



## Frequently Asked Questions

### How long will it take to set up my Liberty Pension?

We can set up your Liberty Pension as soon as we receive the following completed documents:

- Application form
- Identity documents
- Signed bank mandate

We will write to you, or to your financial adviser if you have appointed one, confirming that your application has been accepted, and we will provide details of the bank account(s) we have opened with Royal Bank of Scotland.

However, you will be limited to what you can do with your pension for 30 days following its establishment. This is because the Liberty Pension is a product regulated by the Financial Services Authority (FSA) and as a result you have a right to cancel the contract for a set period without incurring any costs. To ensure you are in no way disadvantaged by exercising this right, during this period you will not be able to invest any contributions made to the scheme outside the bank account. This guarantees any money paid in can be returned to source.

Upon receiving your application form we will write to you explaining your rights, and how to exercise these if you change your mind.

If you want to make a specific investment within a certain timescale and this restriction will hinder this, you can waive your right to cancel. There is a section on the application form to do this. If you waive your cancellation rights, but then cancel your contract with Liberty after the contract has been finalised i.e. the bank account has been opened, fees will be levied for cancelling.

### Can I set up a Liberty Pension for my children?

Yes. There is no minimum age required to open a Liberty Pension. Where the member is under age 18 a parent or legal guardian will be appointed co-trustee with Liberty Trustees Ltd, but on reaching age 18 the member will take on the responsibility as co-trustee.

### What is anti-money laundering (AML) and why do you have to do it?

Money laundering is the term given to making money gained through immoral or illegal activity harder for the authorities to trace by placing the money into a legal vehicle.

As an FSA regulated company, we are required to carry out Anti-Money Laundering (AML) due diligence on all Liberty Pension members and any unregulated person/company from whom we will be receiving or paying money to, so that we can check the funds have been obtained or invested legally.

As most of our business is done on a non-face to face basis, we need documentary proof that you are who you say you are. Without this evidence, we will not be able to do business with you.

### **What do you do with my identity documents?**

There are two stages to AML due diligence; identification and verification. We use the information on the documents you have provided to verify this against independent references and government agencies. We may need further evidence if we are unable to satisfactorily verify your identity electronically.

We then retain copies of your documents and the verification report for the duration of your contract with Liberty and a further 5 years once your contract has been terminated. If you supply incorrect or false information and we suspect fraud, we are required by law to report this to the fraud prevention agencies.

### **What is my involvement in the scheme?**

The Supplemental Deed, which forms part of the application, appoints you as co-trustee alongside Liberty Trustees Limited. As a trustee, you must make decisions in the best interests of the beneficiaries of the scheme (you and your dependents). You will be registered as co-owner on all investments and co-signatory on any payments made from the scheme bank account.

A Liberty Pension allows you complete control over how you invest your money. Neither Liberty Pensions Ltd nor Liberty Trustees Ltd will give investment or financial advice; you are the driving force behind your saving for retirement, as well as how and when you take your pension.

### **What are the benefits of being appointed co-trustee with Liberty Trustees Limited?**

When it comes to your finances and who you deal with, it all boils down to trust. Whilst there are many pension schemes where the corporate trustee is the sole trustee, with the Liberty Pension Scheme you have the added comfort that your written authority is required prior to decisions being made on how your pension is run.

With the exception of pre-agreed fees, transactions cannot take place without your authority. This is achieved with you being named jointly with Liberty in your capacity as trustees as owner of all Liberty Pension investments.

### **Can any advice I get be paid from my Liberty Pension fund?**

The cost of any professional advice that has been received in respect of your Liberty Pension can be met from its funds. This includes financial advice and investments advice.

### **Can Liberty give me any advice?**

Liberty Pensions Ltd does not offer any financial or investment advice. We are not regulated by the FSA to provide these services and therefore cannot comment on the suitability of a Liberty Pension or a particular investment for your personal circumstances. If you are unsure whether a Liberty Pension is suitable, please consider its cost and whether you will utilise the extra investment and pension flexibilities it offers over other pension products.

Whilst we are happy to accept applications where advice has not been given, we do strongly recommend you seek advice. If you do not have a financial adviser and wish to find an adviser in your local area, you can get a list by typing your postcode into [www.unbiased.co.uk](http://www.unbiased.co.uk).

### **What will Liberty do?**

Liberty Pensions Ltd is regulated by the FSA to establish, operate and wind-up personal pension schemes (including SIPPs). Under the Trust Deed and Rules, Liberty Pensions Ltd is appointed Scheme Administrator and will deal with all HMRC reporting requirements for registered pension

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AUTHORISED AND REGULATED BY THE FINANCIAL SERVICES AUTHORITY (REGISTRATION NO 476409)

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schemes. As such we have a duty to ensure that all transactions which take place within the scheme comply with pension legislation. This is constantly being amended and in April 2006 the pension legislation was completely rewritten, which has affected everybody both in the public and private sector. Liberty Pensions Ltd will guide you through the constantly changing legislation and provide you with details of what is and what is not permitted.

Liberty Trustees Ltd is a separate entity to Liberty Pensions Ltd, its sole purpose to be act as co-trustee with you, the Member.

### **How do you collect my fees?**

Your fees are tailored to your Liberty Pension contract. Based on the information provided in your application we will calculate your fees and ask you to sign a fee agreement prior to any work being undertaken. Attached to this will be our current Fees Schedule.

The first year's fees will be collected as soon as there are sufficient funds in the bank account. If there is a delay in funds being available because you have not returned documents, we will issue an invoice which you will need to settle personally within 14 days. All recurring fees will be collected on the anniversary of the date the contract commenced. One-off fees will be collected once the transaction has completed.

Under the terms of the bank mandate, we will collect your fees directly from your Royal Bank of Scotland account. This will show up on your statements as "Liberty Fees" followed by the description. You should ensure there are sufficient funds in your bank account to cover fees, as otherwise we will levy further charges for the additional work in arranging for investments to be disinvested.

### **When will my fees change?**

Whilst you are free to change your original plans for your Liberty Pension such as varying your investment strategy, your original fees might be amended to reflect this, on the basis you pay for the services you use, but no more. Before doing any work on new areas of investment, we calculate the additional cost and refer you to our Fees Schedule, which we will update if necessary. The only exception to this is where the fee is as a result of insufficient funds, or contributions paid where the supporting paperwork has not been sent in advance.

### **What happens with my transfer request?**

You are able to transfer funds from other pension schemes into the Liberty Pension Scheme. This can be done as part of the application or once the Liberty Pension has been established. When we receive your instructions, we will ask the existing scheme or insurance company for details of the benefits and any paperwork they need completing to process the transfer. You may have to sign this paperwork, and if so it must be returned to us and not direct to the transferring scheme. This is to avoid a situation where the transfer is set in motion but you have separately told us that you want to exercise your rights under FSA rules to cancel.

When we are informed of your intentions to transfer other pension arrangements into the scheme, we will write and give you notice of your right to cancel. From the date you received advice from your financial adviser (or the date you advised us of your intentions if you have not received professional advice), you will have 30 days to cancel your request. To ensure you are not disadvantaged should you exercise this right, we will not accept transfers into the scheme until this period has expired.

The time taken to obtain the paperwork from the transferring scheme and for the money to be transferred to the Liberty Pension can vary from a couple of weeks to several months depending on

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the nature and sometimes the attitude of the transferring arrangement. Liberty Pensions Ltd will do its utmost to speed up this process.

### **How do I make a contribution?**

You or your employer can make contributions by cheque, made payable to "The Liberty Pension re:" followed by your name, or alternatively by BACS or CHAPS directly into your Royal Bank of Scotland account. If you are making regular contributions, a standing order can be set up from your bank. Contributions can be as regular or infrequent as you decide.

Prior to the scheme receiving a contribution, be it a personal or an employer contribution, you must have sent in the relevant paperwork to Liberty. This ensures that we reclaim any tax rebate you may be entitled to, and also that we comply with AML requirements. If you do not provide this paperwork before contributions are made, we will charge a fee for the additional work in dealing with the contribution retrospectively.

### **What happens with regard to reclaiming tax?**

Personal contributions are treated as being net of basic rate income tax and we can therefore reclaim a further 20% on your contribution from HMRC, which we will pay into the scheme bank account. You are entitled to this relief so long as you are a UK resident for tax purposes and it is within your tax relievable limits.

Contributions to registered pension schemes are wholly free of income tax. If you are a higher rate tax payer you can claim a further 20% from HMRC via your self assessment form on your gross contribution. Unlike the tax reclaimed by Liberty, this further relief does need to be paid into your pension.

#### Worked Example:

You make a personal contribution of £800 to the scheme in the tax year 2008/09. Liberty would reclaim £200 from HMRC which will be paid into your scheme bank account, making the payment up to £1,000. If you are subject to 40% income tax you can claim 20% on your £1,000 contribution on your assessment.

Liberty Pension will not reclaim tax from HMRC for employer contributions. These are considered to be paid gross. Instead, tax relief on employer contributions is offset in the company tax return.

### **How much can I contribute?**

Liberty doesn't stipulate a minimum contribution that must be paid to the scheme and there is no upper limit on the contributions that can be made, but there is a limit on the amount that is tax relievable. This is calculated against UK relevant earnings for the tax year the contribution is made, and is the greater of £3,600 or 100% of earnings in the tax year the contribution is paid. These limits are gross, so what you can actually pay into the Liberty Pension is the greater of £2,880 and 80% of UK relevant earnings; Liberty then reclaim 20% tax from HMRC.

HMRC have introduced a cap on the amount that can be paid, known as the "Annual Allowance" set at £255,000 for 2010/11. Where the total contributions from you and your employer over a 12-month period exceed this limit, a tax charge of 40% on the excess will be levied on the member.

### **What about Employer's contributions?**

Your employer can contribute to your scheme, be it a one-off contribution or a regular contribution. Employer contributions are paid gross into the scheme and hence Liberty will not reclaim tax from HMRC on the company's behalf. Corporation tax relief is given on company contributions in the

company's tax return. However, this is subject to the agreement with the local tax inspector that the level of contribution is not excessive. Special conditions apply where a company contribution is over £20000 and your annual earnings are in excess of £150000.

The employer contributions, together with any personal contributions, are subject to the annual allowance (£255,000 for 2010/11). Where this limit is exceeded over a 12-month period, the member will be taxed on the excess. However, the annual allowance is not applicable in the year in which you commence drawing a pension.

### **Can I make contributions into other people's Liberty Pension such as my children or spouse?**

You can make a contribution of £2,880 to each of your dependants' Liberty Pension every tax year. Liberty will reclaim 20% basic rate tax which will take it up to the maximum gross contribution to £3,600.

Unlike contributions made to your own scheme, you can not offset this contribution against your own tax liability so you will not be able to reclaim full tax relief if you are a higher rate tax payer.

### **Does my contribution have to be in cash?**

Contributions don't have to be paid in cash, but you must say in advance how much is being contributed. Assets you own personally may be contributed "in-specie" to the scheme so long as they were permitted investments under the legislation. They will benefit from tax relief in the same way as cash contributions and would be subject to the same limits.

Whilst the contribution would benefit from income tax relief, CGT (capital gains tax) may be payable.

Assets owned by the employing company may also be contributed "in-specie", subject to the same conditions as employer contributions in cash.

### **Under the scheme, what will happen to my pension fund when I die?**

Death benefits vary depending on whether your pension funds have been providing you with a pension. There are three different scenarios:

- death prior to receiving a pension from the scheme
- death after receiving pension benefits, but before age 75
- death after age 75

The scheme is written under discretionary trust, and funds accrued under the scheme are kept separate from your estate for Inheritance Tax purposes. Liberty Trustees Ltd has absolute discretion as to who will receive benefits and how much – a mechanism known as "discretionary disposal". However, we will take into account any wishes you have expressed on your death benefit nomination form, which you can update at any time.

### ***If you die before taking all of your pension***

Funds which have not been "crystallised" to provide you with pension benefits (a tax-free lump sum and/or pension) can be paid to your nominated beneficiaries as a tax-free lump sum or used to provide your dependents with a pension either via an annuity (a "secured pension") from an insurance company or direct from the Liberty Pension funds (an "unsecured pension").

### ***If you have taken your pension but have not attained 75 years***

Crystallised funds which had been providing you with an unsecured pension may be paid as a lump sum to your nominated beneficiaries, less 35% tax which Liberty will pay to HMRC from the

remaining funds, or they may be used to provide your dependants with a pension either via an annuity (a secured pension) or direct from the Liberty Pension funds (an unsecured pension).

### ***If you die after age 75***

When you reach age 75, if you do not purchase an annuity, your fund will be used to provide you an Alternatively Secured Pension (ASP). On death, your fund will be used to provide your dependants with a pension, either via an annuity or direct from the Liberty Pension funds.

If you have no surviving spouse or dependants, then the value of your fund may be paid to a charity you have previously nominated.

If you have no dependants and have not nominated a charity, Liberty may be able to pay a lump sum to your nominated beneficiaries, but this will be treated by HMRC as an "Unauthorised Payment" and may be subject to as much as 88% tax.

In all situations, the total fund from all your pension arrangements will be tested against the Lifetime Limit (£1.65m for 2007/08). Any excess will be subject to tax additional tax.

### **When can I take my pension?**

From age 55 you may start drawing benefits from the scheme. You will be entitled to a maximum tax-free lump sum of 25% of the fund and the remaining fund will be used to provide you with regular income throughout your retirement.

Any pension income will be taxed. Until Liberty are advised of your tax code, your income will be paid less basic rate tax and the tax will be passed on to HMRC. Thereafter we will adjust your pension in line with the tax code we are given.

In some circumstances you may take your pension before attaining this age, for example if you had been in a profession where you would be expected to retire well before the minimum retirement age or on the grounds of ill health or incapacity.

By age 75, you must have commenced drawing retirement benefits.

### **Can I decide how I take my pension benefits and how much?**

A Liberty Pension offers full flexibility on how you take your pension.

Up until age 75, you can fully "crystallise" your funds or opt to crystallise a percentage of your fund. Either of these two options will enable you to take a maximum of 25% of the crystallised fund as a tax-free payment, and anywhere between 0-120% of the recommended pension amount based on Government Actuary Department (GAD) rates. You can choose to receive your pension monthly or less frequently, but at least every year, and it can be paid in advance or in arrears.

You don't have to take the same level of pension you originally elected to take, and you can vary this depending on your financial circumstances. Every five years we will revalue the recommended pension amount and advise you of any adjustments required for the pension to stay within the limits.

On your 75<sup>th</sup> birthday your funds will automatically be crystallised, if this has not already happened, and you must draw a pension between 55-90% of the recommended GAD rate or else buy an annuity.

At any time from age 55 you can secure your pension income by purchasing an annuity.

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### **Why do I need a separate bank account for my Protected Rights?**

To comply with legislation and the Scheme Rules Protected Rights and Non-Protected Rights must be managed under separate arrangements. Your Protected Rights are held within the Appropriate Personal Pension part of the Scheme and must, at all times, be kept separate from Non-Protected Rights funds, which are held under the SIPP section. However both accounts will be merged from 2012 onwards.

### **Will I get bank statements?**

You will get paper statements for all accounts held with Royal Bank of Scotland sent to your home address, as detailed on the bank mandate. You can elect to have these sent to you on a monthly or quarterly basis.

### **Can I get a current balance on-line?**

When you apply to join the Liberty Pension Scheme and an account with Royal Bank of Scotland has been opened, you will be sent details on how to view your bank account online. In accordance with the bank mandate, you will only be able to view your account and will not be able to process transactions.

### **How do I place an investment from my Liberty Pension?**

Until we receive investment instructions, all funds will initially be held in an account with Royal Bank of Scotland. It is likely that wherever you decide to invest your fund, the investment company will need paperwork completing to set up an account in the scheme's name. As co-trustee you will need to countersign this application along with Liberty Trustees Limited. To ensure there is no way it can be considered that Liberty have provided investment advice, you or your financial adviser will need to obtain the appropriate paperwork.

As the investment will be held in joint names, Liberty Trustees Limited should be listed as the first investor. If you are unsure how to complete the application form, we will be able to help.

If payment is to be made electronically, we will need your written consent to make the payment. Where payment is by cheque, we will return the signed application with a cheque, including pay details and signed by Liberty Trustees Limited which you will need to countersign in accordance with the bank mandate prior to sending to the investment company.

### **What can I invest my money in?**

Liberty does not add any investment restrictions to those imposed by HMRC. Generally speaking, the permitted investments are:

- Deposit accounts
- Quoted UK and overseas shares purchased from a recognised stock exchange including the Alternative Investments Market - these must be held via a regulated stockbroker
- Investment trusts, OEICs and unit trusts
- Units in insurance company unit-linked funds
- Commercial property

In addition to the above, the scheme can make loans to unconnected parties and invest in unquoted shares. There is a certain level of due diligence required for these investments, and information will need to be provided to Liberty as these investments are looked at on an individual basis to see whether the investment can proceed.

The Scheme can borrow to assist in the purchase of an investment. The maximum loan the scheme can have is 50% of the fund value prior to the loan being taken.

### **How does purchasing a property work as a pension investment?**

The scheme can invest in a UK commercial property and benefit from receiving the rent free of income tax, and increases in property value free of Capital Gains Tax.

When considering the feasibility of investing in property and the level of return you could expect, you need to take into account the cost of the acquisition, including stamp duty, and any professional fees, all of which are met by the scheme's funds. You should also consider whether the rental income covers any mortgage repayments and administration costs. You may need to put in a contribution to make up any shortfall. You can use the Property Calculator available from our website to assist you in assessing the feasibility of investing in property.

The scheme can own all of the property or a percentage of it jointly with other Liberty Pension members, or any other connected or unconnected party. The rental income would be split proportionately to the investment split, as would the proceeds on the sale of the property. This flexibility is particularly beneficial if a property is to be transferred as an "in-specie" contribution. You could decide the percentage the scheme would own to benefit from maximum tax relief and to mitigate any CGT.

### **Can my Liberty Pension reclaim VAT paid on property investments?**

It is possible to register your Liberty Pension for VAT whereby any VAT paid on the purchase price of the property could be reclaimed, as well as any VAT paid to contractors for development or refurbishment costs. However, it would be necessary to charge VAT on the rent. Quarterly returns would need to be submitted to HMRC and any VAT received would need to be paid across. Liberty Pensions Ltd will deal with the administration and our fees will reflect this.

### **Can I borrow to assist in placing an investment?**

It is possible to borrow to assist in the purchase of any permitted investment; the most common being property. The total the scheme is able to borrow is 50% of the value of your fund, including both Protected and Non-Protected Rights. There is no restriction on the term of the loan, but as part of your financial planning, when you are looking to draw an income from your Liberty Pension, any ongoing liability will need to be taken into account.

### **Are there restrictions as to who I can transact with within my pension?**

It is not possible to make loans to anyone connected to you and there are restrictions on unquoted shares where there is a connection with you. If it transpires such investments have been made, severe tax charges could be levied.

Other than that, there are no restrictions so long as all transactions are carried out on an "at arms length" basis. You may make investment acquisitions and sales to anybody. Where there is a connection with you, prior to the transaction taking place, Liberty will require an independent report to confirm that the price is at market value, as it cannot be seen that you or anyone connected to you is unfairly benefiting from the transaction.

### **What can't I do with my Liberty Pension?**

As there are generous tax advantages to saving for retirement through a registered pension scheme, HMRC have laid down certain restrictions to ensure the pension scheme is used for its intended

purpose: providing for retirement. Hence HMRC have prohibited certain investments and limited the amount of funds that can be withdrawn from the fund on retirement.

Where the scheme breaches any of these restrictions, Liberty must report these to HMRC and tax charges will be levied on the amount.

### ***Investments***

- It is not possible to invest in tangible assets (assets which can be removed eg non-fixed items in a property). This can be a problem when buying shares in unquoted companies.
- Investments which by definition will depreciate in value, such as short hold leases, are not permitted.
- Assets that the member, or anyone connected to the member, will financially benefit from are also taboo and as an extra caution, HMRC do not allow investments in residential property even if on a buy-to-let basis. This also means that where the tenant of a scheme owned property is connected to you, rent must be paid at a commercial rate.

### ***Withdrawing funds***

As the whole objective of a pension scheme is to provide a pension for the duration of your retirement, there are limits on how much can be taken and when they can be taken. You may start taking a pension income from age 55 unless on the grounds of ill-health. By age 75, income must be drawn.

At your elected retirement date, you are entitled to a tax-free lump sum restricted to 25% of your fund value, and the maximum pension you may receive is calculated using rates provided by the Government Actuary Department.

Prior to taking benefits, we will send you an annual statement projecting what you could expect to your fund to be able to provide you with at retirement. On taking benefits, we will review your level of pension every 5 years so it remains within the limits permitted.

### **What are the tax advantages to saving for retirement in a pension scheme?**

As long as contributions fall within the prescribed limits, all contributions are tax relievable: personal contributions at the highest level of tax and corporation tax for company contributions.

Investment income is free from income tax, with the exception of dividend payments from UK Equities.

There is also no Capital Gains Tax payable on any growth in the value of investments or properties held within the scheme.

On retirement you may take up to 25% of your fund as a tax-free lump sum. The remaining fund will be used to provide regular pension payments which will be subject to income tax.

### **When will I have to pay tax on my pension fund?**

You can start taking benefits from your fund from age 55. Up to 25% of the fund can be paid to you as tax-free cash, and any pension payment after this will be taxed as personal income. Until Liberty Pensions Ltd is advised of your tax code, your income will be paid less 20% which will be paid direct to HMRC.

You will be liable to tax if any of your Liberty Pension investments or payments made from the funds are prohibited by HMRC. These are known in the industry as "unauthorised payments". The tax could be as much as 55% on the amount paid.

**If I'm not happy with Liberty Pensions or wish to cancel my contract with Liberty, what do I do?**

If you have a complaint about Liberty, in the first instance please send your complaint for the attention of the Compliance Officer, who will carry out an investigation into your claims and give you a prompt response. If after this you are still not satisfied with the situation, you can refer your case to The Pensions Advisory Service (TPAS). If the situation is still not resolved, you can then approach The Pensions Ombudsman. Contact details for these organisations are available on your Key Features Document.

If you do wish to end your relationship with us, you will have to nominate another pension arrangement to transfer your benefits to. Subject to transfer out fees, we will liaise with your new provider and arrange the transfer.

**Who should I contact if I have a query?**

When your Liberty Pension is set up you will be assigned a dedicated case worker who will deal with all administration on your scheme and be your first point of contact for all administration and technical queries.