

# ThinCats

Your guide to

# Using a Pension Fund

with ThinCats

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## 1. Disclaimer

These notes have been prepared to help ThinCats members and their advisors understand how they might set up a self-invested pension for use with ThinCats lending. They are not intended to be a definitive guide, or to provide any financial advice. Since everyone's financial situation is different, it is important for you to seek independent financial advice before taking any action.

## 2. Regulation

Since 1st April 2014 lending through a Peer-to-Peer lending platform such as ThinCats is regulated by the Financial Conduct Authority ("FCA") but investors do not benefit from the Financial Services Compensation Scheme. It is particularly important to understand that you are taking responsibility for investing your own pension without the costs and protections involved with receiving professional investment advice. Please make sure that you understand the unique nature of the investments your pension fund is making, especially the risks involved. During the process of establishing your self-invested pension, your Independent Financial Advisor ("IFA") should make sure that this type of investment is appropriate for you.

## 3. Unusual Risk Warning

Experienced investors will be familiar with the warnings that normally accompany investment documents that the value of your investment may go down as well as up etc. but the risks associated with lending directly to businesses are significantly different to investing in financial markets and you need to understand what that means:

Investment with ThinCats involves making secured loans to small and medium sized businesses and like all investments that involves some risk. Unlike other types of investment the value of your investment will not go down or up in value depending upon the performance of financial markets. You will never receive more back than the interest that has been agreed and you should not receive any less. The only reason that you may not get all of your money back together with the interest due is if the borrower fails to repay as agreed.

It is important to recognise that despite all attempts to minimise losses some are inevitable. At the time of updating this guide in April 2014 and with over 3 years of experience it appears likely that losses on the ThinCats platform will average about 1%. This will reduce average returns to about 9%. If this modest loss when compared with the returns available concerns you please take professional advice before proceeding. More information is available on the ThinCats website about [managing the risks involved with lending](#).

## 4. Introduction

ThinCats launched a new investment asset class in January 2011, making secured loans directly to established businesses. It provides attractive fixed rates of interest (in the region of 10% p.a.) and a regular, predictable monthly income that is not subject to the volatility of financial markets. ThinCats loans can therefore make a valuable contribution to any investment portfolio by providing stable attractive returns. More information about ThinCats is available at [www.thincats.com](http://www.thincats.com)



Through careful vetting, taking security and the monitoring of borrowers, ThinCats seeks to minimise risk. As with all investments, however, nothing is guaranteed. Investors may wish to spread that risk across a wide portfolio of loans rather than just make a few larger investments. The three founders have deliberately designed ThinCats to be an appropriate type of investment for a self-invested pension and all are committed to lending through their own pension funds. Since their own pensions are involved they are particularly keen to minimise the risks involved.

An important feature of a ThinCats loan is that investors make their own investment decisions. In each case they decide the sum they want to offer and what interest rate they require. So if ThinCats loans are included in your investment portfolio you will be expected to actively manage those investments in order to maximise returns, minimise risk and make sure that the income is reinvested appropriately and in a timely manner. ThinCats always provides a detailed Information Pack on each lending opportunity and this normally includes between 20 and 30 pages of detailed information which will require some experience of business or finance to assess.

Care must be taken that undue tax charges do not occur as “connected party” loans are restricted in self-invested pensions.

## 5. Types of Self Invested Pension

In the UK most pension funds are managed by professional fund managers who make all of the investment decisions and charge fees for their work. There are two alternative types of self-invested pensions that allow the pension holder the opportunity to have a say in where the funds are invested. They are a SIPP (Self-Invested Personal Pension fund) and a SSAS (Small Self-Administered Scheme).

Like any qualifying UK private pension fund, there are substantial tax benefits designed to encourage individuals to make their own pension provision. Income Tax is paid on your earnings before any pension contribution; and you or the pension provider claims tax back from the government at the basic rate of 20 per cent. This means that for every £80 you pay in, you end up with £100 in your pension. If you pay tax at a higher rate, you can claim the extra tax back through your tax return. It takes a few weeks for the basic rate tax credit to get into your pension once claimed. In each tax year, you will receive tax relief on personal pension contributions paid by you from taxed income. There is a limit to the amount you can contribute each year, dictated by the Chancellor’s Budget. If you need clarification of the amounts, you could consult your adviser or visit the HMRC website where you will find this [useful calculator](#).

Up to a limit, which also often changes in the Budget, tax relief is available on personal contributions at your marginal rate of income tax, so if you pay income tax at 40% rate, the pension contributions you make should attract relief at the 40% rate. Contributions made by your company will attract Corporation Tax relief for the company, but because no income tax will have been paid you will not receive any income tax relief. Since such pension contributions are effectively free of any income tax they should be a very attractive way of receiving benefits from your company.

Of course these tax benefits are available to all pension funds and not just SIPPs and SSASs but there are few pension funds with access to investments that provide such attractive interest rates and stable returns as ThinCats can deliver. It is ThinCats’ objective to establish a track record of attractive stable returns and very low failure rates that will eventually persuade professional pension fund managers to invest their clients’ funds but we recognise that professional pension fund managers will not risk investing managed pension funds in a ‘product’ without a track record of several years. So in the meantime the use of a SIPP or SSAS pension is the only practical way of putting your pension fund capital into ThinCats loans.

Another key benefit of using a pension fund in relation to ThinCats loans is that if your pension fund earns dividends on equity investments it CANNOT now claim the Corporation Tax back. This provides an additional benefit for a pension fund making a loan through ThinCats, rather than buying equities with a view to earning dividends.



## Differences between SIPPs & SSASs

There are some subtle differences between SIPPs and SSASs, but these do not affect the ability for either of these pension arrangements to lend on ThinCats. Both a SIPP and a SSAS must be arranged through an approved pension provider who is responsible for making sure that investments qualify and that the capital is kept within the pension fund until the pension is drawn.

They may also take responsibility for ensuring that the tax relief is claimed and credited. Claiming tax relief is a not difficult (it requires submitting a form to HMRC) but when comparing providers and the costs involved it is an important factor to consider. There is always a charge for establishing and managing a pension and in that respect, it is well worth comparing fees and services.

The marketing and running of a SIPP is covered by the Financial Conduct Authority. It's also subject to an element of regulation by The Pensions Regulator. A SSAS is subject only to regulation by The Pensions Regulator.

If you have a complaint about a SIPP, you can complain to both the Financial Ombudsman Service and the Pension Ombudsman. You can only complain to the Pension Ombudsman regarding a SSAS.

Compensation is available under the Financial Services Compensation Scheme in respect of the failure of a SIPP operator. There is no compensation on the failure of a SSAS operator or trustee.

Since SIPPs and SSASs are not mainstream retail products, many Independent Financial Advisors (IFAs) may not have much experience of setting one up so you may need to undertake some research before telling them what you want to do. Your IFA will be concerned to make sure that you understand that SSASs are not regulated in the same way as other pension funds and to make sure that they are satisfied that you understand what you are doing.

Once you have established your SIPP or SSAS you are not restricted to investing in ThinCats loans and you can diversify your pension over a wide range of different investment types.

## Restricted Investments

Care needs to be taken when getting involved with loans related to residential property but the fact that ThinCats uses an "Agent" to hold any security and act on behalf of the syndicate avoids the potential problem of a pension holding assets that might damage its tax status.

You should avoid investing in movable assets like boats, cars, works of art, wine and property **that you intend to use yourself.**

One key feature of a SSAS is that you can make secured loans to your own business (up to 50% of the value of the fund). You can use either a SIPP or a SSAS to purchase commercial business premises.

In addition to SASSs and SIPPs there are other schemes such as QROPS (Qualifying Recognised Overseas Pension Scheme) & QNUPS (Qualifying Non- UK Pension Scheme). Both of these are alternative pension schemes available for non-UK tax resident investors but you will need expert advice from an experienced IFA for these products and this guide does not cover them.

Note: An alternative way of using ThinCats would be for your company to lend directly through ThinCats, offset any losses against gains and only pay Corporation Tax on the net gain. This is a separate subject and ThinCats can provide information on request for those with companies interested in lending.



## Setting up a SIPP or a SSAS

A SIPP or a SSAS can be established by transferring funds from an existing pension scheme and/or with a cash lump sum. Due to the management costs involved it is probably not worth establishing a self-invested pension with less than £30,000 and only then if you plan to add to it. You can share a SSAS with others to spread the cost without losing flexibility or independence. When considering the cost of running a pension do not forget to deduct the cost of operating alternative arrangements when making a comparison.

It is probably not a good idea to consider transferring funds from a final salary pension scheme into a SSAS because final salary pensions are normally quite attractive and probably not worth tampering with.

## Budget of 19 March 2014

The Chancellor revealed that from April 2015, if you are older than 55, you will be able to withdraw your entire pension fund as a lump sum. The first 25% is tax free and the balance is taxed at your marginal rate.

The arrangements will also allow you to draw-down your pensions on a monthly basis instead of buying an annuity. Annuity guarantees that you will receive a regular pension for the rest of your life and takes away the risk of running out of money in your pension fund if you live longer than expected in return for a hefty fee but the increased income available from peer to peer lending coupled with the flexibility to vary your drawdown should mean that your pension will last longer and if you die earlier than expected your estate will receive the remaining value of the pension fund.

Most people pay a lower rate of Income Tax when they are retired compared to when they were working. It therefore makes financial sense to contribute the maximum into your pension while you are working, collecting Income Tax relief at your highest rate. If decide to withdraw some or all of your pension fund in your retirement, the Income Tax due will almost certainly be at a lower rate, enabling you to profit significantly. It also means you have more money available for ThinCats lending, which generates tax free interest when it is received by your self-invested pension.

## 6. The Need for Open-Minded Advisors

In our initial research we found that IFAs and pension providers are inherently cautious and often slow to respond to innovative new concepts and ideas. This is generally a good trait for a financial advisor but it means that they often prefer to stick with the same tired model of traditional managed funds because it is easier and safer for them, even though a managed fund is likely to produce less impressive and more volatile results.

If you find your IFA is reluctant to consider any new initiatives, you may find it helpful to speak to a more open-minded pension provider. Our conclusion is that you can save several months of educating your IFA and pension provider by using someone who has already 'done it before'. Such people are still rare and we are working hard to help develop the market; not least because we believe that eventually a significant proportion of funds loaned through ThinCats could come from pension funds. Success in establishing appropriate ways of using a pension to lend on ThinCats is therefore a key part of our own business plan and we maintain a list of those we know about on our website.

**Do not bother** to try and persuade your existing SIPP provider to allow you to lend through ThinCats. It is highly unlikely that they will agree because there is no advantage for them and several risks relating to regulation and reporting which might put them off.

However, there are some forward thinking providers who understand the benefits that lending on ThinCats can bring to those who hold self-invested pensions. A list of [these providers](#) is shown on the ThinCats website.



You should be aware that SIPP do rules require pension providers to allow transfers between providers although they may not be very enthusiastic about losing you as a customer!

## 7. Why use a pension to lend through ThinCats?

### Fixed Interest at c.9%

ThinCats loans have demonstrated that they are capable of producing fixed returns on investment (after losses) in the region of 9% pa. This is far better than most alternatives, even after an individual has paid income tax on the interest. When Income Tax is not payable as in the case of a pension, the returns are even more attractive.

### A Non-Volatile (stable) Investment

Investments in the stock market, corporate and government bonds, commodities and property are all capable of producing exceptionally good returns but, as the old warning goes: “the value of your investment can go down as well as up and you may get back less than you invested”. A particularly advantageous feature of ThinCats loans is that they are generally arranged at fixed interest rates and so provide regular equal monthly repayments of both capital and income for the life of the loan. The result is that their value (and your income) does not fluctuate with the financial markets and so by investing a proportion of your portfolio through ThinCats, you can add stability as well as providing attractive returns.

### Relatively Low Risk

Of course all types of investment involve a degree of risk and the greatest risk with any type of lending is the possibility that a borrower will not be able to repay a loan. ThinCats believes that it has taken all reasonable steps to minimise that risk by careful vetting, taking security and monitoring loans through its ‘sponsors’ but you really do need to understand the risks you are taking with any investment and if you are in any doubt, you should not proceed without taking expert advice. The ThinCats website has more information on the risks involved and how we have tried to address them.

A very important way of limiting your risk is to ensure that your money in ThinCats is spread over at least ten loans, preferably twenty or more. In this way a single loss will have limited impact upon your overall return.

### Option of Income Drawdown

The ThinCats method of repaying loans in equal monthly instalments of capital and interest could be particularly suitable for use as part of an ‘income drawdown’ portfolio. This is where a pension provides a regular monthly income to a pensioner in retirement rather than buying an annuity. This is especially important when annuity rates are very low and provides you with additional flexibility.

### Investment Flexibility

With the permission of your pension provider you can use the same pension to make other qualifying investments; you are not restricted to ThinCats loans.



## Tax Benefits

The considerable tax benefits of using a pension to make long term investments are illustrated in the table overleaf which looks at the first three years of a pension fund investment and assumes a £25,000 investment in ThinCats at an interest rate of 10%pa<sup>1</sup>.

The calculation concludes that an investor paying 20% tax could earn over 15% return on investment and a 40% taxpayer could earn over 25% return on investment over 3 years.

First Year of Investment	SIPP only	40% Tax Relief
Paid in	£25,000.00	£25,000.00
20% SIPP tax relief	£5,000.00	£5,000.00
Estimated SIPP Cost	£1,008.00	£1,008.00
Interest from ThinCats (10%)	£2,500.00	£2,500.00
Net Gain (before marginal tax relief)	£6,492.00	£6,492.00
Value of SIPP at end of year	£31,492.00	£31,492.00
Marginal tax relief		£5,000.00
Overall Return on Investment	25.97%	45.97%

Assuming that the previous year's tax relief is put into the SIPP:

Second Year of Investment	SIPP only	40% Tax Relief
Carried forward	£31,492.00	£31,492.00
Last years marginal tax put into SIPP		£5,000.00
Tax relief on new contribution		£1,000.00
Estimated SIPP Cost	£576.00	£576.00
Interest from ThinCats (10%)	£3,149.20	£3,649.20
Value of SIPP at end of year	£34,065.20	£40,565.20
Net Gain	£2,573.20	£9,073.20
Return	8.17%	28.81%

Return over two years:

Initial Investment	£25,000.00	£25,000.00
Value after 2 years	£34,065.20	£40,565.20
Gain over 2 years (%)	36.26%	62.26%
Annualised Gain	18.13%	31.13%

<sup>1</sup> A copy of the Excel spreadsheet used to produce the table on the following page is available on request for anyone wishing to model their own particular situation. Please send an email to [kevin@thincats.com](mailto:kevin@thincats.com)



Third Year of Investment	SIPP only	40% Tax Relief
Carried forward	£34,065.20	£40,565.20
Last years marginal tax put into SIPP		£5,000.00
Tax relief on new contribution		£1,000.00
Estimated SIPP Cost	£576.00	£576.00
Interest from ThinCats (10%)	£3,149.20	£3,649.20
Value of SIPP at end of year	£34,065.20	£40,565.20
Net Gain	£2,573.20	£9,073.20
Return	8.17%	28.81%

Assuming that the previous year's tax relief is put into the SIPP:

Return over three years:

Initial Investment	£25,000.00	£25,000.00
Value after 3 years	£36,895.72	£44,145.72
Gain over 3 years (%)	47.58%	76.58%
Annualised Gain	15.86%	25.53%

## 8. Transferring existing ThinCats personal loans into your pension

If you already have a ThinCats portfolio it is possible to move it into your pension. There are two ways to do this.

### A. Sell your loans on the secondary market

The money released from selling your loans becomes the contribution to your pension in the form of cash. As pension contributions are paid net of basic rate, for every £10,000 you contribute, your pension provider can reclaim basic rate tax of £2,500 from HMRC. If you pay tax at higher rates, you could recover a further £2,500 if you pay tax at 40%, or £3,125 if you pay tax at 45% (figures for the 2014/15 tax year).

Tax relief instantly boosts the amount you have to lend on ThinCats. However, as HMRC imposes limits to how much you can contribute to a pension, you will need to check that you have sufficient leeway, taking into account any other pension contributions you and your employer are making.

This method is messy but does not require any external valuation or approval of your pension provider but you will also need to take into account the secondary market dealing costs which currently range from £25 to £75 per transaction.



## B. ThinCats' Valuation Service

If you don't have the ability to make any new pension contributions, or you simply want to buy out your personal ThinCats loans with cash from your pension, you could take advantage of ThinCats' Valuation Service. Note that you will need to get the approval of your pension provider before starting this process.

It's necessary to demonstrate to HMRC that your loans have been purchased at a genuinely commercial rate. If HMRC believes they have either been bought too cheaply or too expensively, your pension could face a penalty charge. To address this risk, ThinCats has created an independent valuation committee, comprising directors of Business Loan Network Ltd and a ThinCats sponsor with a banking background. The committee can also call upon an experienced SIPP/SSAS operator and other independent experts who will check the pension and regulatory aspects of the transfer.

The cost of the service is £500 plus VAT irrespective of the size of the portfolio. Please note that because of current restrictions within the ThinCats software you can only transfer an entire portfolio into your pension and not just part

As Business Loan Network Ltd t/a ThinCats is not regulated to provide investment advice we are unable to determine whether it's the right course of action for you to move your personal loans into your pension, all we can do is provide an independent valuation of the loans in your portfolio based upon our knowledge of the market. If you are uncertain as to whether it is in your best interest, you should seek appropriate advice from a suitably qualified independent financial adviser.

If you would like to take advantage of the Valuation Service, please send an email to [Kevin Caley](#).

## 9. Disadvantages of using a pension

All of the disadvantages are related to the additional restrictions a pension involves;

- a. Your capital and profits have to stay in your pension fund until you reach 55 years old and then only 25% can be drawn down as a tax free lump sum. At the present time, there are restrictions on accessing the rest which limit the amount you can draw out each year. However, in his Budget on 19 March 2014, the Chancellor announced that from April 2015, you can draw out the full value of your pension fund, subject to paying Income Tax at your marginal rate;
- b. There is a cost to setting up and running any pension;
- c. You need to avoid investing in anything that may not qualify.
- d. If you are taking benefits from a pension the tax payable on death is 55% and so greater than inheritance tax. For this reason a pension is not a very tax efficient way for an investor to pass assets on to their heirs.
- e. Each pension provider has its own rules based upon the tax legislation, their concerns about the misuse of a pension<sup>2</sup> and their own business objectives.

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<sup>2</sup> An example of the type of misuse that needs to be prevented is that you might find a way of transferring your pension capital into your personal bank account. This is illegal and both the pension fund holder (you) and the provider would encounter major difficulties with HMRC if such a thing were to happen.



## 10. How ThinCats meets the requirements of a pension

The Business Loan Network created ThinCats with pension investing in mind.

- a. When opening a ThinCats account for a pension, members are requested to include the designation “SSAS” or “SIPP” within the “Organisation Name” and the bidding alias. This will alert those administering the ThinCats client accounts that funds can only be transferred back to the bank account from which they came, allowing the pension providers to control where the funds are transferred.
- b. Each loan is made directly from the pension to the borrowing company, with no intermediary.
- c. Interest is paid without deducting tax.
- d. All loan syndicate members are represented by an independent company Limited by Guarantee that acts as the ‘agent’ of the syndicate members and signs documents on their behalf (“ThinCats Loan Syndicates Ltd” or “TLS”)<sup>3</sup>. If there are problems TLS co-ordinates the action to recover the debt and could end up holding the security on behalf of syndicate members. There are sometimes situations where a pension fund would lose its tax relief if it owned the asset on which the loan was once secured. The use of an agent to manage such situations bypasses this potential problem.
- e. The ThinCats website includes a “dashboard” of information summarising the loans made by the member and the financial transactions so that the pension provider (and his advisor) can track the way that funds are being used and the returns being generated.
- f. In the event that a pension needs to transfer its assets into cash (perhaps upon the retirement of the pension owner) the ThinCats Secondary Market can be used to dispose of investments. The same market can also be used to build a portfolio of loans very rapidly.
- g. If there are any changes to the legislation regarding pensions we will actively seek to change our method of operating to accommodate those changes. This is very important to ThinCats because it represents a major source of lending funds.

If you are already a lender on ThinCats you will need to set up a new account for your pension but there are no restrictions (or costs) involved with operating multiple accounts.

## 11. How to set up your own pension

If you have an Independent Financial Advisor (‘IFA’) you should start by discussing setting up a pension with them and find out if they are open to the idea. Make sure that you give your IFA a copy of the ThinCats Terms and Conditions and this guide. We have found that some IFAs and pension providers find it difficult to understand the ‘radical’ idea of Peer-to-Peer lending and may react negatively. They might even suggest that it cannot be done. It is now more than three years after the first ISA started lending on ThinCats proving that this is not the case but it does require an open mind. If, of course, your IFA provides a logical reason for not using a pension for ThinCats lending, there may be an important factor in your personal situation that you should take note of.



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<sup>3</sup> More information about how ThinCats Loan Syndicates operates can be found in the ThinCats terms and conditions that can be downloaded from [www.thincats.com](http://www.thincats.com).

We are always updating our list of pension providers and working closely with them to establish a special 'ThinCats friendly' pension that will make it easy to implement. You can find the latest list of providers who want to help ThinCats members on our website. Listing providers on our website does not constitute a recommendation from us.

Before you sign up to a particular pension provider, please make sure that they really will allow you to do what you want to do, particularly if you plan to make a range of other investments with your pension as well. Make sure that if you are paying a fee for each transaction you make they will allow you to transfer a lump sum into your ThinCats client account and then make individual loans without their involvement. If you have to get their permission for each loan and then pay a transaction fee time, it could make the whole operation uneconomic and would also discourage spreading your risk across many small loans.

Your IFA/pension provider should then arrange the documents to sign in order to set up a pension and its associated Bank Account and limited company if required. It is possible to do all this in less than a week. There are several ways to get funds into your pension;

- a. You can transfer an existing pension fund into the new pension. There are sometimes financial penalties for doing this and so check first. Because the funds are already in a pension you will have already received the tax relief and there are rules to prevent you recycling funds and claiming tax relief twice on the same money.
- b. You can transfer cash from your other investments or savings into your new pension (within limits that may change from year to year) and get full tax relief. There may also be a way of moving annual allowances to or from other years but your IFA will be able to explain the current rules.
- c. You can make a regular monthly payment into your pension in the same way as you might with any other pension.
- d. Your employer can make contributions to the pension. Whilst there is no income tax relief, the company does get corporation tax relief.

You can also combine all four of the above methods but look out for any charges that may be incurred.

## 12. How much will it cost?

Remember that any pension fund will involve some costs and so when considering the prices quoted for providing a pension you should take the costs of the alternatives into account.

It will probably cost several hundred pounds to set up a self-invested pension and a few hundred pounds a year to administer it. But that's probably the basic cost. Most providers charge fees as you diversify your holdings, so be careful when you're considering self-invested pension providers that levy their charges based on a menu, for very quickly, the costs can accumulate to expensive levels.



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**Version 4b.** Last updated: 17 September 2014

Following revolutionary pension changes announced by Chancellor George Osborne in his Budget of 19 March 2014, there has probably never been a better time to contribute the HMRC maximum to self-invested pensions, providing greater opportunities for ThinCats lending. This document has been updated to reflect those changes.

**Changes in this edition:**

It includes a section (8) on the ability and benefits of transferring your existing ThinCats loans into your pension using the ThinCats Valuation Service.

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