PENSIONS EXPLAINED

Small Self-Administered Scheme

Overview

What is important to remember is that Small Self-Administered Scheme (SSAS) are in essence, just Personal Pension Plans (PPP). They just have more investment opportunities which in turn, appeal to the more adventurous investor.

The fundamental difference is that through a SSAS, individuals can literally become their own fund managers and have the facility to invest outside the normal insured contracts within a pension wrapper which includes shares and property. The Small Self-Administered Scheme is also monitored by outside trustees (an independent professional approved by the PSO) to ensure compliance with the rules.

Now we are into the new simplified world of pensions post ‘A’ Day (6th April 2006), many of the previous investment restrictions we had to contend with have simply fallen away and increased investment choice and flexibility are likely to be even more appealing.

The Small Self-Administered Scheme in itself is not an insurance product and the firm, which sets up and administers it will normally make a charge for its services. However, this can be partially offset if contributions are made. This does not suit all schemes and is looked at on merit

Nevertheless, it is crucial to remember that SSAS trustees can still impose their own restrictions on the type of investments that they offer and often, if a more unusual investment is required, only the specialist SSAS providers will actually undertake such a transaction. Charges on these types of contracts are also likely to be higher than a PPP.

One thing is certain, SSASs are certainly very popular and the growth of these plans over the coming years is widely anticipated. This guide explains how a SSAS works and the investment choices that are available. We hope you find this guide useful and informative.

Quite simply, a SSAS works in much the same manner as a personal pension plan. Contributions are paid in the form of regular contributions and single contributions (subject to HMRC limits) and other pension benefits can be transferred in.

Transfer payments and income from investments do not count as contributions, nor does any rental payments where property may be being used. The SSAS will enjoy the same tax reliefs and tax advantages as any other registered personal pension plan.

The key difference is that contributions are invested in accordance with your individual specific instructions. Prior to the investment instruction being received and executed, contributions are held in a trustee bank account where they will usually earn a competitive rate of daily interest.

Any individual can invest in a SSAS. Even if you are a member of an occupational pension scheme you will be able to simultaneously contribute to a SSAS subject to certain limits. It’s just a matter of whether contributions will be tax relievable.

INVESTMENTS

Since April 2006, any investment that is deemed to be a commercial investment will be allowed. This means that SSASs are allowed to invest in most assets including the following.

- Bank or building society deposits.
- Stocks and shares listed or dealt on an Inland Revenue recognised stock exchange, including AIM
- Stock exchanges that are not recognised by HMRC, e.g. OFEX.
- Unit trusts, open ended investment companies (OEICs)
- Warrants, covered warrants
- Government stock and fixed interest stock
- Un-quoted shares
- Commercial property
- Property funds

Although technically it could be possible to invest in residential property the additional tax charge makes it an unattractive option.

Taxable property consists of the following –

- **Residential property in the UK or elsewhere** which is a building or structure, including associated land that is used or suitable for use as a dwelling.

- **Tangible moveable property** are things that you can touch and move including assets such as art, antiques, jewellery, fine wine, classic cars & yachts.

PROPERTY

The current rules for property investment within a SSAS are: -

Key points

- Only designated commercial property is normally acceptable. The general rule is that the property must be designated ‘commercial’ with the local rating authority.
- The scheme trustee buys and owns the property bought by a SSAS, and not the SSAS plan holder. The trustee is legally responsible for maintenance of the property. Any development/refurbishment/renovation requires the scheme trustees’ agreement and must only be undertaken under their strict control. The trustee can insist that a property is returned to its original condition if work is undertaken without prior consent.
- Any lending requirements are made to the trustees and therefore no personal guarantee may be offered.
- The mortgage and any legal costs must be met from the pension fund.
- The lease, including the rent payable, must be on commercial terms determined by an independent professional valuation.
- In theory, a SSAS can purchase part of a property but this could lead to problems when, for example a death claim or a divorce arises. Therefore, some SSAS providers are not willing to permit this.
- Joint property purchase is possible with SSASs held by other individuals – see point above though.
- Property is relatively illiquid, so care should be taken if you need to draw income from the fund.
- Pension funds can borrow up to 50 per cent of their net asset value to purchase property.
- Using a pension fund to purchase a property already owned by you would release cash from the pension fund which could be used to repay any existing debt.
- Capital gains tax may be payable on the sale of any existing property to a SSAS and there will be additional transactional costs and stamp duty.

Although the list of available SSAS investments is broad, pension providers do have discretion over what types of property they will accept into their SSAS it is always subject to thorough searches and suitability.

It is important to remember that commercial property is an investment like any other and it can rise or fall in value – ultimately affecting the benefit payable at retirement. If a property is bought when the market is high, then if there is a future slump in property prices, your pension fund could potentially be in negative equity. Also, death or enforced retirement could force the sale of the property at an inopportune moment.

It takes time to sell a property and so contingency plans such as investing in other assets should be considered to cover the event of death, divorce or retirement of the member.

Where the property is placed in a Small Self-Administered Scheme it cannot be used as collateral for future capital raising exercises.

There are additional costs in setting up this type of arrangement, including valuation fees, set-up costs, annual fees, etc. these are explained in the charges documentation.

Whilst there are drawbacks as noted above, there are also a number of attractions of putting property into a pension scheme:

- All legal costs and expenses are payable from the SSAS
- If the property ownership is transferred to the pension fund, it can be subsequently leased back to the company for their occupation, subject to a commercial rent being paid. Any payments made to the Small Self-Administered Scheme as rent, within FRICS limits, are not subject to tax and are deemed a trading expense. The whole of the rent can then be used to reduce the loan after the interest has been paid. The rent can be received gross by the fund, and would be an allowable expense for the Company in determining the liability for Corporation Tax in future years.

- When purchased via a Small Self-Administered Scheme then sold in the future, no capital gains tax is payable. The total proceeds remain within the plan for the use of the beneficiaries. It may enhance the tax-free cash available. You will not receive the sale benefits as a lump sum. If purchased privately then sold in the future, a capital gains tax (rate dependant on the usage) would apply to any profit. The remainder is yours to do with as you see fit.

- Capital Gains Tax. A commercial property wholly or partly owned by an individual (either directly, or indirectly through ownership of company shares) is subject to Capital Gains Tax (or Corporate Tax in the company situation), if sold or otherwise disposed of. In certain circumstances “roll-over” relief may be available, although it should be remembered that this defers payment of Capital Gains Tax and does not avoid it. It should not be assumed that “business relief” where available will necessarily result in no Capital Gains Tax being payable
- There is no limit on the number of properties which can be purchased (provided borrowing limits are not exceeded)

Overseas Property

It is permissible to invest in overseas commercial property but again some providers may not offer this facility due to the complexity of administration and overseas legal processes.

Overseeing letting agents and difficulty in finding specialist lenders who are able and willing to provide funds for purchase in various countries add further complications. Furthermore, many European countries such as France and Spain do not recognise UK trust laws.

Joint Ownership

It is possible to join SSASs together in order to purchase an investment. In theory, there is no limit on the number of plan holders who may do this. The SSAS provider may ask the plan holder to sign a co-ownership agreement so that if a co-owner wishes to dispose of his share, or in the event of a co-owner's death, the remaining partners have a right of first refusal at fair value. There is no requirement for joint owners to have equal shares; they can have unequal shares and borrowings so long as each co-owner individually respects the allowable borrowing limit.

By sharing ownership, the initial cost of entry to direct property investments is reduced and this enables smaller SSAS funds to club together to acquire property investments which would otherwise be unavailable to them - often referred to as a SSAS syndicate.

Creating liquid funds to buy out a member

A valuation will need to be performed if one of the co-owners wishes to disinvest from the property, possibly at retirement, or dies. Various steps can be taken to make the necessary funds available:

- Use existing assets within the SSAS.
- Borrow more money (subject to borrowing limits) – if the property has increased in value or some of the original loan has been paid off.
- Make further contributions or transfers into the plan – this could be added to the remaining members' arrangements and then invested in the property.
- A new member with a SSAS in the same scheme investing in the property.
- A combination of any of the above.

Property funds
An alternative way of receiving some property exposure is to invest in a property fund. More details on Property fund investment is provided at the end of this booklet.

Borrowing
If there are insufficient funds to buy a property outright, a commercial mortgage may be taken out by the trustees of the SSAS. In addition, a SSAS can borrow 50% of the net scheme assets i.e. total assets less any existing borrowing.

There is a further important point to bear in mind where there is an outstanding mortgage on the commercial property. Where the SSAS borrows money to purchase property they are **effectively** able to obtain tax relief on both capital and interest repayments. This is because the means to enable the fund to meet the mortgage repayments come from either the ongoing contributions made by the company to the scheme, or the rents paid by the company to the fund – both of which are fully allowable deductions from profits for Tax purposes.

Miscellaneous Commercial Property Issues:
Whilst it is possible for a SSAS to invest in residential property, there are substantial tax penalties for doing so which make it very unattractive. There are many properties however, that are commercial / residential splits. Some of these will be allowable provided the residential element is an integral or associated part of the property held by the SSAS. An example would be a caretaker's flat – the caretaker must be required to occupy the flat as part of his contract of employment and must not be connected to the employer e.g. husband or wife.

Additionally, hotels, motels, nursing homes and public houses can be included but there must not be any benefit for the individual SSAS member in the form of residing within the property. A resident manager is acceptable provided that he or she is not connected with the employer and the terms of employment require residence on the premises.

Investments in riding stables, golf courses, forestry, woodlands and agricultural land are usually acceptable. Care has to be taken that any residential element is agreed by the trustees of the SSAS (usually the provider) and HMRC.

There must be no potential for members of the scheme or their relatives, including spouses and their relatives, to enjoy the benefits of the land. Forestry, woodlands and agricultural land may have attached amenity rights such as shooting or fishing. These amenities should not be made available to members of the scheme otherwise they will be treated as a benefit in kind and taxed accordingly.

Property & Exotica - What Investments are permitted?
Commercial property.
Hotels including ownership of part or all of the hotel, provided no part is occupied by a member or connected person, or they have a right to occupy a part.
Student accommodation (i.e. halls of residence but **not** flats or houses).
Care home or prisons.
Purchase of land and development of residential property, or conversion of a building to residential provided the pension scheme disposes of the property **before** conversion commences. E.g. in the UK when the certificate of habitation is issued.
The residential element of a commercial property, provided it is not occupied by a pension scheme members or connected person. E.g. a shop with a flat above, where the shop and flat are let to the shopkeeper. (Unless as part of a contract of employment).
Residential elements of a commercial property which are occupied as a condition of employment e.g. caretaker.
Investment-grade gold bullion.
Unit trusts, investment trusts or OEICs investing in residential property subject to the 'indirect' investment rules.
Residential SSAS Syndicates – where there are 11 or more people and providing a) there is no personal use of the property, b) the total asset must be at least £1million (or at least 3 properties must be held in the SSAS) and c) the SSAS must not own more than 10% of the property.
Real Estate Investment Trusts (from Jan 2007).
'Other vehicles' investing in residential property or chattels known as 'genuinely diverse commercial vehicles' as defined by HMRC.
Property & Exotica - What Investments will incur a tax charge?
Beach huts.
Timeshares.
Direct purchases of residential property and grounds defined as a building or structure used or suitable for use as a dwelling.
Indirect investment in these assets via a vehicle wholly owned by the pension scheme.
Rights or options to purchase taxable property at a 'future' date.
A lease of a hotel room with the right to stay there at a reduced or free rate.
Shops with flats above unless the flat has been sold on a long-term lease and has a separate entrance or is let for example to the shopkeeper.
Development and conversion costs to convert property to residential.
Ground rents relating to residential property.
Tangible moveable property

IN - SPECIE CONTRIBUTIONS

Where an individual or their company owns a commercial property, for example their business premises, there may be advantages in this property being moved into a pension plan instead. Rather than having to sell the property, with all the associated costs, with the trustees of the pension scheme then buying this from the individual, it is possible to simply transfer the property into the pension scheme intact. This is known as an 'in specie' transfer and simply means that the legal ownership has been changed.

The individual's SSAS may be able to purchase the entire property or may need to join with other SSAS members to purchase a set percentage. This is all dependent on the size of the SSAS fund.

Property can even be 'paid into' a SSAS in lieu of a cash contribution. For example, if an individual wished to pay a pension contribution of £40,000 for the current tax year, rather than paying this in cash, they could decide to meet this through paying in a portion of their commercial property instead. Should the provider be willing to accept this type of payment, £32,000 of the property would then be owned by the pension scheme. As pension contributions get basic rate tax relief (20%), the payment of £32,000 would be grossed up to a total amount of £40,000. Higher rate tax payers can then apply, via their self assessment return, for the extra tax relief. This facility allows a property to be gradually transferred into a pension scheme over a number of years.

You should be aware that both in-specie transfers and contributions involve a transfer of an asset and as such the current owner is likely to be subject to capital gains tax (CGT) and stamp duty or stamp duty land tax, depending on the type of asset. Having said this, the asset will then sit in a tax-exempt fund and a future sale will be exempt from CGT.

It is also possible to transfer a property and if it is a gift without value, the stamp duty land tax can be waived subject to conditions.

CHARGES

The SSAS provider will levy charges to cover the costs of setting up and running the Small Self-Administered Scheme and these will be shown in the charges documentation and the fee agreements entered into for this particular arrangement.

TAX RELIEF AND CONTRIBUTIONS

How much can I contribute?

The rules on pension contributions have been simplified. You can now benefit from tax relief on contributions. Details of the maximums are found in the appendix.

Your employer can contribute directly on your behalf and will normally receive Corporation Tax relief as a business expense.

Taxation within the SSAS

Investments within the SSAS are not subject to UK Income or Capital Gains Tax. Any tax paid on dividends from UK equities, however, cannot be reclaimed.

All Self Invested Personal Pensions are Inland Revenue approved schemes.

Approval ensures that full advantage can be taken of the following tax benefits: -

- Contributions made by a company will normally be allowable as an expense in the calculation of its taxable profits, therefore corporation tax relief can be available.

- Contributions made by an individual will attract tax relief at their highest rate

- Contributions made by a company are not treated as additional remuneration of the members. The member has no further tax to pay for receiving this benefit.

- Contributions made by a company do not attract National Insurance Costs for either the employer or the employee.

- Contributions accumulate in a fund which has tax advantages on investment income and capital gains.

- On retirement, 25% of the fund can be taken in the form of a tax-free cash sum and there are many options available to the member (see appendix).

- Benefits taken in pension form as income are treated as earned income for tax purposes. It is possible to adjust the levels of income to suit.

- The scheme has its own rules for death benefits which can be found in the appendix.

TAKING BENEFITS

Your options at retirement
The sole purpose of your pension is to provide you with an income in retirement. Benefits can be taken any time from age 55. It is not necessary to retire before receiving your benefits.

Up to 25%* of your accumulated fund can be taken as a tax-free lump sum, and the balance should be used to provide income either by buying an annuity or via one of the available alternatives for unsecured income. We have many options at retirement including standard annuity purchase. Details of these can be found in the appendix.

* subject to transitional protection

BORROWING

The amount that SSASs can borrow is 50% of the net pension fund value, excluding any existing loans.

Example:	Fund value of SSAS	= £100,000	
less	Existing borrowing	= £10,000	
	Net	= £90,000	
	50% of net fund value	= £45,000	
less	Existing borrowing	= £10,000	
	Net	= £35,000	which may be borrowed

It should be noted that if a loan is drawn down in stages the Revenue require each amount drawn to be tested against the limit at the date of draw-down. Therefore, particular care needs to be taken when borrowing to acquire property or land with a view to development over a period of time and/or in stages, particularly if borrowing to the maximum and the value of the scheme's assets is likely to fluctuate.

SSAS Trustees must allow for stamp duty and VAT when calculating the loan required, they cannot borrow an additional sum over the basic limit to fund these items.

Purpose

SSAS Trustees can borrow within specific limits for:

- Acquiring an interest in a commercial property,
- Development of such a property,
- Payment of any VAT liability arising from the purchase or development of commercial property.
- Stamp duty, legal and other expenses of the purchase or development.
- Trustees can also borrow for other purposes.

Lender's Requirements

Apart from the requirements of HMRC, the lender will have its own requirements. For example, lenders often require the anticipated rent from letting the property to cover the loan repayments by a predetermined margin. Some lenders will take into account other income e.g. contributions, investment income, when assessing the ability to meet loan repayments

LOANS

A SSAS can make a loan to an unconnected party. If a SSAS makes a loan (which is permitted) but to a connected party, it is an unauthorised payment unless the connected party is a sponsoring employer of the occupational pension scheme and the loan meets certain criteria.

INVESTMENT STRATEGY

A brief description of each fund type that can be used for investments is include in the appendix. We will provide a separate report for any investment recommendations we make. We will provide Key Features Documents, when available and cover the cost details for each recommendation.

Other Investment Options

In addition to the above investment funds, those clients who contribute to SSASs will also have access to a much wider investment choice. This range could include OEICs, Unit Trusts and shares along with the facility to invest in commercial property.

Where commercial property or direct share purchase is considered, clients should bear in mind that larger fund sizes would generally be required so that the overall fund has a mixture of different assets (known as diversification). This helps to reduce the investment risk as you are not then relying on the performance of one asset in isolation.

Please note:

** Unit prices can fall as well as rise*
** Past performance is not necessarily a guide to future performance and past performance may not necessarily be repeated*

CONCLUSION

The Small Self-Administered Scheme could offer you: -

- More contribution scope to move profits out for your benefit in a tax efficient manner.

- More control over the investment of your pension fund including the purchase and retention of commercial property in a tax efficient manner.

- Ability to create a larger fund and so more flexibility when you decide to retire. A substantial build up of funds could provide you with realistic income in retirement.

The attached information is based on our understanding of current law and Revenue practice, which may change at any time. The value of tax concessions will depend on your individual circumstances.

Our advice is based on information gathered from life offices and you our client.

All transactions have to be reported to ensure compliance with the Revenue rules. Fines are imposed for non-reporting and these arrangements need to be supervised to ensure compliance.

The value of funds wherever invested can go down as well as up. Any loans secured on property can lead to the property being at risk if the repayments are not kept up.

SSAS APPENDIX

AT A GLANCE

	SSAS Rules
MAXIMUM ANNUAL CONTRIBUTIONS	Tax relief will be available for employees' contributions based on the higher of £3,600 per annum gross or 100% of relevant UK earnings. Annual Allowance for 2020/21 is £40,000 Contributions made in excess of the Annual Allowance will trigger a tax charge on the member. This charge effectively completely removes tax relief on pension contributions in excess of the annual allowance.
CONTINUING CONTRIBUTIONS AFTER EARNINGS CEASE	Before age 75, tax relief will be restricted to maximum of £3,600 pa. Can still contribute up to the Annual Allowance but tax relief is not available on any contributions over £3,600 pa. After age 75, no tax relief is available.
RETIREMENT AGES	From age 55. Exceptions for those with SSASs effected prior to 6 April 2006 in special occupations (e.g. sports people, provided that the member is tested against a reduced lifetime allowance (2.5% per annum from age 55) and that the full pension must be vested.
PENSION COMMENCEMENT LUMP SUM	25% of fund or of Lifetime Allowance if lower (Currently £1,073,100,). (subject to any transitional protection)
PENSION	Benefits tested against Lifetime Allowance with any excess having Lifetime Allowance Charge applied. This excess could be taken as a lump sum, income or combination of both.
PROPERTY PURCHASE AND BORROWING RULES	Can invest in commercial property and borrow up to 50% of net scheme assets.
INVESTMENTS	Investments unrestricted (although this will be at trustees' discretion)

LOANS TO MEMBERS	Not permitted, any loan to a member will always be treated as an unauthorised payment. N.B. Loans to unconnected parties are allowed.
DEATH BENEFITS	A return of fund on death before 75 to the nominated beneficiary. On death after age 75, a lump sum death benefit will be payable net at the recipient's marginal rate of income tax.

TAKING BENEFITS

Annuity purchase

An annuity is a contract with an insurance company to provide a regular income for life in exchange for a lump sum. The annuity can be level, increase each year to keep pace with the cost of living and/or providing a continuing income for a spouse/dependant on your death.

The advantages and disadvantages of this product are explained in full in our Retirement Options Booklet.

Drawdown

Capped - The balance of the fund remains invested with withdrawals known as unsecured income being taken. There are limits on the amount of income that can be taken. The Government Actuaries Department (GAD) has set the maximum level of 150% of a conventional level annuity and depends on current interest rates. There is no minimum so effectively you do not need to draw any income. These limits are reviewed every three years. Since 05/04/2015, these are no longer available to the new members.

Flexi-access- Has no such limit but under current legislation, once income is drawn, the maximum that can be contributed to money purchase pension arrangements reduces from £40,000pa gross to £4,000pa gross.

Phased Retirement

Phased retirement enables you to take part of your pension as required over the years from age 55 onwards. You can crystallise just part of your fund as a pension commencement lump sum plus income withdrawal or annuity when you decide.

What happens if I die whilst taking benefits?

If you die after an annuity has been purchased then the benefits payable, if any, will be determined by the terms of the annuity contract.

If you die whilst in drawdown, the value of your fund can be used to pay benefits in the form of:

- A lump sum, subject to deduction of a tax charge*
- An immediate annuity for spouse/civil partner/financial dependant*
- Your spouse/civil partner/financial dependant can elect drawdown*.

The scheme administrator will decide who will receive benefits and the form of the benefits, in its absolute discretion. However, it will take into account any wishes you have expressed through the completion of a death benefit nomination.

The value of your fund may be paid to a charity nominated by you for this purpose. Again, you can complete a nomination to indicate which charity you would wish to receive benefits. Any funds paid to a charity, or paid out in pension benefits to your spouse, or dependants, will be exempt from tax.

If you are taking benefits via phased retirement, on your death, your surviving spouse may receive the entire remaining fund (i.e. the funds which have not yet been encashed) with no tax imposed.

In addition to any remaining fund in your phased retirement plan, your spouse or other beneficiaries may also receive income, and possibly a lump sum, from any annuities you have bought up to the time of your death.

***** Tax- free on death before age 75 otherwise subject to income tax at the recipient`s marginal rate.

INVESTMENT STRATEGY

A brief description of each fund type follows but you should refer to the product providers Key Features Document for further details.

Cash & Building Society
Invests in short-term deposits managed actively in the UK money market, achieving higher potential returns than those available via normal deposits. This is a secure investment fund, which aims to achieve a higher rate of return from the money markets than that achievable by an individual investor. Alternatively, you can invest in selected building society accounts. This is a secure investment fund the return of which is dependent upon underlying base rates. The size of building society funds can enable them to achieve a higher level of return than that likely for an individual investor.

Long term gilts
Invests solely in gilt-edged securities issued by the Government, forming part of the Long Gilt index. This is a specialist fund which aims to help protect against changes in annuity purchasing power, annuity rates being calculated with reference to the Long Gilt index. The underlying stocks are tradable and are therefore influenced by market fluctuations.

UK fixed interest
Invests mainly in gilt-edged securities issued by the Government, as well as other quality sterling-denominated fixed interest and convertible debt instruments issued by UK Corporations. The underlying stocks are tradable and are therefore influenced by market fluctuations.

Index-linked
Invests predominantly in gilt-edged securities issued by the Government. Interest payments and capital repayment values are linked to movements in the Retail Price Index (RPI) and this provides a 'hedge' against inflation. The interest distributions and redemption values of the underlying securities are guaranteed by the Government to be calculated with reference to the RPI. However, it should be borne in mind that these stocks are traded in the market and prices may be liable to fluctuation.

Controlled risk funds (Derivatives)
There are a variety of controlled risk funds available. They invest in a combination of cash deposits and financial instruments linked to movements in the UK stock market, as measured for example by the FTSE-100 Index. Typically, they are quarterly rolling funds which have been structured with the aim of combining security with potential for growth. The bulk of funds are deposited with one or more major financial institutions for investment in the cash markets with the aim of protecting the capital value of the unit price from one quarterly date to the next. The balance is invested in FTSE-100 Index options with the quarterly unit rice benefiting from the addition of a predetermined percentage rise in the index over the period. Various levels of 'guarantees' may be offered.

Mixed/managed funds
Invests in a variety of the provider's regional and specialist funds with little variation from market average asset allocations, usually the larger portion of the portfolio will always be invested in the UK. Managed funds operate on a similar basis except that the assets are direct held by the fund rather than 'holding' a selection of the provider's sector funds.

Property Funds
These funds are generally divided between those that invest directly in commercial property such as offices and retail units, or those that invest in the shares of property companies. The former tends to be less volatile (less risky) than the latter. Returns from property funds can be made up of a combination of rental income and increasing values in the underlying properties held within the fund. As it is sometimes difficult for fund managers to sell a property holding when investors wish to switch or encash their investment, individuals may experience a delay, although this is not common.

Global fund

This fund is similar to the mixed fund but with wider investment ranges. It may therefore have a substantially higher proportion of assets invested overseas or in bonds and cash. Risk rating is average.

UK equity

Invests in a broad spectrum of stocks, mainly on the London Stock Exchange. The portfolio will provide exposure across all major industrial sectors and may include exposure to smaller companies. The mainstream UK equity funds aim to provide capital growth from a well-diversified portfolio of holdings.

With profits

With profits investments aim to provide a relatively steady rate of return over a period. Depending on the fund selected, a certain level of growth by way of an annual bonus may be added through unit price increases. On withdrawal from the funds a terminal bonus may be paid. This will reflect the extent to which the client's share of the performance of the fund's underlying assets over the period of investment (subject to an element of smoothing) exceeds the growth already added to the client's fund. On a move away from this fund, a penalty known as a Market Value Reduction could be applied to ensure that all fund members receive their fair share.

International

Invests internationally in equity markets specifically excluding the UK to provide exposure to both the assets and currency of the markets in which it invests.

Tracker funds

Tracker funds are a relatively recent development which has proved to be very popular for large group schemes that wish to follow a 'passive' approach to fund selection and management. In simple terms the aim of the tracker funds is to track a selected index such as the FTSE-100. This is achieved by the fund manager buying shares in the top 100 companies in direct proportion to that share's position in the FTSE table. For example, if BP represented 5% of the FTSE-100 then the fund manager would have 5% of his investments in BP.

Individual sector funds (eg. Europe, Japan, North America)

Invests in a broad spectrum of stocks quoted on their respective market(s). The portfolio will normally provide exposure across all major industry sectors. Such funds aim to provide capital growth from a well-diversified portfolio of holdings.

Ethical fund

Usually invests in a wide range of predominantly smaller companies whose activities comply with a strict set of ethical criteria. These specialist funds aim to generate growth from a broad-based portfolio and are for those who wish to impose ethical criteria in relation to their investments.

Emerging markets fund

Invests in companies generating in, or whose shares are listed in, the emerging markets of usually Asia, Europe, Latin America and Africa. The fund will typically be invested across all major emerging markets. This provides opportunities for capitalising on the above average returns which may be available from countries which are at an early stage of economic development. A diversified portfolio of holdings spreads the risks which, by their inherent nature, are associated with investment in these markets. These specialist funds aim to produce growth over the medium to longer term, subject to short-term volatility.

European Smaller Companies
This fund invests in smaller companies listed on European stock exchanges. Typically, the fund will be invested across all major and most secondary markets within the region, although it may invest in developing markets when conditions appear to be appropriate. Risk rating is above average.

Technology
Invests in companies involved in technology-intensive industries on a worldwide basis. Its risk rating is 'higher'.

Other Investment Options

In addition to the above investment funds, those clients who contribute to SSASs will also have access to a much wider investment choice. This range could include OEICs, Unit Trusts and shares along with the facility to invest in commercial property.

Where commercial property or direct share purchase is considered, clients should bear in mind that larger fund sizes would generally be required so that the overall fund has a mixture of different assets (known as diversification). This helps to reduce the investment risk as you are not then relying on the performance of one asset in isolation.