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Self-invested personal pensions (SIPPs)

A self-invested personal pension (SIPP) is a pension 'wrapper' that holds investments until you retire and start to draw a pension income. It is a type of personal pension and works in a similar way to a standard personal pension. The main difference is that with a SIPP, you have more flexibility with the investments you can choose.

How it works

SIPPs aren't for everyone. Get advice if you're thinking about this type of personal pension.

With standard personal pension schemes, your investments are managed for you within the pooled fund you have chosen. SIPPs are a form of personal pension that give you the freedom to choose and manage your own investments. Another option is to pay an authorised investment manager to make the decisions for you.

SIPPs are designed for people who want to manage their own fund by dealing with, and switching, their investments when they want to. SIPPs can also have higher charges than other personal pensions or stake-holder pensions. For these reasons, SIPPs tend to be more suitable for large funds and for people who are experienced in investing.

What you can and can't invest in

Most SIPPs allow you to select from a range of assets, such as:

- individual stocks and shares quoted on a recognised UK or overseas stock exchange
- government securities
- unit trusts
- investment trusts
- insurance company funds
- traded endowment policies
- deposit accounts with banks and building societies
- national savings products
- commercial property (such as offices, shops or factory premises)

These aren't all of the investment options that are available – different SIPP providers offer different investment options.

It's unlikely that you'll be able to invest directly in residential property within a SIPP. Residential property can't be held directly in a SIPP with the tax advantages that usually accompany pension investments. But, subject to some restrictions, including on personal use, residential property can be held in a SIPP through certain types of collective investments, such as real estate investment trusts, without losing the tax advantages. Not all SIPP operators accept this type of investment though.

How you draw your income

When you retire you can take a cash lump sum from your fund and convert the rest into a retirement income. This is often done by purchasing an annuity, but income drawdown is another common option.