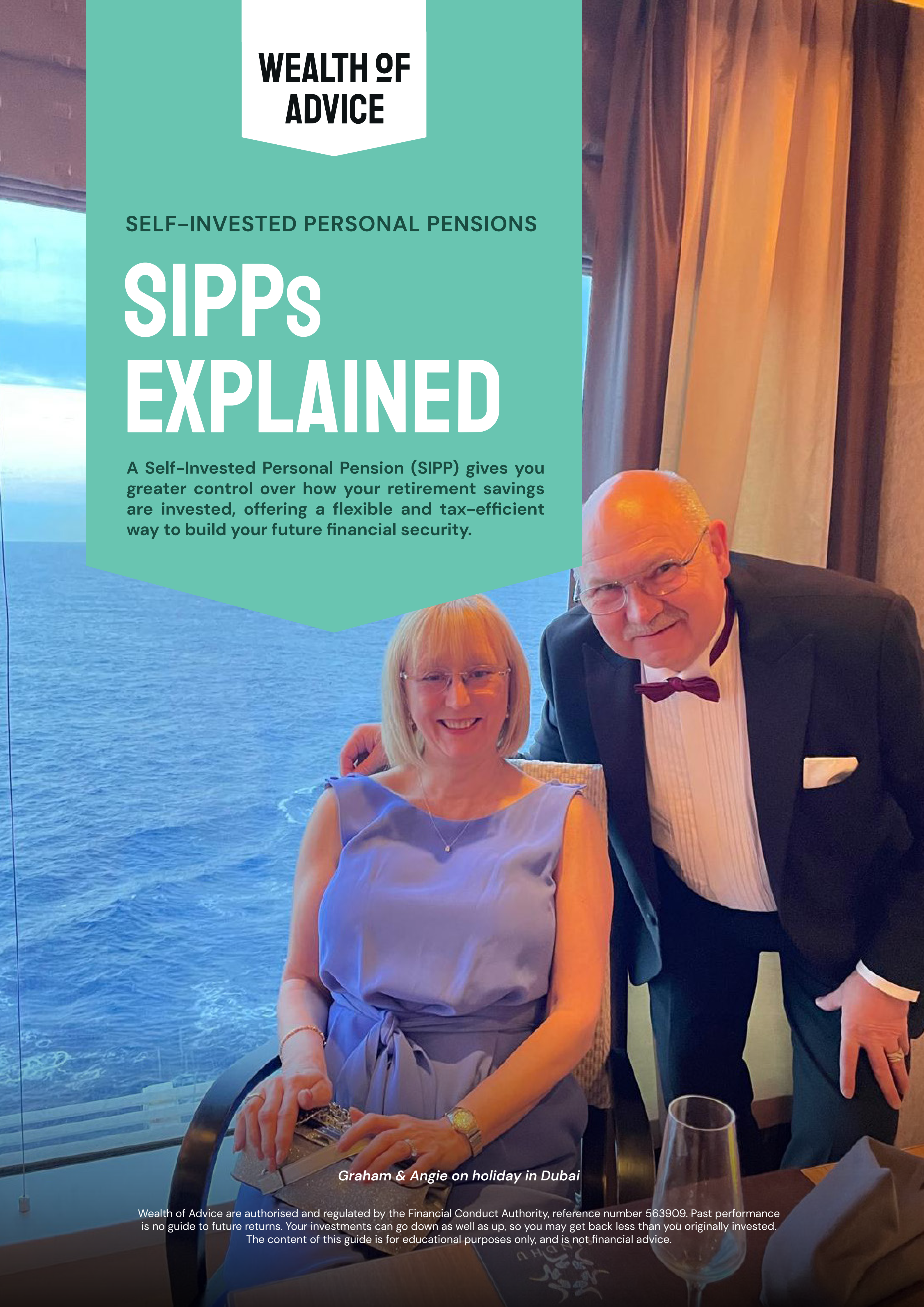
WEALTH OF ADVICE

SELF-INVESTED PERSONAL PENSIONS

SIPPs EXPLAINED

A Self-Invested Personal Pension (SIPP) gives you greater control over how your retirement savings are invested, offering a flexible and tax-efficient way to build your future financial security.



Graham & Angie on holiday in Dubai

IMPORTANT INFORMATION

We have written this guide to help you understand more about self-invested personal pensions and it is not personal advice.

Your retirement income will usually be generated from your pension which can be accessed from age 55 (rising to 57 from 2028).

We recommend you take care to understand the options available to you with your pension and check that your chosen option is the best fit for your circumstances.

The information in this guide is correct as of April 2026. UK tax rules can change at any time and its impact depends on your circumstances.

We are Wealth of Advice, authorised and regulated by the Financial Conduct Authority, reference number 563909.

ENQUIRIES@WEALTHOFADVICE.CO.UK

WWW.WEALTHOFADVICE.CO.UK

0191 384 1008

CONTENTS

- WEALTH OF -
ADVICE GUARANTEE

NO NONSENSE

RECOMMENDABLE FINANCIAL ADVICE

SINCE 2011

HOW DO
SIPPs ACTUALLY WORK?

a self-invested personal pension, or sipp, is a type of pension that lets you take control of your retirement money and investments.

Anyone can set up a SIPP. A SIPP is a form of personal pension that can give you more control over your retirement savings.

The SIPP can allow you to invest in almost anything and offers a wider range of investment options than those available via more traditional personal pensions.

Like all personal pensions, you can make contributions to a SIPP and will receive tax relief from the government if you are a UK resident under age 75. 20% tax telief is credited direct to your pension. If you are a higher rate taxpayer, you are eligible to reclaim further tax relief via tax returns. Once in the SIPP, your money grows free of income and capital gains tax.

A SIPP can provide a more extensive selection of investment options. Like personal pensions, you can invest in traditional funds, but the range will be more extensive. You have the option to invest with Discretionary Fund Managers to benefit from professional investment expertise. There is also the ability to invest directly into commercial property, shares or gold bullion.

In line with pension legislation, you can access benefits from a SIPP at age 55 (rising to 57 from 2028). 25% of the fund will be tax-free and the remainder will be subject to marginal rates of income tax.

As with any type of investment, there are no guarantees and values can go down as well as up and you may get back less than invested. The more complex the investment, the more likely the need for greater management. It is important to regularly review your investments and keep them up to date.

Helen & Graeme visiting Ardverikie Estate in Scotland

PENSION TAX RELIEF

A great incentive to pay more into your pension.

You're not alone in wanting the most for your retirement – it's also in the government's interest that you're able to retire well.

For every personal contribution made to a pension, the government will pay 20%, boosting the amount of money you've saved. This extra boost from the government is called basic-rate tax relief. Everyone who's UK resident for tax purposes and under 75 qualifies for basic-rate tax relief, even children and non-taxpayers. However, there are limits to the amount you can pay into a pension, which we explain later.

Basic-rate tax relief is added to your pension automatically. Your pension provider claims it for you from the government, and adds it to your pension.

If you pay higher-rate tax (40%) you can claim a futher 20% tax relief through your tax return.

Additional-rate taxpayers (45%) can claim back a further 25%. You must pay enough tax at the relevant rate to claim back the full amount.

For example, say you wanted to make a £10,000 contribution to your pension. You'd only need to pay £8,000 and the government would pay £2,000 of basicrate tax relief into your pension. Higher-rate taxpayers could then claim back a further £2,000, or £2,500 for additional-rate taxpayers via tax returns. Tax rules can change over time, any benefits will depend on your circumstances.

Kevin, John & partners enjoying John's 60th birthday in Morocco

MAKING THE MOST OF YOUR
PENSION ALLOWANCE

The amount of tax relief an individual can receive on their pension contributions is limited to the higher of £3,600 or 100% of relevant earnings, although, there is a cap on the total amount of tax relief an individual can receive in any one tax year, this is known as the 'Annual Allowance'.

For example, if your salary in the current tax year is £30,000, this is the most you, and third parties like your employer, can contribute across all your pensions and receive tax relief.

ANNUAL ALLOWANCE

The annual allowance is the amount up to which an individual's pension contributions can benefit from tax relief each tax year without incurring an annual allowance tax charge. If the annual allowance is exceeded, you need to declare the extra pension savings and pay the annual allowance charge through Self-Assessment.

Generally, the maximum amount that can be contributed in total from all sources each tax year is £60,000. This is known as the Annual Allowance.

This limit includes the total value of all contributions made by you, your employer, or anyone else on your behalf, as well as basic-rate tax relief added. It also includes any benefits built up in a final salary pension scheme.

The restrictions limiting pension contributions to the higher of £3,600 or 100% of relevant earnings do not apply to employer contributions. Whilst any contribution made by an employer will be assessed against the individuals 'Annual Allowance', the employer can pay contributions higher than an individual's relevant earnings.

Tax relief on employer contributions is given by allowing the pension contribution to be deducted as a legitimate business expense for corporation tax purposes.

There are a few exceptions which might mean your Annual Allowance is lower:

If your 'adjusted income' is over £260,000, your annual allowance will reduce by £1 for every £2 your income exceeds this, to a minimum of £10,000. Your adjusted income is broadly your total income, plus the pension contributions your employer adds for you.

After you reach the pension age (55, rising to 57 from 2028), if you take any taxable money out of your pension, then the amount you can contribute to your pension each year is limited to £10,000 (known as the Money Purchase Annual Allowance). This is important to consider if you intend to continue working and benefit from employer pension contributions.

GOT ALLOWANCE LEFT OVER?

If you haven't used your full allowance from the previous three tax years, you may be able to carry it forward and use it in the current tax year. This could mean you can make a very large contribution, up to £180,000 in some cases.

This does not apply if you have taken taxable income from your pension and have triggered the Money Purchase Annual Allowance.

UNDERSTANDING THE
LIFETIME ALLOWANCE

Lump Sum Allowance and Lump Sum Death Benefit Allowance

The Lifetime Allowance (LTA) was introduced in 2006 to limit the maximum benefits that could be taken from a pension before being subject to a Lifetime Allowance tax charge.

In April 2024 the LTA was replaced by the Lump Sum Allowance (LSA) and Lump Sum Death Benefit Allowance (LSBDA).

The LSA is set at £268,275 and is the maximum tax free cash you can take from your pensions during your lifetime.

The LSDBA is set at £1,073,100 and is the maximum tax free cash that can be taken from your pensions during your lifetime (your LSA) plus any tax free lump sum death benefits paid when you die.

There have previously been various forms of LTA protection for those with higher pension funds during years where the LTA was reduced.

Existing protections are still relevant for determining tax-free cash entitlement. Subject to certain conditions, anyone with a tax-free cash entitlement in excess of £268,275 because of their LTA protection will retain their rights to this higher amount. They also will have been able to restart pension contributions from 6 April 2023, without losing their existing protection.

Remember tax rules can change.

HOW MUCH SHOULD YOU CONTRIBUTE?

How much you should put into your pension depends on your circumstances.

As a rule of thumb, if you want to retire at 65, you should consider saving an annual percentage of your salary that's equal to at least half your age

when you start saving. So if you start saving when you're 24, you should consider putting at least 12% of your salary in your pension each year until you retire.

If you start at age 40, the above rule of thumb suggests you should consider saving at least 20%. You should try and maintain this percentage as your earnings increase.

Remember you can't usually take money out of your pension until age 55 (57 from 2028).

wealthofadvice.co.uk

- WEALTH OF -
ADVICE GUARANTEE
NO NONSENSE
RECOMMENDABLE FINANCIAL ADVICE
SINCE 2011

LET'S TALK
INVESTMENTS

A SIPP gives you access to an extensive selection of fund managers and more.

How comfortable you are making investment decisions, and how you feel about taking risks will probably determine how you choose to build your investment portfolio.

When it comes to choosing investments, there's no rush to make decisions. You can hold cash in your SIPP while you decide where to invest, safe in the knowledge you've received tax relief on your pension contribution. But remember that with little growth potential, cash isn't likely to meet your needs over the long term and charges will differ depending on which investments you choose. If you're not sure about an investment decision, you should seek personal advice.

CASH VS. THE STOCK MARKET

Interest rates on cash savings are currently low, but historically the stock market has delivered better returns. Pensions are designed for longterm investing, so you've usually got time to ride out any short-term falls to end up with overall growth. However, unlike the security offered by cash, there are additional risks with investing and ultimately the value of investments and income can fall as well as rise, so you could get back less than you invest.

CHOOSE A READY-MADE PORTFOLIO

If you'd prefer an expert to choose and manage investments on your behalf, you might consider a ready-made portfolio, based on your investment goals and attitude to risk.

For example, you might be an adventurous investor, comfortable with risk, and choose a portfolio that focuses on higher risk and growth areas to maximise returns. If you're more cautious you may choose a more conservative portfolio. This might mean slower growth, but could offer more stability and peace of mind.

You won't need to do any of the day-to-day management, but you'll need to keep an eye on the portfolio you choose as time goes on, and make sure the aims still match your own goals.

PICK YOUR OWN INVESTMENTS

If you'd like to choose your own investments, it's important to remember that diversity is key. Different types of investments and sectors perform well at different times, and so do different markets around the world.

While investment risk can't be eliminated altogether, making sure that your portfolio has a good variety of investments across a range of assets, regions and sectors can help shelter you when some areas don't perform as well as others. Fund managers also use a variety of strategies and favour different asset classes.

At different times, in different market conditions, some managers will outperform others. To help spread risk, you could consider choosing a number of fund managers so you're not relying on a single approach or asset class to be successful.

INVESTMENT OPTIONS

There are a range of SIPP tiers depending on the investments held within the SIPP.

TIER ONE

Like a regular pension, they offer access to a range of investment funds from the whole of market.

TIER TWO

Building on investment funds, you can also hold direct investments, for example equities in companies.

TIER THREE

Offering the full investment package available in Tier One and Tier Two, they will also allow you to directly hold commercial property.

Individual providers often label these tiers differently. Make sure you select the appropriate SIPP for your personal circumstances.

Alan enjoying a track day

WHAT CAN YOU
INVEST IN?

FUNDS

A fund is a collection of investments chosen and run by a fund manager. Each fund manager has an objective, for example to grow your capital, or provide a decent income. Funds can be invested in many different types of asset, like shares, bonds and property. Some are focused on just one type and some a mixture.

CASH

If you don't want to invest straight away, you can also hold cash in your SIPP. Cash savings offer lower rates of return for a high level of safety. When planning to take an income, cash can stabilise your shortterm income needs.

FIXED INTEREST

Fixed interests are commonly known as 'Bonds'. They are loans to companies or governments over a specified term. They pay regular interest, known as the 'coupon'.

EQUITIES

Also known as stocks and shares, equities represent part-ownership of a company. When you buy shares you literally own a 'share' of the business. You can buy and hold shares in your SIPP.

PROPERTY

A SIPP provides the ability to invest directly into Commerical Property by using the fund value to purchase it or you can invest in property related funds. Commerical property funds help to reduce risk by diversifying into numerous properties across different sectors.

ALTERNATIVES

Alternative options include a wide range of investments such as commodities like precious metals and oil, or currencies. Alternative investments may help diversify portfolios against risk however they can be volatile.

SIPPs AT RETIREMENT

A SIPP can make your transition into retirement more flexible.

You have more freedom than ever when deciding how to take money from your pension. With a SIPP you can normally start taking your pension money from age 55 (57 from 2028).

TAX POSITION

Usually you can receive up to 25% of your pension (subject to maximum £268,275) completely tax free, and everything else will be taxed as income when it's paid to you. You can receive your tax-free cash as one single payment, or in stages. Remember, you don't have to access your whole pension in one go or withdraw any money at all if you don't want to.

GETTING READY TO RETIRE

As you approach retirement, your investment strategy is likely to change depending on how you plan to use your pension. This may mean moving into less risky investments like cash. Or it could involve switching from investments which focus on growth to those which aim to pay an income. A SIPP gives you the flexibility to manage your investments as you see fit.

Pension Wise is the government's free, impartial pension guidance service, created to help you understand your retirement options. You can visit www.pensionwise.gov.uk or call 0800 138 3944 to find out more.

Penny in Alaska

UNDERSTANDING YOUR
RETIREMENT INCOME OPTIONS

DRAWDOWN

You can take your tax-free cash as you see fit and leave the rest of your pension invested, taking money from your pension as and when you need it.

Withdrawals above your tax-free cash entitlement will be taxed at your marginal rate of income tax.

With increased flexibility comes increased risk. Your income isn't secure, so if your investments don't perform well or if you withdraw too much, your pension value could fall or you could run out of money altogether. You'll need to be confident that your investment and income choices mean your pension can last throughout your retirement.

ANNUITY

An annuity pays you a guaranteed income for life, no matter how long you live.

You can choose whether your annuity income stays the same throughout your retirement, increases by a fixed percentage each year, or increases with inflation.

Lots of people qualify for an enhanced annuity, which means they get a higher income by confirming details about their health and lifestyle. It's easy to do and could mean you receive significantly more income over your lifetime.

Your annuity can continue to pay your spouse or partner after you die (joint life annuity) or the annuity can stop (single life annuity).

It's worth noting that once you've set up your annuity, you usually can't change the options you selected, even if your health changes.

TAKE A LUMP SUM

This option is called Uncrystallised Funds Pension Lump Sums (UFPLS). It lets you take money directly from your SIPP without having to choose drawdown. Each time you take an UFPLS, 25% of it is tax-free and the rest is taxed as income.

The rest of your pension stays invested, and while this creates the potential for growth, it also means your pension value isn't secure.

Deciding whether to withdraw money over time or all at once is an important decision and can affect the amount of tax you pay.

MIX AND MATCH

You don't have to make a single choice from the three options above. You could choose a mixture instead. For example, you could use some of your pension to cover essential living costs through an annuity, and use the rest to provide a flexible income with drawdown.

TALK TO US AT
WEALTH OF ADVICE

Our Chartered Financial Planners are here to help you get the most out of your finances, whether that's planning for retirement or managing your estate.

ENQUIRIES@WEALTHOFADVICE.CO.UK

WWW.WEALTHOFADVICE.CO.UK

0191 384 1008

WHAT HAPPENS
WHEN YOU DIE?

DEATH BEFORE OR AFTER AGE 75

If you die before age 75, your beneficiaries can normally withdraw what they like from your pension without paying tax.

If you die age 75 or older, withdrawals will be taxed as the beneficiaries' income.

NOMINATING BENEFICIARIES

You can nominate one or more beneficiaries. This is usually a spouse or child, but it can be anyone you like and any number of people. You can change your beneficiaries at any time.

INHERITANCE TAX

From April 2027, pension funds will be included in an individual's estate for Inheritance Tax (IHT) purposes.

Benefits being passed to a spouse or civil partner will qualify for spousal exemption.

Death-in-service benefits, dependants' scheme pensions, survivors' pensions under joint life annuities and death benefits to qualifying charities will not be included.

- WEALTH OF -
ADVICE GUARANTEE
NO NONSENSE
RECOMMENDABLE FINANCIAL ADVICE
SINCE 2011

IS A SIPP THE RIGHT OPTION FOR YOU?

Traditional personal pensions tend to offer between a dozen and several hundred funds. Stakeholder pensions have lower charges, but tend to offer a more limited choice of funds.

A SIPP is just one type of pension for you to consider. You might not need or want the wide investment choice that a SIPP offers. Or you may already have a good pension through your employer.

If you have built a sizeable pension fund and feel investment choice is important to you then a SIPP could be the right fit. They do come at an additional cost in comparison to Stakeholder pensions but they have a far wider investment reach that may meet your investment needs.

The wide investment choice in SIPPs can make a significant difference to your pension as your pension investments will directly impact the size of the pension eventually available for retirement.

Most pension plans are provided by insurance companies. If you'd like to be able to invest with more varied fund managers in the market, a SIPP may be a better choice.

If you choose a SIPP, you should have the desire and confidence to make your own investment decisions. If you're not sure if a SIPP is right for you, ask for personal advice to help you with your decision.

TALK TO US AT WEALTH OF ADVICE

Our Chartered Financial Planners are here to help you get the most out of your finances, whether that's planning for retirement or managing your estate.

ENQUIRIES@WEALTHOFADVICE.CO.UK

WWW.WEALTHOFADVICE.CO.UK

0191 384 1008

TALK TO US AT

WEALTH OF ADVICE

ENQUIRIES@WEALTHOFADVICE.CO.UK

WWW.WEALTHOFADVICE.CO.UK

0191 384 1008

Wealth of Advice are authorised and regulated by the Financial Conduct Authority, reference number 563909. Past performance is no guide to future returns. Your investments can go down as well as up, so you may get back less than you originally invested. The content of this guide is for educational purposes only, and is not financial advice.

July 2026