

SIPPs: A guide to managing your own pension



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The value of your investments can go down as well as up and you may get back less than you originally invested. We don't offer advice, so it's important you understand the risks, if you're unsure please consult a suitably qualified financial adviser. Tax treatment depends on your individual circumstances and rules may change. Past performance is not a guide to future performance and some investments need to be held for the long term.

Introduction

Pensions and employment patterns have changed dramatically in recent years. The traditional pension once offered to you by your employer, paid after 40 years of service, is not applicable for most of us anymore.

That's why many investors take matters into their own hands and open a self-invested personal pension (SIPP). One of the most flexible types of pension, a SIPP lets you select and manage the investments in your pension pot yourself. You can open a SIPP alongside your existing workplace or other personal pensions – and in doing so, can open up a range of investments that may not be available to you via other schemes.

Like other pensions, a SIPP lets you save tax-efficiently within set limits. You get tax relief on the money you personally pay into your SIPP, letting you effectively reclaim your income tax. (Although you will need to pay income tax on money you take out of your SIPP at the other end.) And thanks to investment platforms, you can open a SIPP easily online. They're often competitively priced, too.

The rise of robo-adviser platforms (and no-hassle holdings such as our AJ Bell funds) now means you can manage your own pension pot without being an experienced, hands-on investor. And you can still benefit from the freedoms a SIPP gives you – letting you choose how you invest, when you retire and how much money you take when you do. But needless to say, with more pension freedom comes more pension responsibility. It's vital you consider the impact your decisions could have on your retirement.



Did you know?

AJ Bell was the first company to offer an online SIPP for execution-only investors in 2000, so we have a wealth of experience to offer you when it comes to dealing with SIPPs. We are also active and fervent campaigners for customers in the pension market generally – we simply want you to get the best deal, no matter what.

Main types of pension



Personal Pension

You set up a personal pension yourself through an insurance company or other regulated personal pension provider. Compared with an employer's occupational pension scheme, a personal pension can give you greater freedom over how to invest your money. Employers can contribute to a personal pension, but not every employer will. A SIPP is a type of personal pension – one where you choose the investments.



Stakeholder pension

Introduced in 2001, stakeholder pensions are a 'low cost' pension designed to be accessible to a wide range of people – including low earners, the self-employed and those who aren't in work but can afford to make contributions.



Occupational pension

This is a pension scheme which an employer sets up for its employees. Often the employer, as well as the employee, contributes to it.

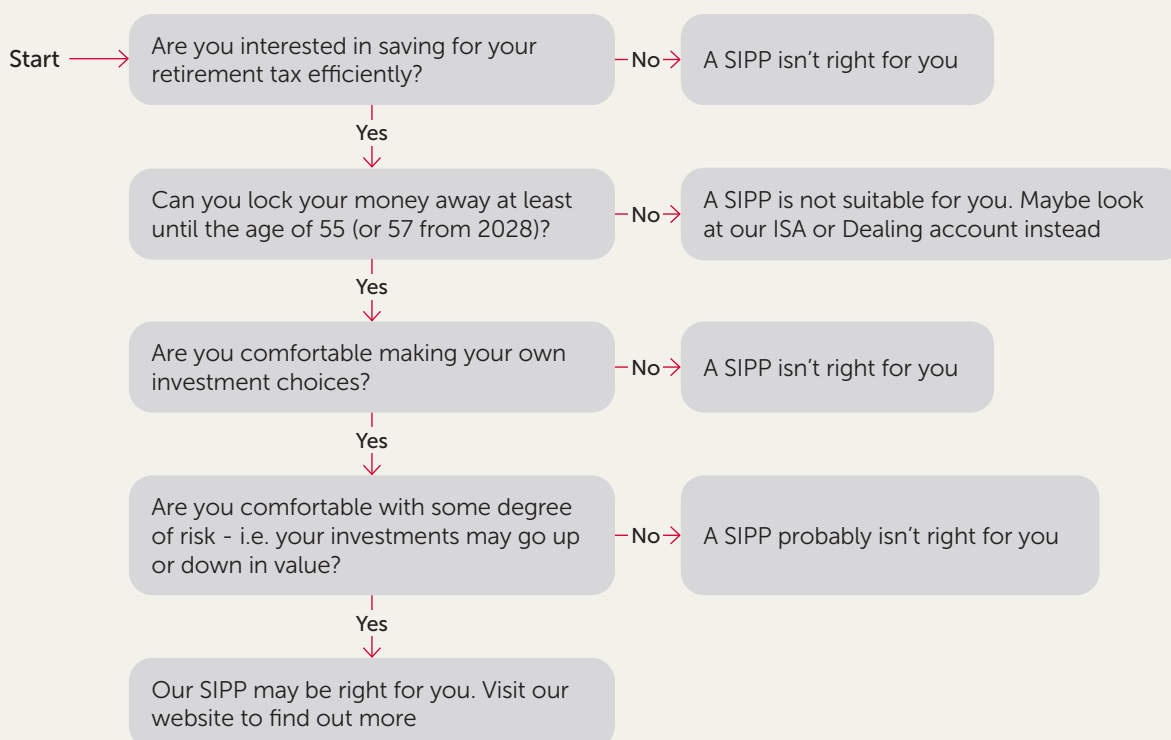
Is a SIPP right for me?

If you're comfortable making your own investment decisions, want to save tax-efficiently for your retirement and are looking to increase the range of assets you can hold in your pension portfolio, then a SIPP could be ideal for you.

Here are a few things to consider:

- Like other pensions, one of the key advantages of a SIPP is that any contributions you make, up to the amount you earn, are given basic rate tax relief of 20%. And higher and additional rate tax payers can also claim back the extra tax they've paid. (But remember that apart from a tax-free lump sum of up to 25%, you'll have to pay income tax on money you withdraw from your SIPP in retirement)
- A SIPP can help to build up your pension savings alone or complement existing pensions. If you, like many others, have amassed multiple pensions during your working life, you could transfer some or all of them to a SIPP to make managing them a little easier. But before doing this, you should consider whether you're giving up any guarantees under your current schemes
- If you've been saving into other pensions for many years, you may have a sufficiently large pension pot and not need to put any more aside
- If you're looking to pay more money into a pension, saving into a SIPP is easy and can be done by you and/or your employer
- If you don't want to make your own investment choices and only intend to make very small contributions, you may find the pension offered by your employer, or a stakeholder pension, gives you everything you need
- You should be careful not to tie up more of your money than you can afford. Pensions can't be accessed until age 55 at the earliest – and this will rise to 57 and over from 2028

No matter what pension you eventually choose, you should do your research carefully and look at all the options before making a decision. If you're unsure, it's a good idea to take advice from an FCA-authorised financial adviser.



Tax benefits of a SIPP

Under current tax rules, if you're working you can put in up to 100% of your relevant UK earnings (from employed or self-employed income) into your pension pot each year and get tax relief. For most people, this is subject to the maximum annual allowance of £60,000 – which includes basic rate tax relief. So you pay £48,000 into your pension and would receive £12,000 in tax relief, providing you have sufficient earnings.

Basic rate tax relief is claimed at source by your SIPP provider – so for every 80p you put into your pension, the Government will add 20p in tax relief to make it up to £1. If you're a higher rate taxpayer, you can reclaim up to an additional 20% through your self-assessment tax return. So if you pay in 80p, your SIPP provider will reclaim 20p in tax relief into your pension and you can reclaim up to an additional 20p. This means as a higher rate taxpayer, you can effectively save £1 into your pension for as little as 60p.

However, as covered in the 'Tax when you take your pension benefits' section, you'll need to pay income tax on the pension withdrawals you make later, apart from a tax-free lump sum of up to 25%.

Amount you pay	Government adds (20%)	Total invested in your SIPP	Higher rate tax payers can claim back up to a further*	Effective cost for higher rate tax payers can be as little as*
£800	£200	£1,000	£200	£600
£8,000	£2,000	£10,000	£2,000	£6,000
£16,000	£4,000	£20,000	£4,000	£12,000
£32,000	£8,000	£40,000	£8,000	£24,000

*for the full amounts quoted to be reclaimed and effective costs indicated to apply, the tax paid on the whole contribution amount must fall in the higher rate tax band. For example, someone earning £80,000 can make a £16,000 net contribution and the whole £20,000 gross amount will have been subject to higher rate tax, so the full additional £4,000 can be claimed. Someone earning £60,000 will only have paid higher rate tax on a small proportion of their earnings, so a smaller amount can be claimed.

For the 2025/26 tax year, if you're a high income individual (with an 'adjusted income' of over £260,000 for the tax year and 'threshold income' of over £200,000), your annual allowance is tapered. For every £2 of adjusted income above £260,000 your annual allowance is reduced by £1. The maximum reduction will be £50,000 which means that if your adjusted income is over £360,000, your annual allowance will be £10,000. For more information please read our taper relief guide.

Although the amount you can pay into a pension is limited by your earnings, any UK resident under the age of 75 can put at least £3,600 into their SIPP each year, whether they're working or not. (This would be a contribution of £2,880 with tax relief at 20%, bringing the total contribution to £3,600 a year.)

If you pay in more than your available annual allowance, you'll be subject to the annual allowance charge – where HMRC will effectively recoup the tax relief claimed on the excess amount.



Did you know?

If you've not managed to use up all of your annual allowance from previous tax years, and have been a member of a pension scheme, you can potentially make use of 'carry forward'. It lets you use up any unused allowance you have from the three previous tax years.

Lifetime Allowance

As well as the annual allowance (which limits how much you can invest in your pension pot each year), you're also subject to a couple of allowances when you come to take tax-free lump sums from your SIPP.

The lump sum allowance – currently £268,275 – puts a limit on tax-free lump sums you can receive during your lifetime. The lump sum and death benefit allowance – currently £1,073,100 – puts a limit on tax-free lump sums paid on death. Note, however, that any tax-free lump sums you take during your lifetime will also count against this.

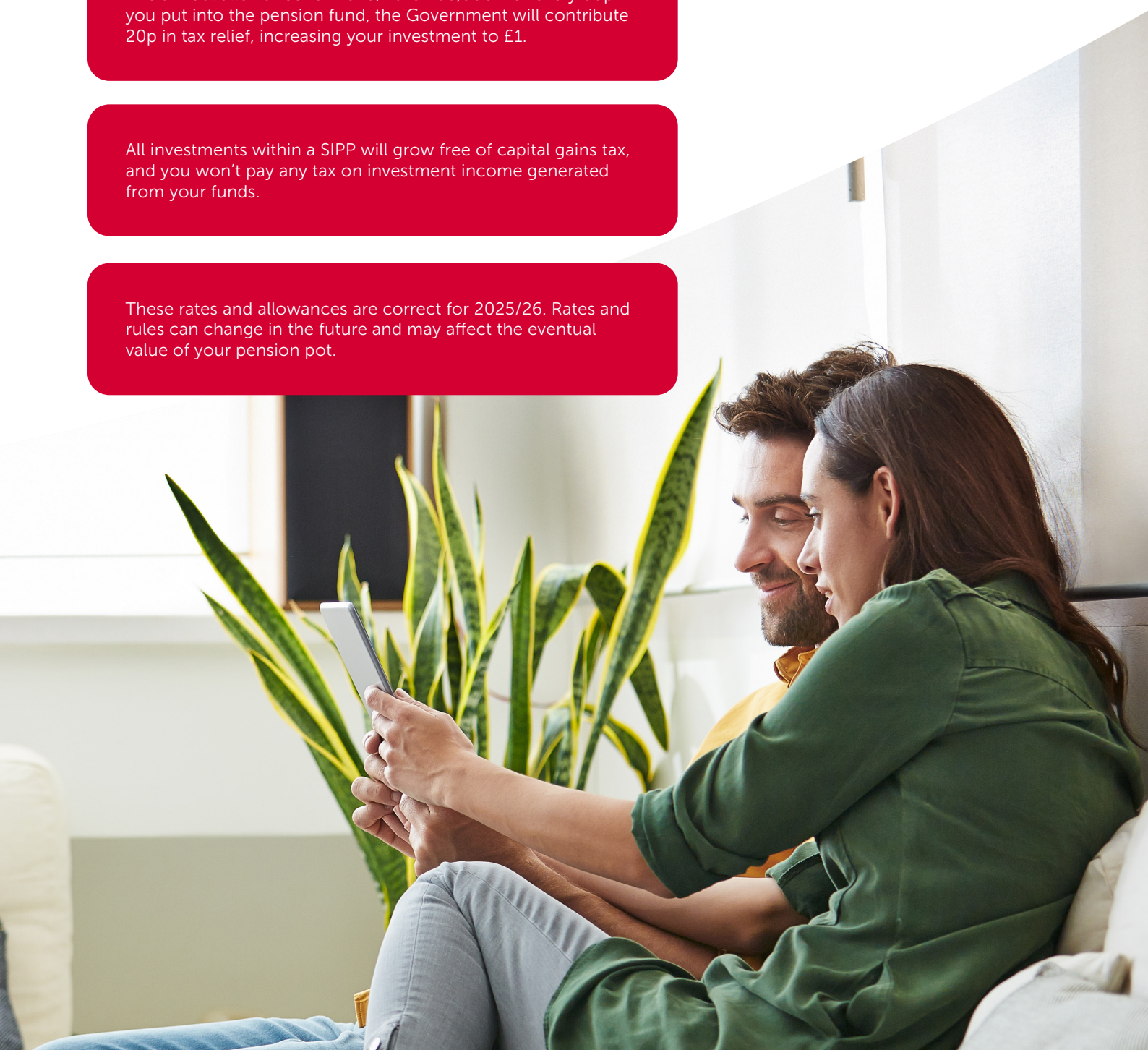
There are no limits on the amount of funds you can convert to income drawdown or an annuity, either during your lifetime or on death when funds are passed onto your beneficiaries.

These allowances were introduced on 6 April 2024. From 6 April 2006 to 5 April 2024, there was a different limit called the lifetime allowance. If you've accessed a pension during this time, there may be a one-off calculation to convert your lifetime allowance usage into the new allowances.

The annual allowance for 2025/26 is £60,000. For every 80p you put into the pension fund, the Government will contribute 20p in tax relief, increasing your investment to £1.

All investments within a SIPP will grow free of capital gains tax, and you won't pay any tax on investment income generated from your funds.

These rates and allowances are correct for 2025/26. Rates and rules can change in the future and may affect the eventual value of your pension pot.



Opening and paying into a SIPP

If you're under 75 and a UK resident for tax purposes, then you can open a SIPP and receive tax relief on contributions.

You or your employer can contribute to your SIPP, providing you stay within the tax relief limits across all of your pensions. You can make regular contributions each month. Or you can make lump sum contributions. Or you can make a combination of the two – the options open to you will depend on the SIPP you choose.

Working out how much you should save into your pension will depend on the income you think you'll need in retirement. You may not need as much income if you've paid off your mortgage, for example. But before deciding on your contribution levels, you should also have a think about the lifestyle you want in retirement. Will you spend your 60s travelling the world, or pottering in the garden? If the former, you're likely to need more income.

Transferring into a SIPP

If you have different pension pots that you want to combine, you can choose to move some or all of them into a SIPP. The main advantage of doing this is it lets you keep a closer eye on how your pension funds are performing.

But before you transfer a pension into your SIPP, you need to consider any guarantees you could lose, and any exit charges that could apply. Also, moving your pensions into one pot may not always be the best decision. If you have any doubts about whether you should transfer a pension, it's a good idea to seek advice from an FCA-authorized financial adviser.

Keep in mind that additional rules apply if you have a final salary (also known as 'defined benefit') pension or a pension policy with a guaranteed annuity rate worth £30,000 or more. Before you can transfer this sort of pot to your SIPP, a suitably qualified financial adviser must first provide a recommendation that the transfer is right for you.

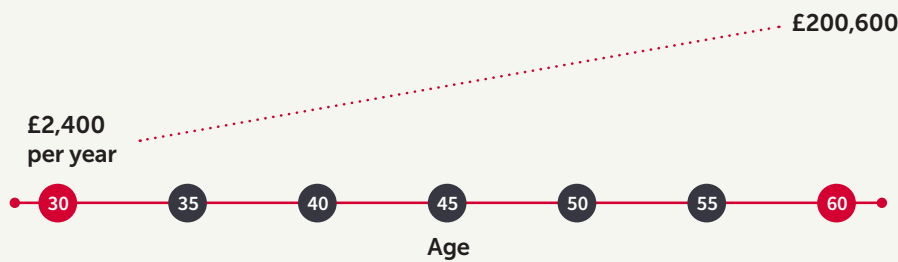
If you decide you do want to transfer your pensions into our SIPP, the process is simple and we do all the hard work for you – visit ajbell.co.uk/transferring-to-us for more information.

Start saving early for the best results

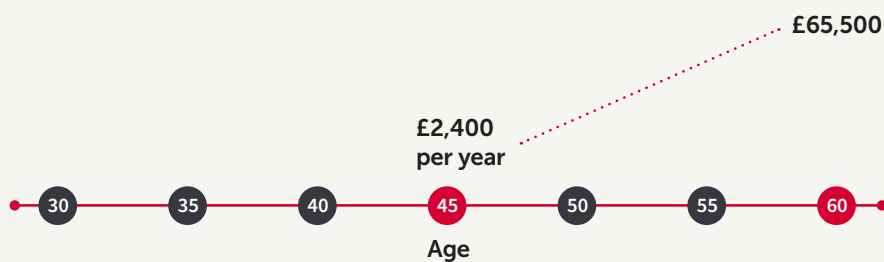
It's never too early to start saving for your retirement. In fact, the earlier you start putting money into your SIPP, the better the result is likely to be. SIPPs can give you access to a wide range of investments – everything from cash to commercial property – and which investments are best for you will depend on your attitude to risk and how long you have left before you retire.

Why it pays to save early into your SIPP

Investing £2,400 per year from age 30 to 60:



Investing £2,400 per year from age 45 to 60:



These figures are a projection, based on the assumptions below. They show you how much larger your pension pot could grow if you start investing at age 30 than if you wait until age 45.

Assumptions:

1. Contributions are made at the start of the year plus tax relief of 20%.
2. The same amount is contributed each year.
3. 5% returns per year.
4. Charges are taken at the end of the year.
5. Charges are based on 5 shares trades per year and a shares custody charge (based on current AJ Bell charges).

Investing regularly

Putting smaller amounts, regularly, into your SIPP, can help you smooth out the natural ups and downs of investments. This is called 'pound-cost averaging' and it works as follows. If you contribute a set amount every month to your SIPP, you'll buy more shares or fund units when the price is low and fewer when the price is high. This prevents you from potentially mistiming the market and making one transaction when the price was high.

Your options at retirement

When you come to take your pension, there are different ways you can generate an income. You'll be able to access your pension from age 55 (age 57 from 6 April 2028), and at this point you can take up to 25% of your pension pot tax free. You can also mix and match your options, allowing you to take your income in a variety of ways. Whichever option you choose, once you begin taking an income from a money purchase pension, the amount you can continue to contribute will be restricted.

Taking income or lump sums

Choosing to take your pension through income drawdown or lump sums lets you keep the rest of your SIPP invested. Your income stems from the return generated from the investments, or by selling some of your investments.

If you choose to take income from your SIPP, rather than buying an annuity, you leave your fund open to the risk of market movement – which could be good or bad depending on how markets are performing. You also have freedom over how you take the funds from your pension pot. You can choose to take the whole fund in one go, in smaller lump sums and/or as a regular income. For more information, visit our website at www.ajbell.co.uk.

It's also possible to mix-and-match how you take your benefits. So, for example, you could withdraw half of your fund as a lump sum (25% tax free, 75% taxed) in one payment, and with the other half you could take the 25% tax-free element out of your pension as a lump sum and leave the rest invested to provide you with an income in the future.

Annuities

You can choose to buy an annuity with some, or all, of your SIPP fund. Buying an annuity ensures your pension income won't run out in your lifetime. You can buy an annuity from an insurance company, and the amount of income you receive will vary depending on a number of factors – including your age, health and lifestyle.

The chief advantage of an annuity is you don't have to worry about any investment risk. This risk is shouldered by the insurer, since they've guaranteed to pay you an income.

Annuities, however, aren't entirely risk-free. True, an annuity gives you a guaranteed level of income, but over the course of your retirement you're not guaranteed to receive the same amount back as you paid in. Also, if inflation increases, your retirement income won't keep pace with the cost of living (unless you choose an inflation-adjusted annuity). And finally, if your annuity doesn't provide an income after your death, nothing will pass on to your beneficiaries.

Tax when you take your pension benefits

When you retire, you can take up to 25% of your SIPP as a tax-free lump sum. You're free to access the remainder of your pension at this stage, but any withdrawals made over and above your 25% tax free lump sum will be taxed as income for the relevant tax year – and taking too much could tip you into a higher tax bracket. You also need to consider how long your pension is going to last, and whether you'll have enough money to live on for the rest of your life. Before making any decisions you may find it helpful either to take financial advice, or to get in touch with the Government's free guidance service, Pension Wise (www.moneyhelper.org.uk/pensionwise). You can call Pension Wise on 0800 280 8880.

What happens to your SIPP when you die?

If you die before age 75, in most cases the whole pot can be passed tax free to your beneficiaries – either as a lump sum or as an ongoing income.

If you die after you've reached age 75, your pension can be used to provide for your beneficiaries, but it will be subject to tax.

AJ Bell's award-winning SIPP – the easy, low-cost way to invest in your future

You will have:

- Low annual custody charge
- Deal from as little as £1.50, and never pay more than £5.00 per online deal. Frequent dealer discounts and low cost regular investment
- No set up or transfer in charges
- Investment ideas from our specialists, including our Favourite funds list and no-hassle AJ Bell funds
- A wide investment range including shares, funds, investment trusts and ETFs
- View your portfolio, trade and administer your account whenever you want through our website www.ajbell.co.uk – and deal on the go with our mobile app
- The security of dealing with AJ Bell, an award-winning pensions service, proud to be looking after £103.3 billion of customer assets.



Where can I get more help?

You can find out more about SIPPs at our website www.ajbell.co.uk. If you're looking for advice on the options available, you should contact a suitably qualified financial adviser.

Open an account

Find out more about AJ Bell SIPPs and apply – simply visit ajbell.co.uk.

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