



SIPPs: What does the future hold?

Pensions Age
SIPP roundtable



The panellists on the Pensions Age SIPP roundtable tackled all manner of areas connected with the ever-popular self-invested personal pension. They debated its current state, definition, future and what impact it was having on the SSAS market. The panel also assessed the different facets of the SIPP market and discussed whether FSA regulation would change it or not



SIPP roundtable



Chairman:
Steve Bee is head of pensions strategy at

Royal London Group and has won a number of major industry awards including Industry Personality of the year and the Outstanding Contribution to the Industry award. Bee is also a cartoonist and produces cartoons for publications. His BeeHive website, which is updated a number of times a week is dedicated to 'explaining pension gobbledegook' and attracts over 20,000 visits a month. The BeeHive website can be accessed at www.scottish-life.co.uk/bee-hive.



Panellist:
Andrew Cheeseman is managing director of

Guinness Mahon Trust Corporation a company based in Reigate which provides independent professional trustee support to personal pension and stakeholder plans. He has 30 plus years of experience in the industry of which 20 years have been as a trustee to all types of pension arrangements. He is a respected industry commentator and has spoken at conferences and seminars. He is also chief executive of Pan Trustees Limited.



Panellist:
John White is partner and managing director of

Bentley Jennison financial management. He has worked in the industry for over 18 years, qualifying as an associate of the Chartered Insurance Institute while working for NPI. He was employed as a pensioner trustee throughout the 1990s, and joined RSM Robson Rhodes in 1997. He also established and chairs the Internal Investment Panel, which involves interviewing fund managers, and benchmarking performance to set standards.



Panellist:
John Moret is head of sales and marketing at

Suffolk Life. Moret has led the development of SIPPs since their launch in 1990 and is widely regarded as a leading authority on the product. He is regularly quoted in the press and speaks at industry events. He joined Suffolk Life in 2004 from Capita PPML, the second biggest administrator of SIPPs, where he was executive chairman/managing director for four and a half years. He has worked in the pensions and financial services sector for over thirty years.



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What is a SIPP?

Chairman: If we were to compare pensions to suits, then to my mind Personal Accounts are the equivalent of an average off-the-peg suit, which will be the wrong size for many. The bespoke suit however, is a SIPP. But how would you define a SIPP?

Moret: There aren't that many true Self Invested Personal Pensions in the UK. At the bottom end, the online SIPP is arguably the closest to a true Self Invested Personal Pension – with someone at home, running it on their PC. We shouldn't get too hung up on the label. However, we have been constrained by what others have done. The SIPP acronym has been taken on board by HMRC and the FSA. The FSA have influenced the market and have regulated personal pensions, including SIPPs and treated them as packaged products. All of them are personal pensions and all you have are different

investment choices – open architecture on the investment side. They're all actually SIPPs.

Patterson: There is clearly a blurring of the lines between a SIPP and a personal pension linked to a fund supermarket. Very few SIPPs are actually member-directed investments – they're mostly advised. The problem is that insurance companies are offering products which are linked to fund supermarkets that aren't really appropriate for the pensions saving part of the market – people who are hard to advise due to means-testing. The risk for some people is that their aspirations can be greater than their financial acumen and they could get into years of investments that aren't suitable. The regulation of SIPPs should help constrain the market to the people it is most suited for.

Bird: From our point of view, quite simply a SIPP should be your own bespoke personal plan. You should

have the freedom of choice, control and total responsibility over your own pension investments.

Cheeseman: In the past, people used to take up SSASs because they thought they were sexy but they never took advantage of what could be done with a SSAS. There is a danger that SIPPs will be regarded in a similar fashion. However, I'm from the camp where we regard a SIPP as a bespoke product. A SIPP is exactly what it says – self-invested with the individual having responsibility for their investments – they're investment vehicles.

White: SSASs are a prime example of the recycling that takes place. The off-the-peg suit analogy represents the mass-market of SIPPs. I spend time with my clients and not many of them will ask for a SIPP. If someone wants to buy a flash car for example, but can't afford it, they might go for a similar model which is cheaper and looks almost as good on the outside, but doesn't have all the features or horsepower of the car they really want. People may aspire to own a top quality pension but not be ready for it and that's where the middle mass market comes in.



Panellist:
Steve Patterson is managing director of

Glasgow-based **Intelligent Pensions**, which specialises in the handling of complex pension matters for corporate and high net worth individual clients. After studying engineering at Glasgow University Patterson decided a career in financial services offered the best opportunity to apply his creative talents. Having established his own IFA company in 1984, Patterson and his team have built up a wealth of experience in pensions and investment planning.



Panellist:
Gareth Bird is a private banker at Investec

Private Bank. Investec offers deposit accounts for customers with large cash deposits in both SIPPs and SSASs and has been a vocal critic of poor interest rates on SIPP accounts. Bird has worked within the Private Bank Treasury business since 2000 and is currently responsible for the team's deposit raising activities within the personal pension market. Prior to his current position, Bird worked in Investec's Private Banking division in Johannesburg, South Africa.

The SIPP market

Chairman: There is no real consensus on what a SIPP is so how on earth do we know what the SIPP market is?

Patterson: The SIPP market is about aspiration and it's about choice. A SIPP provides freedom of choice beyond what an insurance based personal pension offers. There are a lot of SIPPs where money is invested in collective funds and that is not vastly different to the insurance company products which are linked to fund supermarkets. That is where you have the freedom of

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choice but you don't have the original purpose which was of course to direct all investment and that is where the market is just now.

Moret: There are three segments to the market – at the top bespoke, the bottom commodity and in the middle, hybrid. The fastest growing market is the commodity one which has no advice. The second biggest growth market is the hybrid – it has grown by some 50 per cent and that is down to the insurance companies that have looked at the SIPP market and put it in a wrap environment. The bespoke segment has shown the slowest growth and at just over 20 per cent over the last year and is the most congested segment – 75 per cent of the providers are focussed on that end of the market.

Patterson: As an adviser you can get an idea of what is going on in people's minds and the need they have to see their funds invested in different places, but there is a dividing line between the investors who are actually currently savers and aspire to have the capital to invest and high net worth investors. For the former, investing in various classes is a dangerous place for them to be on a non-advised basis.

Moret: The SIPP market has grown on the back of investments, rather than saving, but what we're seeing now is a shift into savings which over time accumulate and become investments whereas in the early days SIPPs were purely investment vehicles.

Future growth

Chairman: We've got a thousand billion pounds tied up in occupational DB schemes. Movement of money from corporate funds to personal ownership could generate a huge

movement of money into the bespoke SIPP market.

Cheeseman: There's two sides to the occupational side. If a chief executive is coming up to retirement then if he has his head screwed on right then he would consider taking a transfer value the day after retirement and go into a SIPP. Many chief executives have done that in the past and will continue to do so. The new chief executives are normally offered DC benefits therefore there is a strong market for them in SIPPs as it's providing them with what they need. So this will drive growth.

White: In the last six months there has been a massive increase in key share-holding executives and pre-dominant members in small final salary schemes already moving out into SIPP style arrangements in order to get themselves out of a scheme in a precarious position. That is part of the plan to help their DB schemes.

Cheeseman: I agree that executives doing that can keep their deficits down on their DB schemes but they may have chosen the wrong vehicle as they've lost some protection.

Regulation

Chairman: Is it possible that the regulation that comes in is going to knock the market for six?

Moret: I believe it will. The FSA apparently have had 90 applications with another 25 or so still to apply and there's still a huge backlog – this is the first hurdle and I fully expect to see further consolidation over the next two to three years as the real cost of compliance hits home for many. If you cannot arrive at a threshold of around 2,000 SIPPs then I fail to see how you can run a viable SIPP business.



Cheeseman: Are we distinguishing between providers and administrators?

Moret: 95 per cent will be applications to be an established operator. They may be trustees or administrators – you'll have an interesting mixture when the FSA post a list of genuine providers. It will be interesting to see how many new ones there will be.

Chairman: We have a government that views legislation as being temporary. Is further legislation a worry?

Moret: There is still room for further attack on rich person's pensions and SIPPs fit into that category. This attack may or may not be related to the age 75 issue but my belief is that we are only likely to see a movement on age 75 if there is a trade off and that could come in form of tax relief which could be higher rate tax relief or tax free cash which is in some ways the more obvious one. Don't forget there's still a very small number of people who are close to the lifetime allowance.

Patterson: Does this government really care about higher rate tax earners' pensions? I don't think they do. Would it kill the basic rate tax payer's market? No.

Moret: It wouldn't kill the SIPP market



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either. The appeal is not the tax relief it's the investment free flexibility.

Patterson: Age 75 may well go, and there will be arguments in the European courts and the way tax is applied on ASP funds. The tax is in fact totally disproportionate to the loss to the Exchequer of the existing 2004 Finance Act provisions.

Group SIPPs

Chairman: How would the panel define Group SIPPs?

Patterson: The concept behind a group SIPP is to have an arrangement where there is a common trust fund as you would have with a SSAS scheme.

Chairman: Some of these look like IHT dodges and the Treasury seems annoyed by that. The Family SIPP looks like that doesn't it?

Cheeseman: The SIPP was always an IHT dodge for the high net worth individual. If you had £20 million, you threw it in the SIPP and as soon as you died you passed it on. These types of members were not interested in the drawdown facility.

Patterson: Apart of course, from the fact that you had to do something with it when you hit 75.

Cheeseman: I'm not convinced that the family SIPP is better than the SSAS, because the SSAS still has far more distribution than the SIPP.

Chairman: What about a GPP running in a company with thousands of people in it potentially wanting to invest in many things, others not wanting much, is that a group SIPP?

Moret: A family SIPP can't really be

compared to the corporate SIPP which is aimed at high executives.

White: It's a replacement of the old executive pension if you look at it. It's not the SSAS – again, it's something that people aspire to.

Chairman: When you're offering a GPP you've got to show that it's as suitable as a stakeholder pension of course. Part of what defines stakeholders is that they limit choice. By having everything available, does that make the product unsuitable due to having too much choice?

Moret: The company promoting this (family SIPP) arrangement is very much in the online space and cost-wise it compares with stakeholder and is promoted as a group SIPP.

Patterson: The real danger here over RU64 (and that this is website-marketed as opposed to the traditional advice panel) is that people exercise the freedom of choice naively and lose money because they've pitched into the highest performing funds. It's a bit like everyone going into the dotcom market before the whole thing crashed. It's up to the FSA to look at what controls are going to be needed to protect people.

Moret: We've had occupational schemes and DC which give a wide range of investment choice but they're not regulated the same way as group pensions. For example, if someone joins a DC scheme where he/she is given a great number of investment choices, what's the difference between that and a group SIPP?

Cheeseman: The trustee is held responsible for the investment choice that is made.

Moret: So that person can go back to the trustees if one of the funds performs poorly?

Cheeseman: You're right, that's why you have to be out of your brain to be a lay trustee on a DC plan because he has to show that he is offering enough appropriate choices.

Patterson: If a scheme is being promoted as a group SIPP then there's inherent promotion to pick different investments, which is a whole different emphasis from a group one.

Cheeseman: I'm not sure if we're discussing a collection of policies offered by an insurance company or the possibility of having a one trust document with individual people coming out of the trust document.

Chairman: So we don't know what a group SIPP is?

Patterson: If you actually look at share incentive schemes and people using those to make in-specie contributions – you would definitely have to call it a group SIPP.

Cheeseman: I'd call it a collection of individual SIPPs if it's being offered on a contract basis. You've got a trustee but you've got individual accounts.

Moret: The semantics don't really matter, there are organisations taking the SIPP model into the workplace though technology and it may not be any more than a fund supermarket platform with some front end risk profiling and modelling. That is out there in the market.

Chairman: We are essentially talking about personal control of pensions, whereas in the past we would have



talked about employer control. People obviously like personal control.

Cheeseman: It's not at the bespoke end, the people offering the product are going outside the range of what is normally offered. Going back to your off-the-peg suit analogy, someone may decide that their jacket doesn't fit and they don't want a Marks & Spencer label so by the time that person gets around to altering the whole thing it almost costs as much or more than what a bespoke suit would have cost in the first place.

Cash in SIPPs

Chairman: I remember every SSAS I used to look at had loads of money in the bank and people were saying that they were just around the corner from investing it but they never got around to it. Are investors spending enough time looking at what is happening to the cash in their SIPPs?

Cheeseman: What we've got now is reverse yield curves, so leaving it in cash is the safest thing to do.

White: Isn't this about where you manage the cash deposit? Being linked to one bank account is not a real choice as only one account is permitted. And it's not self-investment, nobody promotes the fact that you could go on

a money market or deposit a lump sum elsewhere. When it comes to an adviser, he knows that he's got all the choices in the world for cash deposit and for it to do different things if he can be in that frame of mind to do it, but advisers haven't always been that good on advising on cash.

Patterson: But do advisers really recommend that clients keep assets in cash or rather – should they?

White: There's a lot of the attitude which dictates that cash should be left in an account for a while in order for it to build up as people tend to believe that they need a certain fixed amount before they want to invest it in other assets.

Bird: Speaking for a bank that provides accounts for pension cash, we see large amounts of pension monies kept in cash savings accounts. These are deposits where people have made the conscious decision to keep their monies in a cash deposit and earn a highly competitive rate of interest. Historically, remuneration may have been an issue as to why advisors didn't focus that much on cash and cash options, but I think nowadays the amount of wealth sitting in cash should demand more attention from financial advisors. I believe they need to be proactive in finding the best homes for this wealth.

White: The overall SIPP package provides the ability to take fees or commission so advising on cash is not a problem that can be linked to adviser re-numeration, but the availability of money market investments is not as easily accessible now as the rest of the market is for equities, bonds or any assets. It feels easier to actually know what's going on in the hedge fund

market than it is to know how to get cash deposits at the best rate.

Bird: I agree, information about personal savings accounts and best buy tables are easily accessible and readily found, but unfortunately the same cannot be said for options on personal pension cash. If the pension market is as important as everyone believes it is to the man in the street, why is this information not more accessible? Specific research we have conducted reveals that the difference between the rates available for pension bank accounts is quite substantial.

Patterson: The difficulty, speaking as an adviser, is that the people who have money in cash have probably been advised to put money into investments and there's no inclination on the adviser's part to say in that case let me recommend a better cash deposit for you. The advice hasn't changed – he says that you shouldn't have this money in cash, it's entirely up to you. So this money is now lying in cash by default and the problem with shopping around is that it's not what the advisers advised in the first place.

SSASs and SIPPs

Chairman: Can SSASs continue to survive as SIPPs evolve and grow?

Patterson: For those who want to use a vehicle to buy business premises, the SSAS is still the preferred option because the trustees have ownership of the asset, they can manage it themselves, they don't have a SIPP trustee who owns it and appoints a third party property manager who charges an awful lot of fees to not do much work.

Cheeseman: Although we would have expected some clients to fire us when the requirement for a pensioner

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trustee was removed we have not been dropped by any of our clients which says something for the requirements that clients have. They like to have somebody independent on the board of trustees when they are actively managing their funds and do not always go for the cost-cutting option. These clients actually know what they're doing in a SSAS and they know what they're doing with their investments.

Moret: There is still a place for SSASs with the small family business but generally speaking, the SSAS market has plateaued. It has a place in a small niche of the pensions market.

Patterson: The regulatory issues around advisers are a major area. We all know that the acquisition, disposal or variation of rights is now to be a regulated activity so putting money in or out and changing the fund links will be subject to regulation. The regulation of SIPPs combined with the treating customers fairly regime will shift a lot of the emphasis from the point of sale suitability to whether an advisory firm have the structure in place for the management of such a SIPP through to securing the benefits in the end through annuities. And if firms don't have that then they're going to be subject to some very difficult questioning from the FSA.

Cheeseman: Where do the people fit in who have the white labelling as the administrator? They're not really selling for example, Bank of Scotland's product but they're labelling it as their own. This is back to the days when insurance companies were offering SSASs and they said that they were pensioner trustees but they weren't and they all had to get out of the market because it became a compliance problem.

Moret: You can break that down into two



types. There's been a provider which is say a bank and someone has acted as administrator. Post April 6, most banks will pull out otherwise they have to become an operator and then you get into all sorts of issues of where does the buck stop and what have you. And many insurance companies have gone for an outsourced type arrangement and we've also got IFAs who have co-branded, white-labelling. That will continue.

Cheeseman: My understanding of white-labelling is it is the definition of a group SIPP – selling someone's product but putting my name on it and as soon as you get to that point from a regulatory position, who is responsible for it? Is it the person white-labelling it or the provider? And if it is the provider are they going to be happy with the FSA compliance requirements and all that it entails?

Moret: From the provider/operator perspective they have always been responsible whether regulated or not, adviser wise there is a suitability issue with a better than best argument that they will have to deal with. I'm sure the FSA will look at it again but it's the operator that will be in the firing line.

Patterson: In terms of administration that might be outsourced or regulated, that's not a regulated function in itself

because the responsibility still lies with the operator.

Cheeseman: It's very grey whether you can sub-contract an administration function and in our own opinion such an administrator would have to apply to be regulated because that would be safer. Why does a trustee of a SIPP have to be regulated if he is independent? If it's a corporate trustee or a board of trustees of an occupational scheme this is not a requirement but the assets are far greater. Will we end up with everyone being regulated?

Bird: Could we take a snapshot of what people's opinions are on the marriage of SIPPs and wrap offerings? Because that seems to be the way the market is going at this present moment in time.

White: It will be the next cycle, but there's not enough competition at the moment in the market for it to work.

Moret: And it does come down to semantics again and what you mean by wrap. The fund supermarket model has a place and is moving quite rapidly. It's still very early days.

White: Interestingly though it has managed to differentiate its offerings and you can talk about whole of market wrap and fund supermarket wrap – something SIPPs never managed to do.

Moret: The current size of the wrap market is probably £50-100 billion absolute tops and we're talking a thousand billion or more just in pension assets so there's a long way to go in terms of market penetration.

Chairman: So we don't have an accumulation problem but there's investment shift that might greatly change the face of the SIPP market.