



# HAYWARD SESTINI

## PENSIONS

### Useful glossary of pension terminology

#### **Annuity**

An annuity is a set income paid for the rest of your life. A pension annuity is bought with all or some of the funds from a pension to provide a regular retirement income. The income you receive is taxed as earnings.

#### **Annual allowance**

Your annual allowance is the most you can save in your pension pots in a tax year (6 April to 5 April) before you have to pay tax in a single tax year. The level of annual allowance is set by HMT (His Majesty's Treasury).

#### **Associated employer**

Associated employer is a company which is controlled either by a sponsoring employer or by the same person(s) who control the sponsoring employer, but is not a sponsoring employer itself.

#### **Authorised payment**

You can make a payment from the SSAS such as a pension commencement lump sum, drawdown pension or an authorised employer loan, if it is specifically authorised under pension tax legislation.

#### **Beneficiary**

A beneficiary is an individual who is nominated or eligible to receive financial benefits or other benefits. In respect of a SSAS pension scheme, members will nominate beneficiaries to receive death benefits from their share of the scheme.

#### **Benefit crystallisation event**

An event when you take part or all of your retirement benefits, they are measured against your lifetime allowance.

#### **Big Four (UK)**

The leading players in the accountancy industry Pricewaterhouse Coopers (PwC), Deloitte, Ernst & Young and KPMG. Their services spanning advisory, audit and assurance, tax, risk consulting and management consulting, and capital and transaction management.

#### **Capped Drawdown**

You may take income subject to limits set out by HMRC if you have designated funds for capped drawdown prior to April 2015.

### **Commercial property**

Commercial property is land or buildings intended for use by business and NOT a residential property. This includes residential development land, prior to any property on the land being classed as habitable.

### **Connected party**

There are several examples of a connected party in relation to a SSAS scheme:

- a relative or partner of a SSAS member or a company owned by them
- the SSAS's sponsoring employer
- a company which a member, and/or a member's spouse, civil partner or relatives, controls (a person controls a company if they exercise, or is able to exercise, direct or indirect control over the company's affairs. This doesn't necessarily mean holding a majority of the shares).

### **Contributions**

Sponsoring employers, members and third parties can contribute to the SSAS, on a regular or one-off basis. Third party contributions are treated as member contributions. The amount of contribution that can benefit from tax relief is subject to an annual allowance set by the Government.

### **Controlling Director**

A director who owns 20% or more of the shares in a company.

### **Corporate Trustee**

A Corporate Trustee is a professional, appointed to ensure that the scheme adheres to rules and regulations. A Corporate or Professional Trustee is a co-signatory of the scheme assets and can ensure certain investments and actions are prevented, should they have potential to break HMRC rules or have negative affect upon the SSAS.

### **Crystallise**

Crystallising means accessing your pension, either withdrawing immediately or allocating funds which remain invested to provide retirement income as you require it. You can partially crystallise funds so some funds will be crystallised and some uncrystallised.

### **Death Benefits**

Payments of death benefits from your SSAS on the member's death at any age are usually free from inheritance tax because the Trustees have discretion as to whom, in what form and in what proportion to pay benefits. Members usually nominate a beneficiary and the Trustees will act (on their discretion) on this nomination.

### **Debenture**

A debenture, is a legal agreement between a lender and a borrower. It is legally registered and lodged against a company's assets. The restriction prevents the company from selling registered land or property without authorisation of the holder (or often as is the case with a SSAS, the corporate trustee acting on your behalf).

### **Deeds**

Various deeds are drawn up under a SSAS for example to establish the scheme, to appoint and remove parties and to dissolve the scheme. The parties that sign the deeds are the Professional Trustee, the sponsoring employer, the member Trustee(s).

### **Defined contribution pension**

A defined contribution pension is an occupational pension scheme where your own contributions and your employer's contributions are both invested and the proceeds used to buy a pension and/or other benefits at retirement.

### **Dependant**

In terms of payment of death benefits under your SSAS there are several definitions, as a member:

- your widow(er) or your civil partner at the time of your death
- a child of yours under the age of 23
- a child of yours of any age who was dependent on you due to physical or mental impairment (in the opinion of the scheme administrator)
- any other person who is financially dependent, mutually financially dependent or dependent on you due to a mental or physical impairment

### **Diversification**

Diversification is a means of putting your funds into a variety of different investments to spread the risk. Within a SSAS pension, this is even more flexible and investment choices can be diversified even more than with traditional pensions.

### **Drawdown**

Available from age 55, Drawdown is one of the most flexible ways to access your pension. You can usually take up to 25% as a tax-free cash lump sum and keep the rest invested for later. You're in control of how much income you take (which is taxable), and can make withdrawals whenever you want to.

### **Enhanced Protection**

If you have a valid Certificate of Enhanced Protection from HMRC, you are not subject to the lifetime allowance tax, as long as no further contributions have been made into the SSAS or any other of your registered pension schemes after 5 April 2006.

### **Financial Advice**

Firms often use the term 'advice' to mean a 'recommendation of what you should do'. For example, a recommendation to buy or sell a particular investment.

- The recommendation is personal to you.
- It will be based on your specific circumstances and your financial objectives.
- Only a firm that is authorised by the Financial Conduct Authority can provide this kind of advice.

### **Fixed Protection**

If you have a valid Certificate from HMRC, the value of your benefits when you take them are measured and secured against the lifetime allowance (LTA) as long as no further contributions are made to the SSAS or any other of your registered pension schemes. There are 3 types of this protection:

Fixed Protection 2012 – LTA of £1,800,000 with no contributions after 5 April 2012

Fixed Protection 2014 – LTA of £1,500,000 with no contributions after 5 April 2014

Fixed Protection 2016 – LTA of £1,250,000 with no contributions after 5 April 2016

### **HMRC**

HMRC stands for His Majesty's Revenue & Customs. The Government department that regulates tax and tax relief and creates the rules and guidance applied to pension schemes, the investments you can make and benefits you can take.

### **Individual Protection**

If you have a valid Certificate from HMRC you will have a personalised lifetime allowance equal to the value of your pension savings. You can continue to contribute to your SSAS and other schemes. Individual Protection 2014 – with pension savings of between £1,250,000 and £1,500,000 on 5 April 2014

Individual Protection 2016 – with pension savings of between £1,000,000 and £1,250,000 on 5 April 2016

### **In specie**

You can re-register or transfer the ownership of an asset without the need for selling it.

### **Lifetime allowance**

The lifetime allowance ("LTA") is the total amount that you can draw out before you incur tax penalties. Once the lifetime allowance is exceeded, tax is payable. The amount of LTA is set by the Government. It takes into account pension pot growth and other factors such as tax relief. This means it is possible to exceed the lifetime allowance by accident. If you suspect your total pension savings are approaching the limit (including any final salary pensions) then seek financial advice to work out how much you can continue to save.

LTA was abolished from 6 April 2024 and the overall limit for individuals on tax-relievable pensions was removed. From 6 April 2024 there is a limit on the total amount of lump sums and lump sum death benefits you can receive free from Income Tax.

### **Lifetime allowance tax charge**

Means the amount of tax you will pay if you exceed the lifetime allowance. Post 6 April 2024 tax free lump sums are now tested against the lump sum allowance and the lump sum and death benefits allowance.

### **Loanback**

The SSAS loanback is a SSAS pension advantage that is allowed by HMRC rules in which your SSAS is able to make a secured loan to your company (sponsoring employer), subject to meeting key criteria. The SSAS can also make an unsecured loan to an unconnected third party. Loans from the SSAS to members or persons connected with members are not permitted.

### **Lump-sum**

An amount taken from the pension as a single cash payment is known as a pension commencement lump sum. Only the 25% of the amount will be tax-free. You'll pay tax on anything taken as a lump sum above this as if it were income. From 6 April 2024 individuals will be entitled to a new lump sum and death benefit allowance - £1,073,100 (unless they have a protected right to a higher amount).

### **Mandatory signatory**

The Professional Trustee will be a mandatory signatory on the scheme bank account to avoid or reduce the risk of an unauthorised payment occurring.

**Market value**

Market value is the price an asset might reasonably be expected to fetch on a sale in the open market.

**Member**

In respect of a SSAS, a member is an active, pensioner, deferred member or a pension credit member (following divorce) of a SSAS scheme.

**Member trustee**

Member trustees are members of the SSAS scheme and are responsible for the day to day running of the SSAS and investment decisions. Trustees are responsible to HMRC and The Pensions Regulator for the SSAS complying with pensions law. For the SSAS to benefit from allowed pension exemptions and tax benefits, all scheme members must be Trustees. All Trustees must agree to investments made by the SSAS.

**Money Helper**

Gave information and guidance to members if the public on state, company and personal pensions. Previously known as The Pensions Advisory Service and Pension Wise.

**Nominee**

An individual who is not your dependant who you have nominated in the event of your death to receive your pension benefits. The scheme administrator can nominate a nominee where you had no surviving dependant or nominee and where you have not nominated a charity to receive your pension benefits.

**Occupational pension scheme**

An occupational pension scheme is a pension scheme established by an employer or employers to provide pension benefits to, or in respect of, employees.

**Pension freedom**

Pension freedom legislation came into force in April 2015 and the pension freedom rules upon retirement, allow benefits to be accessed as wanted from age 55. Funds can be used flexibly including drawdown income, cash withdrawal or a combination of the two. Prior to these rules, amounts were limited.

**Pensions Ombudsman**

An independent, non- biased organisation that looks at the way personal and occupational schemes are run and deal with complaints. Complaints can be made about the employer, trustee, manager or administrator. The service is free.

**Pension Portfolio**

Trustees invest funds prudently (as required under trust law) to try to achieve growth for the SSAS. Trustees have complete control over how funds in the pension scheme are invested. It is the responsibility of all the Trustees to ensure that contributions made to the SSAS are in the best interest of all members. Members can take advantage of a wide range of investment opportunities.

### **Primary protection**

If the value of your benefits on 5 April 2006 exceeded £1,500,000 and you have a valid Certificate from HMRC, the value of your benefits when you take them are measured against your personal lifetime allowance which is calculated based on a certified factor.

### **Professional Trustee**

A professional trustee is a person or company, appointed to ensure that the scheme adheres to rules and regulations. A Professional Trustee does not provide advice but is a party to all transactions made by the Trustees and is also a co-signatory of the scheme assets. A Professional Trustee can ensure certain investments and actions are prevented, should they have potential to break HMRC rules or have negative affect upon the SSAS.

### **Regular Reviews**

We will collate information pertaining to scheme assets, reconciling bank account payments and classifying accordingly, reporting to HMRC and TPR (where appropriate) and ensuring loan and rental payments are up to date.

### **Qualifying recognised overseas pension scheme**

A UK qualifying recognised overseas pension scheme is a non-UK pension scheme that satisfies HMRC requirements. HMRC publish a list of pension schemes that have told HMRC that they have meet the conditions to be a recognised overseas pension scheme and have asked to be included on the list. However, it is the member's responsibility to find out if they have to pay tax on any transfer of pension savings.

### **Registered Pension Scheme**

Your pension scheme is registered by HMRC under Chapter 2 of Part 4 of the Finance Act 2004.

### **Residential property**

HMRC will not allow your SSAS to invest in or purchase a residential property, defined as:

- A building or structure that is used/suitable as a dwelling
- Land related to the building or structure, such as the garden or grounds
- Buildings on the related land
- Any building specified in regulations as residential property.

### **Sponsoring company**

The sponsoring company is the related company to the director setting up the SSAS.

### **Sponsoring employer**

The sponsoring employer is the director and employer, or any of the employers, of the company that sets up the scheme. It must adhere to the SSAS trust deed and rules as a participating employer, whether it contributes to the scheme or not.

### **SSAS**

A SSAS (Small Self-Administered Scheme) is an occupational scheme set up by the sponsoring employer for up to 11 members, of which at least one must be an employee. All members must be trustees of the SSAS and will be responsible for the investment of SSAS funds. The SSAS gives its members flexibility and control over investment decisions.

### **SSAS Administrator**

A SSAS must have a scheme administrator. The SSAS Administrator is a formal role, responsible completing HMRC returns and other administration functions and other duties within the scheme.

**SSAS Drawdown**

SSAS drawdown refers to the withdrawal of income from the SSAS. The flexibility of drawdown means that you can choose to take regular withdrawals or take it as and when needed. Income is taxable and added to any other income you received that same tax year therefore has tax implications.

**SSAS Practitioner**

A SSAS Practitioner is appointed to support the setup of a SSAS scheme. This is not a responsible position and ultimate responsibility and liability remains with the SSAS administrator and member trustees.

**SIPP**

SIPP stands for Self-Invested Personal Pension. A SIPP is set up for an individual and is a personal pension as opposed to a SSAS, which is a corporate pension scheme.

**Successor**

An individual nominated by a beneficiary.

**Tangible Moveable Property**

Items that can be moved or touched including fixtures and fittings, equipment, machinery. These are not allowed under a SSAS and will be subject to a tax charge, also known as “taxable moveable property”.

**TPR**

TPR stands for the Pensions Regulator whose role is to protect the UK’s workplace pensions, ensuring all parties fulfil their duties to scheme members. As a corporate pension, the SSAS is regulated by The Pensions Regulator (TPR).

**Transfers**

A SSAS can accept transfers from other registered pension schemes for members, which is added to their share of the SSAS fund. Consolidating pensions into a single scheme can reduce administration and costs, allow further investment opportunities and strategies.

**Trust**

A trust is a collection of assets, governed by a trust deed and the rules set out within it. The SSAS is established under trust in which the trustees are appointed and the governing rules adopted. Trustees ensure that the trust rules detailed in the deed are adhered to.

**Trustee**

A trustee is a company or an individual member of a trust who is given responsibility for administering the SSAS ensuring that trust rules are adhered to, along with adherence to relevant legislation.

**Unauthorised payment**

A tax charge which is applied if a payment is made to the scheme against HMRC guidelines, e.g. investment transactions not carried out at market rate or excessive borrowing. To be reported to HMRC. Penalties applied are:

Member/sponsoring employer – 40% of unauthorised payment

Scheme – 15% of unauthorised payment (in addition to the above).

**Unconnected 3rd party loan**

Unconnected third party loans are loans to a party who is not related to the SSAS, its members or a company owned by a SSAS member. The loan should still be a sound investment proposal.

**Uncrystallised Funds**

These are where you have yet to allocate funds to provide a retirement income.

**Wealth Management**

A complete and holistic look at your financial picture including investment management, pensions, financial planning, tax planning, estate planning. Your needs should be regularly reviewed as your financial and personal needs change.