Topic: Sipps planning and the new regulatory environment

FINANCIAL Planners will be aware of the advent of regulation for self-invested personal pensions (Sipps) from 6 April. From that date the establishment and operation of any personal pension, including a Sipp, became a regulated activity as did advising on rights under such schemes. Consequently, it was a little worrying to learn from a recent survey of advisers by Retirement Planner magazine that 15 per cent did not consider that they were prepared for the new regime.

This is all the more surprising given that in March 2007 the FSA drew attention to this in its adviser newsletter. It posed the question "Sipp regulation is almost here - are you ready?" It drew attention to the implications for advisers and changes that might be required to the initial disclosure document and menu. It also highlighted the need for care in advising on Sipps, making the point very strongly as follows: "We require firms to treat their customers fairly. Advice to switch into Sipps should be suitable – reflecting the customers' needs, priorities and circumstances – and not influenced by commission payments… If we see cause for concern in this area or other aspects of Sipp advice, we will consider focused thematic work."

The concerns are clear and have fuelled a number of articles in the trade press including some strong debate over the appropriateness of charges levied by some Sipp operators in comparison with their traditional personal pensions. There have also been suggestions that some contributions are being directed into the provider's own funds, negating the need for a Sipp.

Some commentators have even suggested that commission levels on some insurance company Sipps are encouraging this practice in the unquenchable thirst for new business premiums. This was one of the FSA criticisms of the current model which was a precursor to its review of retail regulation. Whatever the rights and wrongs, the growth in Sipps is not illusory. A recent survey in Money Management (April 2007) confirmed that the expansion in Sipp business is happening and in a big way. The survey showed that collective assets in Sipps are now probably in the region of £40 bn and the number of Sipps has climbed to around 250,000.

For those of us close to the Sipp market this is not a surprise. A-day, with the new, and in most cases higher, contribution allowances with full concurrency allowing contributions from all sources and with much greater flexibility around timing and amounts of income eventually taken, have all helped spur Sipp growth.

The debate around just what constitutes a Sipp will continue. Cynics will argue that many of the new Sipps are nothing more than the old style personal pensions dressed up as Sipps. It is true that around a third of the Sipps accounted for in the survey are described as "insured" Sipps. This is taken to mean that all the assets are currently invested in funds of the "host" life company. Legally however these plans are constituted as Sipps allowing greater investment flexibility in the future. For Financial Planners the issue of suitability is complex now that, from a regulatory standpoint, Sipps are to be treated as a packaged product alongside other personal pensions and stakeholder pensions. There are product evaluation systems which will analyse the merits of providers' Sipp and other pension offerings using a whole range of factors, some of which are of dubious relevance. These systems do not generally attempt to evaluate qualitatively the merits of various providers' product offerings. Neither do they usually measure service.

The latter is very important particularly given the complexities that can arise in administering Sipps and many readers will have had painful experiences with some Sipp operators. The costs of correcting Sipp maladministration errors can be significant.

In the Spring issue of Financial Planner, Neil Craig, managing director of Investor in Customers, wrote about the positive impact for advisers of investing in their customers. The same is equally true for providers and hopefully we will see more Sipp operators stepping up to the mark and opening themselves to independent evaluation of their interaction with their customers – both advisers and their end clients.

Table 1: Average ranking by advisers on a scale of one (lowest) to eight (highest) of the importance of a range of online Sipp services

	Adviser	Clients
Calculators and other added value services	4.3	3.3
Client valuations	6.8	6.9
Dealing via one or more fund supermarkets	5.0	4.4
Illustrations	5.1	4.1
Integration with adviser back office systems	5.1	2.6
Online application forms	4.6	3.2
Share dealing via an execution only service	3.7	4.2
Transaction histories	5.8	5.7

Source: *Retirement Planner*

Recently Suffolk Life sponsored a survey of advisers asking them to rank a number of online services for Sipps in order of importance for both their clients and themselves. The feedback is shown below. From Table 1 it is very clear that, for advisers and their clients, online valuations and transaction histories are very important features of a Sipp operator's proposition. An important attribute of Sipps over other individual pensions is the ability to provide a consolidated view of the client's pension wealth.

This avoids clients being faced with several statements from different providers at differing times which can be both confusing and inconvenient. It also potentially will give the client a better understanding of their ultimate benefits.

It's easy for advisers to adopt a safety first approach to investments. But again the packaged product approach is not necessarily the answer. Look, for example at the Tables 2 and 3 below. The projected fund values can be ignored. The important fact is that only one of the top five providers listed in 1994 is still open for business. Anyone who had invested in the other four products would now have a legacy product. Who can say with confidence what the position will be in another thirteen years? The tables show that there can be advantage in the flexibility that Sipps provide. Ultimately however the suitability of Sipps is not just about investment flexibility or price, it's about value for money.

John Moret, director of sales and marketing, Suffolk Life

Table 2: Highest projected personal pension open market option funds - 1994

Monthly premium of £200 Term 25 years
Leeds Life £188,819
Equitable Life £178,770
Prosperity Life £178,096
Scottish Mutual £177,490
Albany Life £177,341

Source: *Money Management, Sept 1994*

Table 3: Highest projected personal pension open market option funds - 2006

Monthly premium of £200 Term 25 years
L&G Direct £146,623
Scottish Life-fee based £141,999
Prudential £140,586
GE Life £138,970
Abbey National Life £138,275

Source: *Money Management, Oct 2006*

Over-60s Assets

In Technical Update in the June issue of Financial Planner, a production error on Table 1 on p42, led to some inaccurate figures being used. The corrected table is printed here. Apologies for the error.

Table 1

	Citywise	Tillinghast	Super Endowments
Global Equities	20%	49%	43%
Bonds	50%	27%	16%
Cash	25%	Nil	Nil
Property	5%	24%	8%
Hedge Funds			19%
Commodities			14%

N.B. This is a slightly condensed version, particularly as all equities have been put under the one heading.