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An Introduction to the SSAS Pension: Integrating Retirement Planning with Business Strategy

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Small Self-administered Scheme (SSAS) pensions are both less common and less widely understood than other types of pension, such as Self-invested Personal Pensions (SIPPs).

Despite this, they offer unique opportunities for business owners not only to plan for retirement, but also to use pension assets to strengthen and develop their businesses. For example, SSAS pensions may be used to provide loans back to the sponsoring business, whilst the leasing of a commercial property owned by SSAS to the company can prove to be an extremely tax-efficient arrangement.

This article provides an overview of Small Self-administered Schemes (SSAS), outlining their key benefits, potential pitfalls to bear in mind, and the individuals and businesses that could benefit the most.

Whilst not exhaustive, this article highlights the main features of SSAS pensions. The principles described below should always be considered in the context of an individual's own business and personal circumstances to ensure suitable, informed decisions are made.

What is a SSAS Pension?

Unlike personal pensions, SSAS pensions are set up by a limited company for the benefit of up to 11 members, which may include directors, senior staff, and family members employed by the company. This makes a SSAS an "occupational" pension rather than a personal plan.

All members of the scheme act as trustees, usually alongside a professional trustee appointed to handle scheme administration and to keep it within HMRC rules. Trustee members have a responsibility to help maintain the scheme, ensuring that it complies with tax and regulatory requirements and deciding how to invest the pension fund. This structure allows members greater control and flexibility over investment decisions.

Due to the responsibilities involved, it is always recommended that anybody considering a SSAS seeks specialist advice to support the set-up and registration of the scheme.

SSAS pensions work on a "defined contribution" basis. This means that the fund accrues based on the contributions made (usually paid by the company) and any benefits transferred to the scheme from personal pension arrangements, plus any investment returns.

Both the employee and the company can make pension contributions. Employer contributions made for controlling directors are usually deductible from trading profits for tax purposes, subject to certain requirements, while employee contributions also attract tax relief in the same way as other defined contribution pension schemes.

Members can access their SSAS pension fund from age 55 (rising to age 57 from April 2028) in the same way as most other defined contribution pensions. Usually, up to 25% of the fund can be withdrawn as a tax-free lump sum, while the remainder can either be transferred into a flexible drawdown account or used to purchase an annuity.

The benefits of a SSAS pension

Perhaps the most important advantage of a SSAS pension is that it provides a greater degree of flexibility and control over investment choices than most other pension schemes. Funds, shares, and other conventional investments can all be used as part of a tailored investment strategy, but the scheme also has scope to invest in ways which align the investments with the needs of the business.

Commonly, a commercial property will be purchased by the SSAS pension and then leased back to the SSAS members' business; this rent is generally tax-deductible for the company and accrues tax-free within the pension scheme, offering considerable tax advantages over other forms of ownership. Any gains made on a future sale of the property are also free of Capital Gains Tax.

SSAS pension funds can also be used to finance business development by making loans of up to 50% of the net value of the SSAS back to the owner's business. There are strict criteria relating to security, interest rates and terms for this type of loan.

As registered pension schemes, SSASs enjoy the same tax benefits as other pensions, including tax relief on contributions and tax-efficient growth.

The option to include family members within SSAS pensions is another important benefit which enables the spread of wealth across different generations. Succession planning will become increasingly important in future years due to the planned inheritance tax changes coming into force from 6th April 2027.

This will see pension funds being brought into the estate of a deceased person for inheritance tax purposes, and may affect the decision over where to hold the investment property (as the rate of IHT on qualifying business assets is lower than the rate which will apply to pension funds).

Other points to consider

When considering SSAS pensions, it is important to point out the additional administration involved during the setting up and maintenance of the SSAS.

Firstly, each new scheme must be individually registered with HMRC, which can take around three months.

Owing to their increased complexity, the cost of running a SSAS is often higher than more straightforward personal and workplace pensions (although a SSAS can be more cost-effective than individual SIPPs, especially when considering property investment). Any fees for professional advice, trustee and accountancy services must also be taken into account.

Depending on the investment strategy, liquidity is another key consideration. The scheme may have a need for cash at various times (for example, in order to pay retirement benefits, tax free cash or on the death of a member). If the pension scheme is fully invested into property or makes a loan to the sponsoring employer, any cash needs may need to be raised by way of additional contributions, the sale of assets or borrowing.

In addition, all decisions made regarding the SSAS must be unanimous amongst all member-trustees, which may be difficult if members do not share the same goals or in the event of family disagreements, relationship breakdowns or senior employees moving on. For example, if disagreements arise which lead to delays in deciding to sell assets, this effectively reduces the liquidity of the concerned assets and will undoubtedly make managing the scheme more difficult.

Note lastly that it is vital the scheme's governing document has provisions to remove a member who loses mental capacity, particularly where the SSAS owns land or commercial property.

Suitability

SSAS pensions are usually best suited for small to medium-sized owner-managed businesses – in particular, family run firms and directors who value greater control over their pension investments. These pensions can offer an integrated approach to their business, retirement and family wealth planning.

It is important to consider whether the wide investment scope it offers to a business owner outweighs the costs involved in setting up and running a SSAS. In our experience, and with the right advice, many business owners find that the benefits of SSASs compensate for the added complexity.

In conclusion, SSAS pensions can be a valuable tool in retirement planning for business owners, which can be used to support business development and intergenerational wealth planning.

As always, taking specialist financial advice is essential in order to weigh up the costs and benefits of a SSAS pension in a retirement planning strategy and to make sure it is suitable in the context of the other options available. Advice can also support the associated business and personal tax planning in respect of contributions and investment strategy, including guidance on the loan-back process or property purchase, and will help to ensure that retirement planning, business and succession goals are kept uppermost throughout.

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