CASE STUDY – GROUP SIPP

Toplaw & Co are a long-established firm of solicitors with 10 partners renting High Street premises, with a strong local client base. They have the opportunity to buy their office building for £2m and feel that this would be a good investment and give them long term security in their market place.

The partners each have a variety of personal pension plans of different sizes totalling £1,400,000. They feel that they could make better use of this money if it was put towards buying their business premises. An independent financial adviser is appointed to give them advice and confirms the suitability of transferring these funds into a property investment.

A Curtis Banks Group SIPP is established for the 10 partners. They are all trustees of the SIPP and it has a single fund, which will be used for the property purchase. The existing pension plans totalling £1,400,000 are transferred into the fund and borrowing of £700,000 is arranged from the firm's bankers. The Group SIPP then has a total fund of £2,100,000 which is sufficient to cover the property purchase plus costs.

As part of the purchase, the existing lease on the premises, for a rent of £160,000 p.a., is transferred to the Group SIPP as the new landlord.

Each partner has a share in the Group SIPP fund based on the capital they have transferred in from their pension plans, and they are entitled to the same share of the rental income and any capital growth. A Declaration of Trust is drawn up confirming how the fund is shared between the partners. It states that, should any partner wish to transfer out, the other partners have the option to increase their shares in order to buy them out, failing which the property must be sold.

The Group SIPP has had the following benefits:

- The partners have been able to purchase the property by using their existing pension funds, without the need for raising funds personally or through the business

- The pension funds are earning a good rate of tax free income, with the potential for capital growth. The gearing from the bank borrowing increases the growth potential.

After 5 years, with the help of a favourable rent review, the bank borrowing has been paid off and the Group SIPP starts to build up surplus cash. As one of the partners is due to retire in a few years' time, this cash is not invested, as funds will be needed for the retirement benefits.

The partner retires with a fund of £400,000, substantially more than his previous plans were worth, as a result of rental income and capital growth. He takes a lump sum of £100,000 (25% of his fund) and decides to keep his remaining funds in the SIPP and take income drawdown from them. The rental income on the property is more than sufficient to pay his pension. Surplus cash is invested in a managed portfolio with the help of professional advice.

The percentage shares in the SIPP are re-adjusted to allow for the retiring partner having a lesser share remaining. This re-adjustment then takes place on an annual basis to take account of the pension paid out.

A few years later, one of the younger partners leaves to join another practice and requests a transfer of her funds. Some of the managed portfolio is sold to raise cash for this transfer. The percentage shares in the SIPP are again adjusted for the remaining members to allow for this transfer-out.

This example shows some of the ways in which the Group SIPP can adapt to changing circumstances. Another option for paying out funds for retirements or leavers is for the Group SIPP to increase its borrowing, instead of using its cash resources.

Curtis Banks Ltd

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