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Rowanmoor Defined Benefit SSAS

An occupational scheme offering members a more valuable pension benefit

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Key facts

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- The UK's largest independent SSAS provider
  - Double the size of the next nearest competitor
- Rowanmoor is AKG rated B (strong)
- Best SSAS Provider award at the Investment Life and Pensions Moneyfacts Awards for 11 years running
- Over 15,000 clients
- Over 11,000 schemes/plans in force
- More than £5bn of funds under administration
- **Rowanmoor is part of the Embark Group**
  - Embark employ over 700 people, across eight businesses, located in six offices
  - Embark has £33bn+ in AUA and over 300,000 consumer clients

Reasons a Ltd company business could benefit from the Rowanmoor DBSSAS

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1. Boost funding & larger contributions

- Allow catch up re lost years of pension funding – Carry forward
- Accumulate larger pension funds – over a shorter time period *versus* defined contribution plans/schemes
- Assist the funding required for a specific investment(s) such as property purchase
- Offer a solution for those partly or fully impacted by Tapered aa rules
- Offer a solution to business owners impacted by MPAA but who still have significantly unused LTA

2. Enhance balance sheet flexibility

- Time the company contributions made to the scheme each year - linked to company profitability
  - Each targeted defined benefit pension promise is stand alone pension promise
  - Meaning scheme does not require a new accrued defined benefit promise every year
  - Alternative means of profit extraction versus salary and dividends

Reasons a Ltd company business could benefit from the Rowanmoor DBSSAS

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3. Invest in clients own business

- Funds in scheme can be pooled with 11 employees to assist investment gearing.
- Scheme can purchase a wide range of investments including:
  - Unquoted Shares
  - Commercial Property
  - Loan back to company
  - Unconnected Ltd company loans
  - Platform and or DFM via trustee investment
- Scheme borrowing to gear up scheme worth by a further 50% - greater investment capabilities

4. Reduce corporation tax liability

- Employer contributions into scheme qualify for corporation tax relief
  - Wholly and exclusive rules for Controlling Directors
- Significant relief possible via the contributions permitted by a DBSSAS, especially where carry forward is used for scheme members
- Spreading of corporation tax relief does not occur in first operating scheme year where contributions have been made.

DB SSAS: structure and legislation

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- Pension Protection Fund (PPF) exempt
  - No levies payable - due to ‘small scheme’ rules
- No link to service, salary or future employment
  - Instead, targeted deferred defined benefit deferred scheme pensions are secured in the scheme, on an ad hoc basis, at the discretion of the scheme trustees
  - Each year the trustees decide if they wish to add further defined benefit pension benefits for scheme members

DB SSAS: structure and legislation

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Employer contributions: when will tax relief be spread?

- Where employer contributes to more than one registered pension scheme in same chargeable period:
  - Spreading provisions apply separately to respective contributions made to each scheme
  - NOT to combined total of employer contributions made to all schemes
- Legislation is written so that:
  - Where no contribution paid in previous chargeable period, tax relief on contributions in current chargeable period will not be spread
    - For example; if employer has only just set up pension scheme

Source: HMRC: Contributions: tax relief for employers: spreading – PTM043400

DB SSAS: structure and legislation

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Business Income Manual

- ‘Wholly and exclusively’ – as with any SSAS, this is unlikely to impact controlling directors in terms of <u>any</u> size company contribution into pensions

The test to ensure that money spent in a business meets a wholly and exclusive for purposes of the business’s normal expenditure is not applicable for controlling directors.

If the contributions into the DB SSAS are for the controlling directors of the company and the contributions are large, then tax relief would be able to be claimed in full

DB SSAS: structure and legislation

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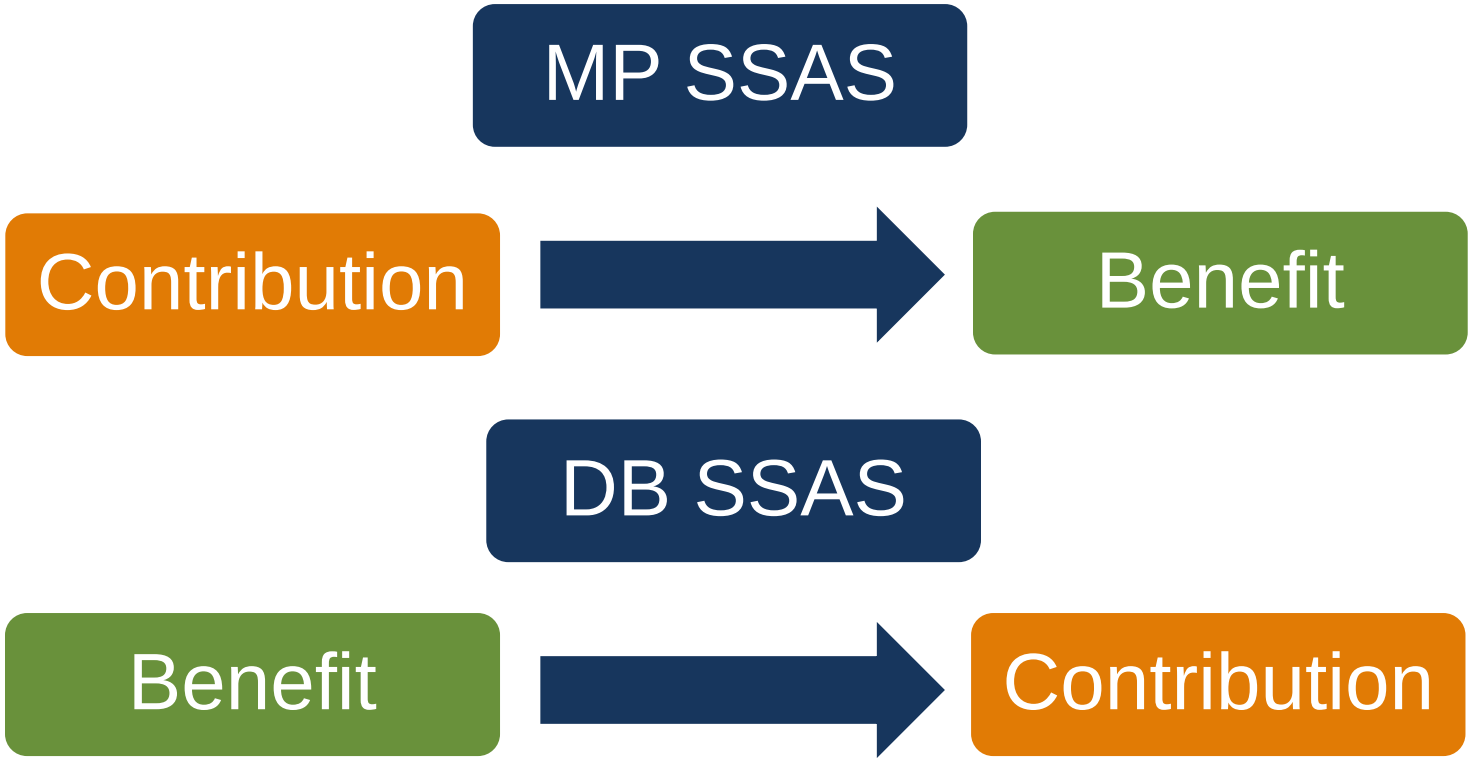
A different type of pension benefit: Money Purchase vs Defined Benefit



DB SSAS: structure and legislation

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The numbers: Money Purchase vs Defined Benefit (input limits and maximum benefits)

	Money Purchase SIPP or SSAS	DB SSAS
Method of tax assessment	Contributions paid	Benefit accrual
Maximum annual benefit	Annual allowance (2019/20) £40,000	Annual pension – 1/16th of annual allowance £2,500 pa
Maximum total benefit	Lifetime allowance (LTA) £1,055,000	Total annual pension – 1/20th of LTA £52,750 pa

In the DBSSAS, the available annual allowance is converted to identify the maximum defined benefit pension accrual by dividing it by 16. **(E.G. £40,000 / 16 = £2,500)**

Source: Rowanmoor Group plc Actuarial Department April 2019

Benefit accrual

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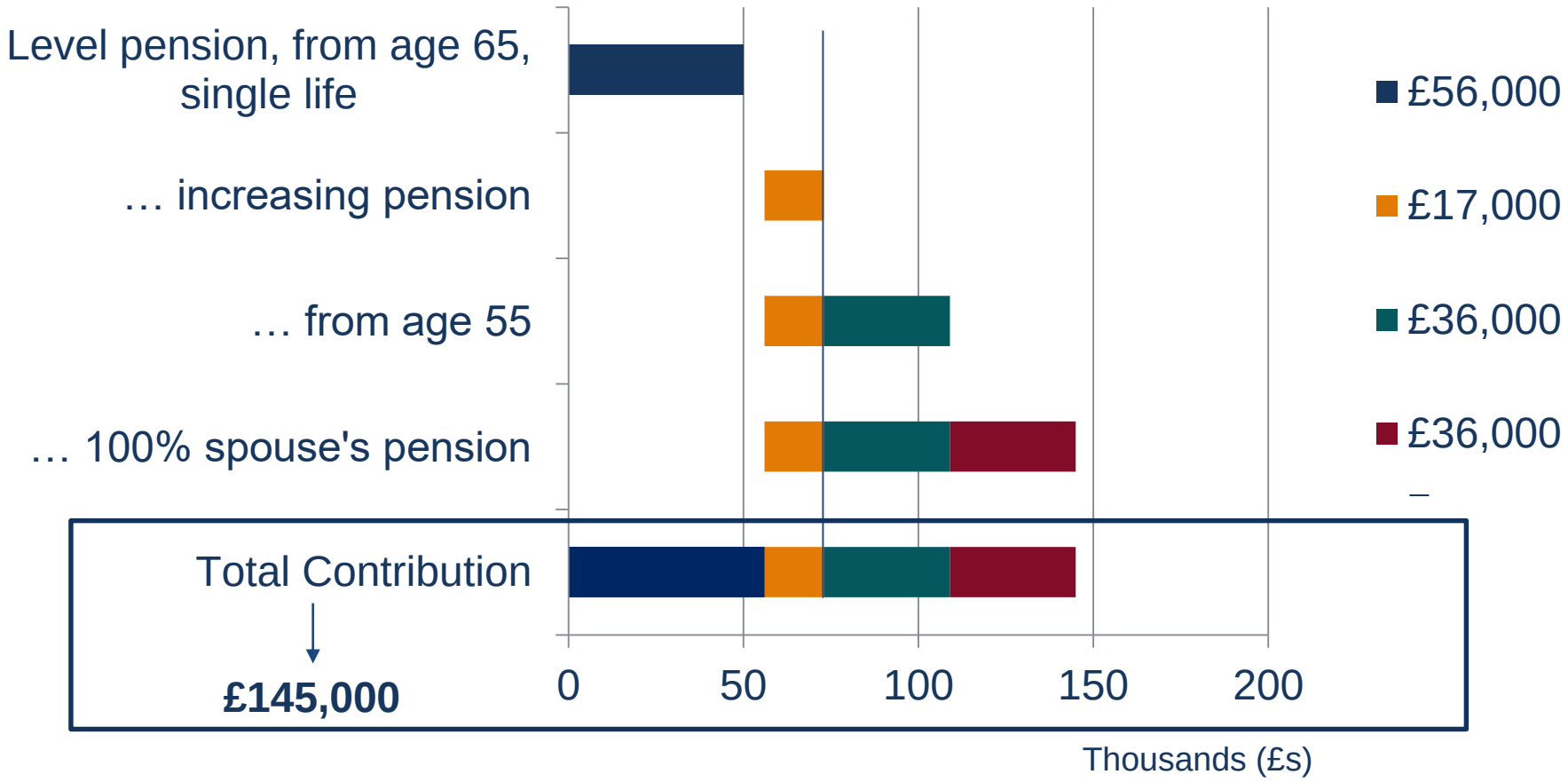
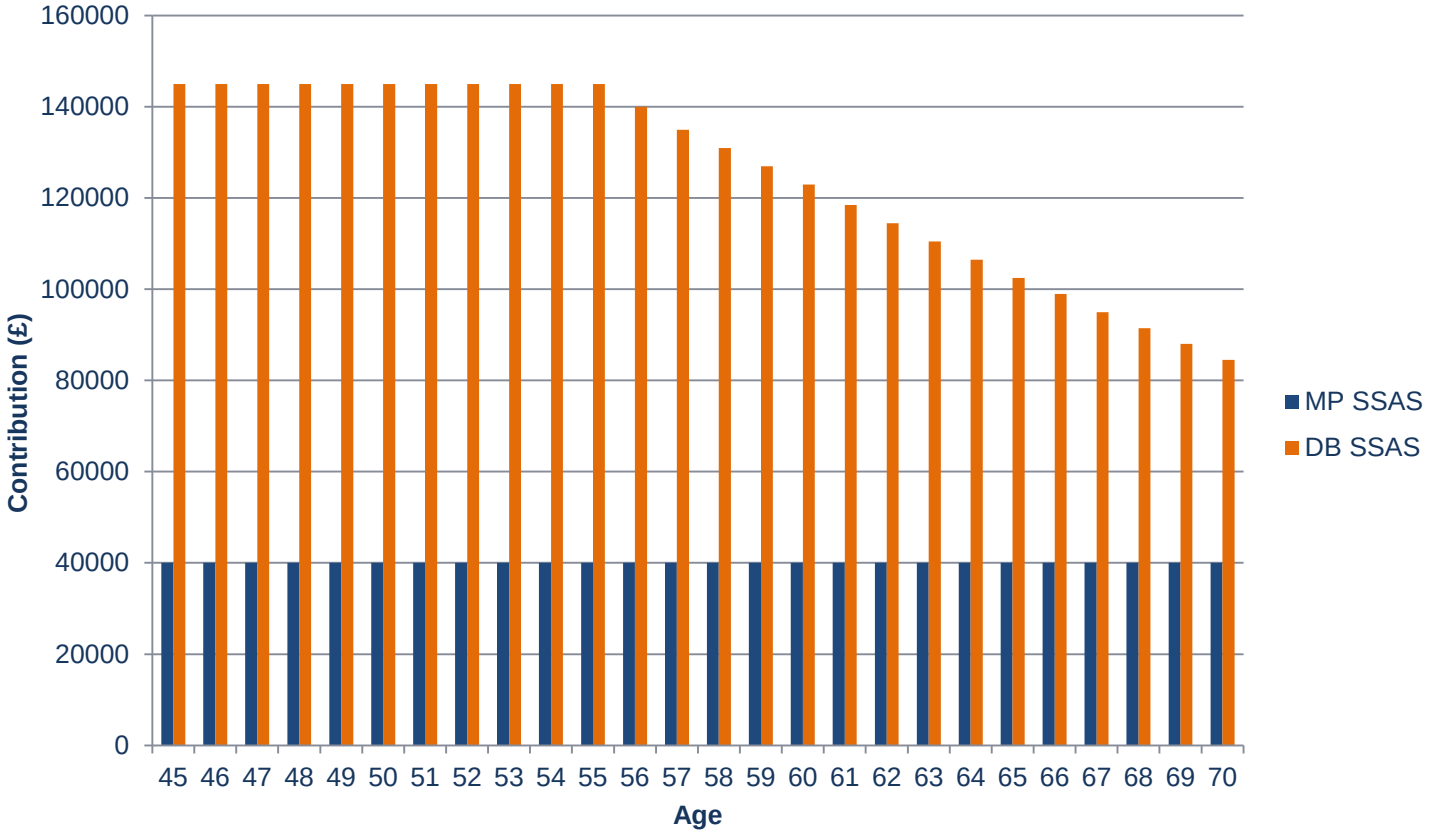
Company Contribution actuarially justified to meet £2,500 p.a.



Source: Rowanmoor's Actuarial Department April 2019

Benefit accrual



Rule of thumb: DBSSAS permits 3.6 to 2 times greater contribution, compared to a money purchase plan/scheme contribution - depending on age

Source: Rowanmoor's Actuarial Department April 2019

Funding reviews

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- DB SSAS
  - Every three years an actuarial review of the scheme is carried out where the value of scheme assets is compared to its liabilities (earlier reviews, subject to fee, can be carried out)
- Benefit of DB SSAS
  - If, on review of the scheme, the assets exceed the liabilities, the surplus can be used to fund additional benefits for scheme members (new or existing)

Funding review: surplus

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- What happens if there are assets greater than scheme liabilities (surplus)?
  1. Surplus funds can be used to provide discretionary increases on the defined benefit pensions already secured
  2. Surplus funds could be used to provide existing members with additional NEW defined benefit pensions
     - Which would utilise clients' annual allowance, so a check would be needed on acceptability
  3. Surplus funds could be used to provide defined benefit pensions for any NEW members joining the scheme
     - Which would utilise those clients' annual allowance, so a check would be needed on acceptability

Funding review: deficit

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- What if my assets are less than scheme liabilities (deficit)?
  1. Actuaries apply a very risk averse view on fund performance, so the risk of a deficit is greatly reduced (Gilt based) so a deficit in most cases is unlikely
  2. If there is a deficit, a further review could be carried out in three years and the fund growth could remove the deficit
  3. The trustees could agree a contribution schedule with the employer to remove the deficit or settle in one payment to scheme (claim relief on that deficit contribution)
  4. The trustees could seek agreement from the members to reduce the pension benefit – when it is identified and or at point of transfer out to another pension

Benefits commence

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A DB SSAS only has the ability to pay a scheme pension

- Drawdown options do not exist, unless a client transfers to a money purchase pension scheme

- A client will only be able to take pension commencement lump sum (PCLS) and commuted pension income at the same time (pension income cannot be deferred when taking PCLS)
  - PCLS is based on the pension accrued (up to **five times the accrued pension**), but limited to 25% of the lifetime allowance

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Before benefits commence

All death benefits are payable at the discretion of the trustees

Defined benefit lump sum

- Lump sum of cash equivalent transfer value (CETV) is limited to LTA
  - Lump sums payable on death pre 75 would be tax free if less than the LTA
  - Lump sums payable on death post 75 will be taxed at recipients marginal rate of tax

- Any remaining fund over LTA, can be used to pay a pension to a dependant, up to 100% of the member's pension, taxed at the dependant's marginal rate
  - If there is no living dependant any surplus fund over LTA needs to be allocated to a non-connected member or returned to the employer, where it would be taxed at 35%

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After benefits commence

All death benefits are payable at the discretion of the trustees

Pension protection lump sum

- 20 x pension promise, less pension paid. So a maximum of the LTA in force at that time
  - Payable tax-free if death occurs before age 75
  - Taxed at recipients marginal rate of tax if death occurs from age 75
    - Any surplus fund would need to be allocated in scheme to a non-connected member or returned to the employer, where it would be taxed at 35%

- Alternatively, a pension may be paid to a dependant of the lesser of the member's pension and the LTA / 20
  - If there is no living dependant any surplus fund needs to be allocated to a non-connected scheme member or returned to the employer, where it would be taxed at 35%

Client scenarios

Scenario 1: James and Peter

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- Both 49 years of age
- Joint business owners – Office and Retail Interior design builders
- Have £290,000 in business after other company yearly expenditure, including salaries and dividends
- Company is facing 19% corporation tax, if left in the business
- **Both have £40,000 unused annual allowance (aa)**
- **They can each use their aa to secure a £2,500 p.a. DB pension promise each, via a DBSSAS**

- Company contribution to meet the pension promises would be £288,600 – Based on Scheme NRD 55
  - (£144,300 costing for each of their defined benefit accrual)

Corporation tax relief claimed will be = £54,834

Each member has utilised 13.68% of the current LTA in one transaction

Scenario 2: Tom

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- Tom (48) runs a specialist engineering and design business
- He needs to move to new larger premises
- The premises he has found will cost £800,000 to purchase
- **Tom wants to secure the premises via his own pension**
- The company has cash in bank of £600,000
- Tom has £175,000 in a SIPP he has not contributed to for over three tax years including current tax year
- Tom also has £160,000 annual allowance available
  - £120,000 of carry-forward PLUS
  - £40,000 for the current tax year
- Tom is unaffected by the tapered annual allowance rules

Scenario 2: Tom

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- Tom could only accumulate £502,500 into SIPP (including maximum 50% borrowing).
  - Not enough to secure the property via one transaction
- Tom decides to establish a DBSSAS to secure the proposed property
  - Current time taken for HMRC to register scheme = 4/5 weeks
- Tom chose the DBSSAS as he also likes the potential for funds to be used within his business in the future by way of a secured loan back
  - Tom sees the scheme as a business planning tool, combined with meeting his retirement investment and accumulation plans

Funding of Toms DBSSAS

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Tom added

Transfer from SIPP £175,000

Company Contribution £577,000

Defined Benefit SSAS

Tom's BENEFIT SCHEDULE 1
£3,200 pa pension from age 55

Tom's BENEFIT SCHEDULE 2
£10,000 pa pension from age 55
Calculated as:
£160,000 AA / 16 = £10,000 p.a.

ASSETS

£ 752,000 Cash
£ 150,000 Borrowing
£ 902,000 Total

The scheme purchases:

Property for £800,000
(Charge taken by bank on the property)

The balance of scheme funds (after costs)are invested into the Trustees' chosen investment platform

£150,000 borrowing from bank

Fund Platform

Tom - what happens next?

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- Tom expects his company to make ad hoc future additional contributions into the DB SSAS
  - Securing and therefore secure additional defined benefit pension promises in the scheme
- Toms wife works in the business in a key company role and may be added as a member to scheme
- Tom anticipates surplus funds to be identified periodically, via actuarial scheme reviews
  - Can be used to provide additional targeted defined benefit pensions for him and his wife’s pension scheme benefits

Scenario 3: Sam, Helen, Jane

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- Aged 50, 51, 52. Operating a consultancy business.
- They have secured windfall profits in current company tax year of £1,900,000
- No major operating costs within their business – current or planned
- Had considered taking large dividend but aware of impact of tapering of their aa by doing so.
- They have full carry forward aa available (non tapered), including 19/20 aa, totalling £160,000 each.
- Each have under £300,000 in existing pension benefits each via existing registered pensions.
- No pension contributions made over last 3 tax years
  - due to focus on developing business and commitments therein

Scenario 3: Sam, Helen, Jane

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- They establish a 3 member DBSSAS
- Their £160,000 aa can allow a defined benefit pension promise to be established of £10,000 p.a. for each of them
  - £160k aa divided by 16 = £10,000 p.a.
- They choose the earliest NRD possible for this benefit to start age 57 (based on government current plans)
- The TOTAL company contribution required to secure their deferred defined benefits here is £1,569,000
  - Split between them as £523,000 each
- £1,569,000 made into the DBSSAS in one company contribution.

Corporation tax relief (19%) claimed will be = £298,110

Each member has utilised 49.5% of the current LTA in one transaction

Scenario 4: Harry

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- Harry is 56 – Runs a successful Ltd company - Haulage
- His aa has been fully Tapered since 16/17 and will be in 19/20
- He had discounted pension provision due to perceived limit of £10,000 p.a. allowable into Defined Contribution (money purchase) pensions.
- He does hold an old paid up pension he started in 2001 with a current fund worth of £120,000
- His adviser confirms he has unused aa = £40,000 via CF and 19/20 combined.
- Harry can establish a DBSSAS on behalf of his Ltd company with him as sole member.
- He confirms he plans to retire at age 60 and would like to fund pensions at maximum permitted level for next 4 years.

Scenario 4: Harry

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- DBSSAS set up fees and ongoing administration fees will be invoiced to be settled by Harry's company as the sponsoring ER to scheme.
  - Harry can claim those fees as a business expense and claim corporation tax relief on the expenditure.
  - Harry can do same for adviser fees for advisory services provided to his company by his financial adviser
- Harry's £40,000 available unused aa can secure a Defined Benefit promise of £2,500 p.a.

Rowanmoor confirm company contribution required of £122,500 (scheme NRD assumed as 60)

£122,500 noted as a business expense for corporation tax relief purposes

20/21 and Future Tax Years

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Harry is considering varying his taxable income in future years (lower dividends in favour of larger pension funding)

1. Either to remove Tapering impact fully so he has £40,000 annual allowance in each of the next 4 tax years
   - Requiring him to have Threshold income of under £110,000 p.a.

<u>Assuming actuarial and investment assumptions stay the same going forward:</u>

Over the next 4 tax years a further £490,000 could be paid out of the company into the DBSSAS (£122,500 p.a. x 4)

Scenario 5: Stan

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- **Stan, a company director**, aged 58, has **partially retired** from the company he established, working three days a week
- **He has income from the business and receives a small pension**; he intends to continue working as long as possible
- **Stan triggered the MPAA when he drew benefits recently,** which restricts the contribution he can make to a defined contribution (money purchase) scheme
- **Stan's current pension provision is well short of the lifetime allowance (over 50% unfunded for)**.
  - **His company has had a very good year profits wise = £500,000**
  - **Stan would like to make maximum permitted company contribution into his pension before end of his company tax year**
    - His threshold income will be below £110K p.a. (no tapered AA required)
- <u>Stan's adviser tells him that the MPAA restrictions do not apply to contributions made to a defined benefit scheme</u>

Scenario: Stan

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The money purchase annual allowance test

- Stan has already paid maximum £4,000 into a SIPP, after triggering the money purchase annual allowance and set that aside in accounts already
  - His money purchase annual allowance excess is therefore £0

However…via DBSSAS

1. Stan still retains £36,000 ‘alternative annual allowance’ (£40,000 annual allowance less £4,000 money purchase annual allowance) **which can be used but only via a defined benefit pension accrual**
2. Stan also has £100,000 unused ‘alternative annual allowance’ **which could also be carried forward and used for defined benefit pension accrual**

What happens next?

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Contribution:

Scheme NRD used: 60	Contribution value	Annual pension
Carry-forward for previous three years (unused annual allowance of £100,000)	£306,250	£6,250
Current tax year (balance from annual allowance of £40,000 less £4,000 contribution=£36,000)	£110,250	£2,250
Total	**£416,500**	**£8,500**

Cost to company

	Total
Contribution	£416,500
Less Corp Tax Relief (pension contribution a justifiable business expenditure) at a rate of 19%	-£79,135
Net cost to company	**£337,365**

The company can claim corporation tax relief of £79,135 on the DBSSAS pension contribution

DB SSAS: summary

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- Defined benefit (targeted) pension planning provision
- Pension benefits can be built up in stages as required, or as principal employer profits allow
- Usual SSAS investments allowed, including loanback facility
- Usual borrowing capability of up to 50% of net fund worth
- Actuarially justified funding principles
- Not service and salary related, but still offering the ability for an individual to end up securing a targeted pension benefit at retirement (built up as company profits allow in stages)
- Extremely tax-efficient scheme from an employer's perspective
- A true business planning tool in the eyes of the business owner needs and scheme members retirement provision needs (duel benefit requirements)
  - Bringing new meaning to the phrase "my business is my pension"

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