedure to enable "in specie" pension contributions.

If you would like additional information or to discuss any of these topics, please see our contact details on page 4.

Contents

A REGULATORY AWAKENING.....	1
IN SAFE HANDS.....	2
DON'T DISMISS A SSAS.....	3
THE DEATH OF PENSION TERM ASSURANCE.....	3
CONTRIBUTIONS IN SPECIE.....	4
CONTACT US.....	4

A REGULATORY AWAKENING



The beginning of the new fiscal year also heralded the introduction of statutory regulation for SIPPs.

Previously only certain investments held within a SIPP wrapper fell under the scrutiny of the FSA, but their

ever seeing eye will now encompass both the wrapper itself and the firm providing the SIPP product.

For many of the smaller SIPP firms, the additional cost of complying with the FSA's application process and procedures has proved a step too far, as a reasonably substantial book of clients is required to make continuation of the business viable, and they have not sought Authorisation. Those that have dropped out of the market, or who have been absorbed into larger organizations, have tended to be the smaller sized firms who, like Dentons, offered a more bespoke, flexible and tailored service.

Those that remain have either obtained full Authorisation (as Dentons have) or have been given Interim Authorisation, pending further deliberation over their applications.

Despite the regulatory changes, the SIPP market remains buoyant. The relaxation of contribution limits, the wider flexibility of permitted investments and removal of the restriction for a SIPP to buy/sell investments from a connected party, have all helped raise significant interest in consolidation and control of an individual's pension assets.

IN SAFE HANDS

The recent significant increase in the number of SIPPs has undoubtedly been a factor in the FSA's overview and authorisation of the market, but what does the new regulatory regime mean for the SIPP investor?

Importantly, it provides comfort for clients that their SIPP provider has met FSA required standards in respect of the following:

- Capital adequacy
- Conduct of Business Rules
- Employment of suitably knowledgeable and experienced staff at all levels
- Suitable and consistent procedures in place
- Access to the Financial Services Compensation Scheme and the Financial Ombudsman Service
- A clear and transparent charging structure enabling clients and advisors to evaluate and compare SIPP products against other regulated pension vehicles.

Consumers should ultimately benefit from Regulation but the product disclosure information and key features documents will not become mandatory until November 2007. Until then at least some opacity in terms of SIPP costs remain. Whilst the direct costs of running a SIPP are headlined and clear, the majority of SIPP providers augment their income by skimming off a share of the interest rates offered by the default bank account.

Similarly, others that offer "no establishment costs" might well be reaping a proportion of the transaction costs or the annual fund management costs charged by the investment managers within the SIPPs. Not until these hidden costs are required to be disclosed will the

HMRC accepted investments. Once again until full product features are disclosed, additional investigation should be undertaken.

Changes in procedures will also see a slowing of the investment process. A client must now be offered a 30 day



client and adviser have the necessary information to fully evaluate the true costs of each product, and in the interim, closer examination of all costs would be recommended. For the record, Dentons does not receive commissions related to SIPP bank deposits.

Not all SIPPs will offer complete investment flexibility. A recent poll by High Net Worth Magazine revealed that only 11 of the 27 (Dentons being one of the 11) respondents offered the full suite of

cooling off period during which time contributions may not be invested other than in a SIPP cash account. The client may waive their rights to the cooling off period, but strangely such waiving is not permitted on transfers made to the SIPP from other pension vehicles. With the normal requirement for these funds to be held in easily realisable assets for a given period, the focus on default bank account interest rates becomes important.

DON'T DISMISS A SSAS

With recent pension changes highlighting the advantages of SIPPs, it is easy to overlook the advantages of a Small Self Administered Scheme (SSAS). Ousted from the limelight of self investment, these vehicles can still offer advantages to employers looking to control their pension affairs.

Although from April 2006 legislation was supposed to introduce a "level playing field" this is still not fully the case. The principal differences between a SSAS and a SIPP are as follows:

- Constitution - whilst in a SIPP it is mandatory for there to be an institutional "provider", under a SSAS there is no requirement for an institutional or Professional Trustee. As such the member Trustees, if they so wish, do have full control over the affairs of their scheme.

- Where a single asset is being purchased on behalf of a number of members it is often more economical, if they are all employees, to do this through a SSAS which operates under a single Trust Deed, rather than through a number of SIPPs which are, of course, individual Trusts.

- A SSAS may lend monies to the founder or participating employer, subject to conditions relating to the amount, term, interest, repayment terms and security, whereas a SIPP does not offer a loan facility to any connected party.

- Finally, whilst the FSA regulates SIPPs, they do not at present, nor are we aware of any intention to, regulate SSASs.

THE DEATH OF PENSION TERM ASSURANCE

The Government made it known, in their pre-budget report in December, that they were concerned that the tax privileged status of pension contributions should be provided only for contributions providing an income in retirement. The budget in March emphasised this by disallowing the relief on personal pension scheme contributions being used for life cover, where the application was not received by the insurer before 14 December 2006 and the policy issued no later than 6 April 2007.

For those policies where relief remains available, entitlement will only continue for so long as the policy terms remain exactly as those at outset. Any variation would result in the loss of tax relief on subsequent contributions.

This measure will not affect the relief available for contributions made by employers to occupational schemes.



CONTRIBUTIONS *IN SPECIE*

From April of last year HMRC have permitted contributions to be made by an individual to a SIPP "in specie". As such, a property or equities owned by an individual could be transferred across to a SIPP without the need for them to be initially realised. The process for achieving this is, however, complex and has recently been clarified by the Revenue as follows:

The individual must first write to the SIPP Administrator, detailing their intent to make a contribution of a specified

monetary amount to the Self Invested Personal Pension.

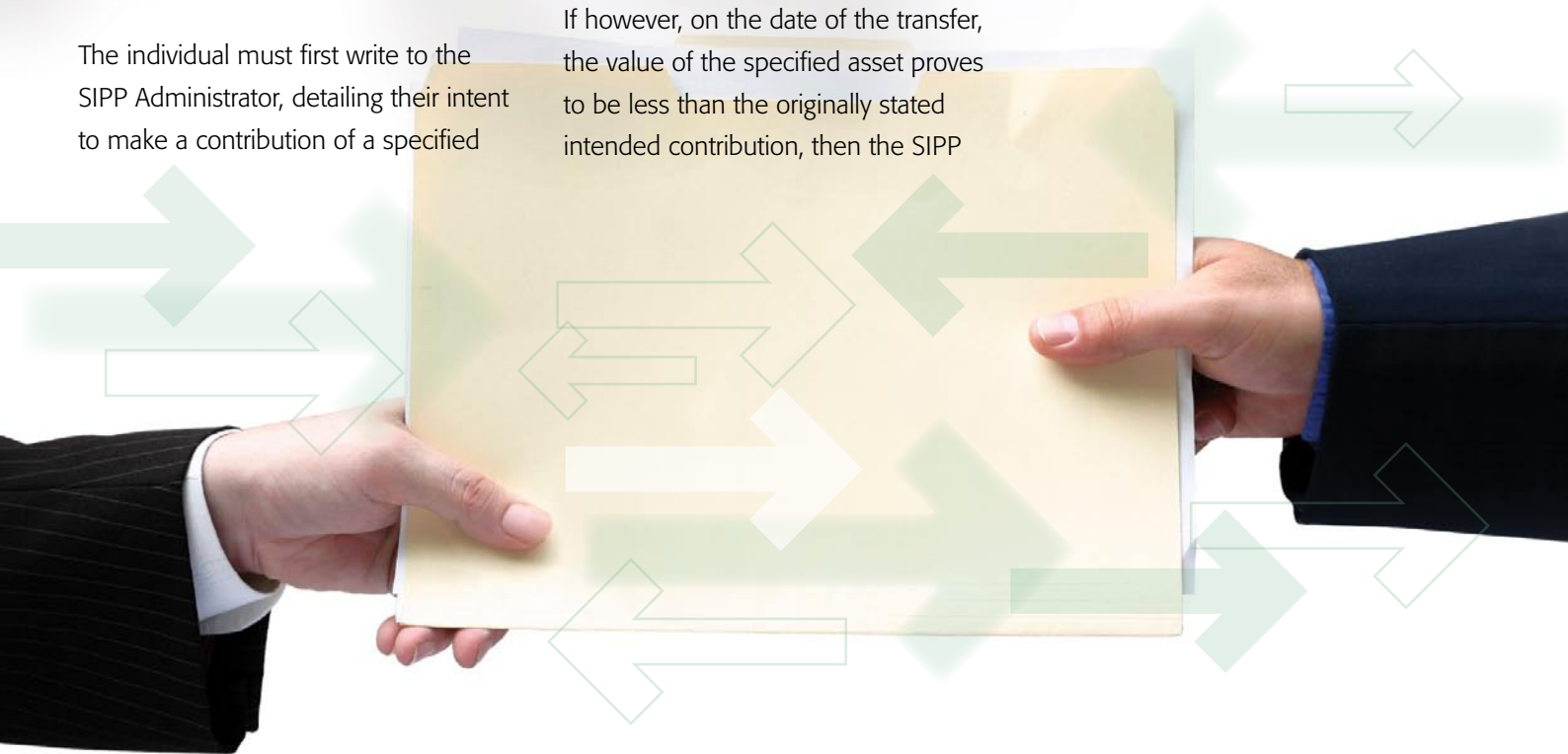
The SIPP Administrator must then acknowledge the intention, which effectively creates a debt to be settled by the SIPP member.

The SIPP member would then advise the Administrator that it is their intention that a particular asset be used to settle the debt. The appropriate paperwork is then completed.

If however, on the date of the transfer, the value of the specified asset proves to be less than the originally stated intended contribution, then the SIPP

member is required to make good any shortfall by payment of a cash contribution to settle the residual debt. Should the value of the asset transferred be in excess of the intended contribution, then this excess should be either refunded or treated as an additional contribution.

It is important that the process is followed rigidly as failure to do so could result in the Revenue disallowing tax relief on the contribution to the scheme.



Please contact us, using the details below, if:-

- You would like to receive this newsletter electronically
- You feel that this newsletter would be of benefit to your colleagues
- You would like to suggest any topics for future editions

Dentons Pension Management Limited
Marketing Department
Linden House, Woodside Park,
Catteshall Lane,
Godalming, Surrey GU7 1LG

Tel: 01483 521521 • Fax: 01483 521515
Email: enquiries@dentonspensions.co.uk
www.dentonspensions.co.uk

DENTONS

Nurture NURTURE YOUR FUTURE

The views and opinions expressed in this publication are based on Dentons Pension Management Limited's interpretation of the law and HMRC practice as at the date of publication.

Dentons Pension Management Limited (Reg No 2352951) is Registered in England, with its Registered Office being as above and is Authorised and Regulated by the Financial Services Authority