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## THE CHILDREN'S SIPP

### Introduction

As is well known, up to £2,880 net can be paid into a pension arrangement for anyone, even if they have no earnings themselves. Basic rate tax relief at 20% would be credited to the pension arrangement, so that £3,600 is in fact invested.

Many parent and grandparents are interested in setting aside money as long term savings for their children/grandchildren. Put these two together and you get the "Child SIPP".

What do we mean by that?

### The Child SIPP concept

SIPPs can be set up now for anyone, even a minor. They can be set up at birth.

So let us see what happens if a parent or grandparent sets up a SIPP for their child at birth.

### Contributions

£2,880 net is invested each year, and with the reclaimed basic rate tax, £3,600 is credited to the child's SIPP.

Let's assume this is done for 21 years. So total contributions made are £60,480 net (grossed up with the tax rebates to £75,600)

### Investments

Normal SIPP investment rules apply, so the underlying assets can be invested in anything. In the early years, the SIPP would probably remain in cash but in later years other investments might be appropriate, as advised by the IFA.

### The ultimate benefits

If we assume that the net investment return after charges is 5% per annum, then at 21 the SIPP will have grown to £135,000. With further net annual growth of 5%, at 55 it will have accumulated to £709,000!

At that stage, the "child" will be 55 and can take benefits – a tax free cash sum of £177,000 and an annual pension (assuming that £1pa of pension costs £30) of £17,700. And all for net contributions of just over **£60,000**.

If the average net investment return after charges is 7% per annum, the fund at 55 would be £1.35M, giving a tax free sum of about £340,000 plus an annual pension of approximately £34,000.

Frightening, isn't it?

### "Today's value" assumptions

To perhaps put it more into perspective, let us assume a "real" net investment return after charges of 2% per annum above inflation. Then that means that, in today's money values, at 55 the "child" would have a tax free cash sum of about £65,000 and an annual pension of £6,500.

An average "real" investment return of 3% pa above inflation would give, at 55, a tax free cash sum of £92,000 and an annual pension of £9,200 – again both in today's money values.

Again, all this for an outlay of £60,000.

**Bear in mind these are long term projections and could be subject to unforeseen factors and circumstances. The investment strategy will be critical to the ultimate value of the fund. We cannot advise on this and advice should be taken from a suitably qualified financial advisor**

**What about costs?**

The Child SIPP would be set up as an Acorn SIPP, so the SIPP fees would initially be £250 plus VAT a year, until such time as 1% of the fund gave a higher figure. The fee would then be capped at £600 + VAT a year.

**Who pays the costs?**

We would expect the (grand)parent taking out the child SIPP to meet the SIPP fees in addition to the £2,880 annual contribution. If they have their own MW SIPP (or indeed SSAS) then the costs could (with their agreement of course) come out of that – which effectively, for a higher rate tax payer, would mean that the net cost to them would be only 60% of the absolute fee figure.

If the costs are met from the Child's SIPP it will reduce the investment return and reduce the ultimate value of the fund.

**IHT benefits too**

Although each year's contribution of £2,880 is small, it does also take that money out of the parent's or grandparent's Estate. This can be significant, especially if there are several grandchildren - and of course it is an *annual* contribution, so this amount would go out of the Estate (and hence the IHT calculation) each year.

**How does the IFA earn from this?**

Their client would be the parent or grandparent. First, they would charge fees for the advice and the work involved in setting up the Child SIPP.

The IFA can agree with their client that they would take an annual investment advice fee for each Child SIPP of say 0.5% of the total funds in the SIPP. That would lead to a growing fee trail – and add value to the IFA's business when they should come to sell it.

Additionally, when the child matures, the IFA will automatically have the next generation as a client!

Remember - parents and grandparents would want to do this for **all** their children and grandchildren, so typically the IFA's "client" (particularly those who are grandparents) may well each have 4-6, or even more, potential Child SIPPs i.e. multiple "sales" will be the norm.

**Conclusion**

The need for saving will be even more acute for the next generation. The Child SIPP is a simple and very cost effective way of parents and grandparents (even great grandparents!) setting aside money today for the benefit of their offspring tomorrow.

Further, the IFA gets additional income – and another generation of clients.

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