Which way now?

SIPPs have undergone a dramatic transformation since their inception as unregulated products for high net worth individuals, but what developments still lie ahead? Jo Dymock spoke to Merchant Investors to find out

The SIPP industry is a very different one from five years ago, when SIPPs were seen as pretty much entirely the domain of the super-wealthy.

SIPPs are far more accessible now, with direct sales making up a small but significant part of the market, as well as deferred SIPPs enabling customers to enter a pension contract with the ability to turn it into a SIPP later in life. However, the number of new entrants in the market since A-Day means that competition is at an all time high.

So what does this mean for the development of the product, and more importantly, for the customer? We asked Richard Ellis, head of sales and marketing and Herman Sandrock, head of product development, at Merchant Investors, how they see the market shaping up over the next 12 months and beyond.

More or less

One of the changes that we may begin to see glimpses of this year is a move towards consolidation of SIPP providers.

"Probably the most interesting aspect of SIPPs in the near future will come in the area of consolidation," said Ellis. He added, "As many SIPPs become more like administration platforms, then scale is going to be where the profit is based. If you are not a niche provider and you are what I would call a vanilla SIPP – an ordinary SIPP with some functionality – then you are going to need huge numbers of SIPPs in order to make it pay for itself. I think that will mean a whole host of providers going down the consolidation route.

"In terms of consolidation, my view is that there will be a lot more. Knowing SIPPs well, we can see that some providers are setting themselves up for a sale," continued Sandrock.

Many providers are currently chasing volumes, perhaps not at great profit, and as some of the bigger players such as banks and some insurance companies that have neglected this market in the past begin to take an interest, we may well see a high degree of consolidation as these players try to get higher numbers on their books.

This is not to say that we will not see any new entrants into this market at all. While Ellis thinks it unlikely that there will be a huge influx, he said, "We certainly think some of the European banks will take an interest.

"The banks are looking with fresh eyes at SIPPs. It builds bank accounts, which is core business, it builds around buying funds, which is also core business, and legally it is not so difficult to administer. We will see it not so much from the traditional banks, but from the more innovative merchant banks, I think."

SIPPs for all

One of the biggest shifts in the marketplace has been the growth of the direct sales SIPP. These SIPPs, from the likes of Hargreaves Lansdown and FundsNetwork, enable customers to invest directly, without the need to go through an adviser.

The average size of these funds tends to be quite a lot smaller than more traditional SIPP providers (for more information, see the survey on page six).

The growth of these direct sales SIPPs leads to a new problem however, as Sandrock explained, "Hargreaves Lansdown and FundsNetwork have been very successful at encouraging people to take control of their own pension, not through an adviser but doing it themselves. I do think that this market will continue to grow, but the issue in this area is that more advice models are needed to target these individuals."

Clearly, to expect a customer to choose between, for example, Jupiter and New Star to manage a portion of their fund without any advice cannot work for large numbers of customers (although most providers agree that it is a workable proposition for financially savvy customers).

Most of these direct sales SIPPS have concentrated on providing adequate information, but are obviously limited in terms of the advice that they can offer. Sandrock said, "If there were better advice models in this sector, then we would see a lot more growth in the direct market."

Despite this, both Ellis and Sandrock agree with the prevailing market view, which is that even if direct sales SIPPs grow significantly, they will still form only a tiny proportion of the market compared to SIPPs available through intermediaries.

> Knowing SIPPs well, we can see that some providers are setting themselves up for a sale

Specialist subjects

Another way in which differentiation may be achieved is by specialism. Ellis explained, "If the market is driving at cheaper costs, then the only way you can offer that as a SIPP provider is to cut out the complex stuff. This we are seeing a number of providers saying not only if you want to use commercial property that it is more expensive, but if you want to use commercial property then you can't use us."

Similarly, some providers, particularly bespoke SIPP providers such as Suffolk Life and Hornbuckle Mitchell, are reminding customers that if they do want to access the more esoteric investments, they have the capability and the expertise to do that. This differentiation between SIPPs has already begun, and looks set to become more and more pronounced.

Sandrock also identified an area of growth and differentiation that has been pinpointed by other providers as one of the most important themes of 2008 – guaranteed funds. He said, "You can say what you like about with profits funds, but at least they did offer some guarantee. The shortcoming for me in terms of general SIPPs is that there has not been enough focus on guaranteed funds and many SIPP providers have not got enough choice around their fund as a true guarantee."

Guarantees are difficult products to work, with the cost of the guarantee having to be covered somewhere within the product fee or growth. However, it appears that even the most adventurous investors are looking to guarantee some level of their fund as they draw closer to retirement.

At least one provider, Standard Life, has stated that it plans to launch a guaranteed product in 2008, and others are sure to follow its announcement. If these guarantees are seen to be workable they could be one of the biggest advantages of SIPPs against straightforward personal pensions going forward.

Pricing war

The fact that the SIPPs market is becoming a harder one in which to make a profit is not stopping providers attempting to find ways to make their products cheaper.

This is expected to be one of the key areas of competition in the coming years, as the SIPPs space becomes increasingly crowded and providers are forced to attempt to differentiate their products in some way within the confines of being an adviser led or direct sales SIPP.

The logical place to cut fees in order to offer a better deal than the competition would appear to be initial and annual administration fees in the first instance. We have already seen this to a greater or lesser extent among many mainstream providers, if not the specialists. However, where possible these cuts have already been made, according to Ellis. "There is not much margin in SIPP administration, which is not unusual in lots of areas of financial services. The actual admin of these things is not easy to make money on. You could beat the living daylights out of the cost of our SIPP administration, make a huge loss lead, but save the client maybe £90."

Instead, both Ellis and Sandrock agree that the major area of pricing competition is likely to come in areas such as fund management fees. While distribution fees (the cost of paying advisers, for the most part) is still very much up for debate, it is a fairly standardised area, and as we have seen, administration fees are hard to tighten much more in most cases. Therefore, the logical area for competition lies in fund management and associated fees. Sandrock said, "You will see a lot more transparency coming out around total expense ratios, and advisers taking more control of saying what, fundamentally, does this cost my client?"

The possibility of being able to negotiate better rates for their customers from the big fund houses could be a real selling point for SIPP providers, and it looks like this will be an area to keep a close eye on in the coming months and years.

Protect yourself

One change that SIPP providers and customers will welcome is the expected change to the rules on investment of protected rights. At the moment, only certain SIPPs can hold protected rights, and investment is very limited.

However, the DWP is currently consulting on changes to these rules, and is expected to announce that protected rights may be held within all SIPPs.

Ellis and Sandrock both welcome the change, commenting that it will clearly mean an important step forwards for SIPPs if protected rights can be held within them. Unlike many providers, Merchant Investors suspects that the changes may not come in until April next year, rather than this October. But whenever the changes come in, there is little doubt among providers that they will get what they want in terms of being able to hold protected rights without restrictions.

Protected rights can form anything up to around 40% of a pension fund. Assuming all goes well with the expected changes to protected rights, this could mean a massive influx of business for SIPP providers, as clients who kept their protected rights elsewhere move them in, and others who did not want their pension fund separated are able to move it entirely into a SIPP.

> The possibility of being able to negotiate better rates for their customers from the big fund houses could be a real selling point

Transferring in

One area where we have seen little change in the SIPPs market since A-Day is the source of the premiums. While new premiums are flowing into SIPPs, between 70% and 80% is still coming from transfers for the vast majority of providers.

And although this has been going on for some time, this seems a trend that is set to continue, according to Ellis. "I do not think it will slow down and it will not slow down for the simple reason that it is the only way, cynically, that advisers can make money. It is not just a SIPP problem, it is an industry problem, and somehow or another the circle has to be squared in terms of the fact that IFAs need remuneration.

"The only way that this issue will be resolved is with the slow, tectonic shift that we are seeing in the industry of moving away from upfront commission to either fees or trail commission. The industry is certainly waking up to this need in all areas, not just SIPPs, so there is some hope that it will one day be solved."

According to Ellis, this trend does not just make SIPP influx figures artificially high, it may in fact be stifling the development of the SIPPs industry. He explained, "At the moment the market is feeding off transfers, so it is not having to hunt for new premiums, and that is its problem. When it has to find new premiums, that is where the innovation starts. If it is not hungry, we will not see innovation."

Although we will certainly not see any dramatic falls in the level of SIPP business coming from transfers in the immediate future, there is hope that eventually as new remuneration models are developed, SIPP providers will need to attract new business. When that finally happens, we will hopefully see the same kind of innovation in the SIPPs market that we have seen in recent years in the protection market – for example, Pru Health's health insurance plan – or in the insurance market – where providers are targeting, for example, female or older drivers.

Most of the attention on SIPPs since A-Day has focused on changes to proposed allowable investments and the issue of holding protected rights. However, it is clear that there is a lot more to the development of SIPPs than these now hopefully resolved matters, and the evolution of the SIPP is still far from over.

JOHN GLEADALL

SENIOR MANAGER, WEALTH POLICY

LEGAL & GENERAL

John has fulfilled a considerable number of sales, marketing and technical roles since joining Legal & General in 1969. He represents the ABI on HMRC's Pensions Industry Working Group. John reports to Wealth Policy Director, Adrian Boulding, with whom he develops corporate pensions and investment strategy in the light of current and proposed Government policy.

We thought that there was room for a product that acts like a stakeholder when it can but does allow self investment

Q&A

Jo Dymock asks John Gleadall whether deferred SIPPs offer the best, or the worst, of both worlds

The SIPPs market boom has seen the rise of a number of new types of SIPP, including the deferred SIPP, which allows the investor to treat that SIPP like a straightforward personal pension until the self investment part is needed, when extra investment capability is opened up. We asked L&G how and why it developed its deferred SIPP, and where the SIPPs market will move in the next couple of years.

Q: Do you think we are seeing a change in demographic of clients in the SIPPs market?

JG: The true SIPP itself is something that not a huge number of people are actually interested in – sticking commercial property and other things into their pension. These people are true HNW [high net worth] individuals, and there is only a limited number of them.

According to Ernst & Young, the mass affluent will actually overtake HNW before 2010 in terms of available wealth. I think that's quite an interesting story for the IFA. High net worth consists of 900,000 people, the mass affluent is 6m people, rising to 9m in the next few years. IFAs are just having to work differently.

People have been saying for five years, the way things are going, we will concentrate on the HNW market, but there's not enough HNW people to go around.

I think what we're trying to say is that this mass affluence is coming through, but they're not going to be beating down the doors of their local financial adviser – they haven't grown up in that HNW position of having to have a financial adviser.

Q: Can you tell me a bit more about why deferred SIPPs are on the rise and why you chose to launch one?

JG: It's important to note that the old market still exists. There are still very high net worth people who will require self investment and they will be true self investors and be managing their own assets.

Then there is a new market, a new opportunity, this mass affluent. People are self investing but they're doing it under the guidance of an adviser because they're not experienced investors themselves.

With the simplification of pensions, we thought there was room for a product that acts like a stakeholder when it can but does allow self investment. If you've got an IFA in the situation where they can see someone who may evolve into a higher net worth individual, they need a product that they can give to that person, and they don't want to be paying transfer fees etc if they want a SIPP option. Effectively our product was brought to the market as a stakeholder pension that has an option that you can self invest at a later stage, and it's all built into the same plan. It's future proofing, we feel.

No one can come along and say, if you want to do all of those things we have to take the pensions over here, because you can incrementally switch on the functions. That's quite a defensive measure.

I think the upper end of the market is much like the old small self-administrated company scheme market, where they tend to be controlling directors of their own businesses. L&G still has a few of them, serious arrangements with several million stashed away.

However, I think what's happening now is highly paid employees wanting an option, not just multi-million pound controlling directors.

Initially we didn't think the message about these different types of SIPPs was getting through, that a full SIPP is a full SIPP and a deferred SIPP is perhaps for a wider market, but actually, the message does appear to be getting through, although it's still early days and we haven't got too much evidence to point at yet.

There are several influences driving people to look at this more. The legislation that came in in 2006 enabled people to put far more money in than they did before. It really did free things up.

Q: Do you think people are using all the options available within the deferred SIPP, or are they still treating it more like a straightforward personal pension?

JG: Many of the people that do find themselves in a deferred SIPP could remain in insured funds for their entire lifetime with that product, because there are 300 insured funds to choose from [in L&G's deferred SIPP]. They could be happy with that choice and with that product. Equally, there's a fairly significant percentage of those people who either want to come in to self invest with other assets such as commercial property if they are in business, or who may come into inheritances that they want to put into their pension. It just gives them more flexibility.

Early indications are that younger people are tending to use the insurance funds more and older people are tending to use collectives more within a SIPP. There's actually not a lot of crossover between the two. That means that people are looking at the whole investment universe rather than plonking their investment in something and not looking at it for the rest of their lives. The evidence is that people are getting involved in the choices that they're making.

I guess you might focus on it a bit more as you get older, get a bit closer to actually realising it. It starts to make a bit more sense to you and to seem a bit more important!

Q: Is there any situation in which individuals could find themselves worse off in a deferred SIPP if they never used the self invested options?

JG: Originally advisers were saying that if you put clients into a L&G deferred SIPP, you had to put them into L&G insured funds. We have come to accept that there needs to be more flexibility and choice around what people can do with their SIPP when they start. But we've addressed that issue. We think that objection has probably gone south.

The beauty of the product, we think, is that the charging is very similar to stakeholder charging until you access the self investment option. We don't see any downside in that. If you put something straight into a SIPP, they're going to have to pay the SIPP fees year after year, even if they're not self investing. So we think that only paying for what you need is a great approach and particularly attractive to the mass affluent, who we believe are the sort of consumers that have not always used IFAs; they are more used to getting advice through their bank or building society. With the SIPP the insured funds ensure that the IFA is fairly remunerated for the advice that they give, while the customer is getting a fair deal.

I think that's quite useful in the light of the FSA's newsletter from last September, when it expressed concern that people were being dumped into SIPPs without proper cost comparisons being made between that and, say, a stakeholder, to see whether the member actually needed those facilities. So the product we've now got is directly comparable to stakeholder: you don't pay for anything you don't use.

Q: Do you think that the introduction of personal accounts will have an impact on the SIPPs market, and deferred SIPPs in particular?

JG: Perversely, personal accounts may well drive the development of the SIPPs market. Employers will just throw up their hands, say 'I've had enough of this legislation, you can all go in personal accounts'.

They will have senior employees who they may want to extract from whatever existing scheme they have, and those are the archetypal group SIPP people. It is quite perverse, but personal accounts will probably drive that. It's only a couple of years off now - publicity will start in the latter half of 2010, so we're really only a couple of years away from seeing the influence of it.

Q: Transfers have formed a large part of SIPPs business, and this trend is showing no signs of slowing. Do you think this will be a continuing theme within SIPPs, particularly final salary transfers?

JG: What we have found with our SIPP is that we are getting quite a big chunk of new business. Mostly transferring across, the case sizes are £100k plus.

We have a fairly slick transferring operation, which we've worked on for some years. We try to offer a good service to advisers. We monitor it, with progress reports etc.

Even with final salary schemes, there's an opportunity. The PPF [pension protection fund] bless it, has a sterling cap on the compensation of £27,800 pa. So if you happen to have a paid up pension of more than that in a final salary scheme, if your former employer happened to become insolvent and go into the PPF, you would lose the excess of your pension over £27,800.

Advisers would be doing them a disservice if they didn't suggest that they might transfer. That generates £400,000-£500,000 of transfer value. Although it's subjective, it is an argument for saying you might want to take money out of a final salary scheme because the excess over that cap is at risk. Final salary schemes are going under on a daily basis.

Advisers would be doing them a disservice if they didn't suggest that they might transfer

Finding the way

SIPPs have become a firmly embedded aspect of the UK pensions arena, but arguments continue over how effective they are for many investors and how the product is evolving. Jo Dymock analyses what is on offer today

The SIPP debate has finally moved on from the allowable investments U-turn made by the government to more pertinent issues for the current pensions market. Questions such as 'when is a SIPP not a SIPP?' and 'are SIPPs really suitable for the mass affluent?' are now occupying the space once taken up by 'but why can't we get a 40% discount on our holiday home purchase?'

The 'mass affluent' issue is an ever growing question. SIPPs were once considered the realm of high net worth individuals, but with average fund size falling, it is clear that providers are having to attract the merely fairly wealthy in order to keep increasing their business and maintain their market share. This shift in clientele, and the resultant growth in potential investors, means that some SIPP providers are offering a very different product from the older, more established SIPP providers. Indeed, the SIPPs market is seen by some commentators as slowly dividing into three distinct sections.

Full SIPPs are those SIPPs that allow access to all, or nearly all, the allowable list of HMRC investments. Administration costs may be higher, to reflect the increased workload generated by these less traditional investments, but the choice of investment within the SIPP is proportionally greater. The so called vanilla SIPP is on the rise, with much more competitive fees, but a correspondingly shorter list of allowable investments (Hargreaves Lansdown, for example, although it offers a more limited investment list, does offer access to 1,200 funds). Where more obscure investments are allowed, the fees for these investments may be disproportionately high.

The third product type is the deferred SIPP, which is becoming increasingly popular among big insurance companies. The deferred SIPP offers competitive pricing while the investor remains invested only in insured funds and traditional personal pension investments, but has a second fee structure in place when the individual decides to access the self invested option within the plan. this enables a single pension contract to be written for an individual who may not want to self invest now, but wants the facility in the future.

These changes in SIPP have run alongside recent media speculation about misselling of SIPPs, including direct sales of SIPPs. There is yet to be any conclusion about the debate, with all the SIPP providers furiously defending their own products, but it seems likely that some consensus will eventually be achieved by the industry about what is and is not acceptable in terms of who holds a SIPP and what they can do with it.

The protected rights question is still very much up in the air, as we wait to hear what the DWP will decide to allow to be done with protected rights within SIPPs. Most of these limitations are expected to be removed from October 2008 following the DWP consultation on investment of protected rights in SIPPs, which closed on 29 February.

Use of the SIPP in retirement is also raising interest as the flexibility of a SIPP even after retirement is being realised and capitalised on. Drawdown options are being considered, and considerable expansion is expected in this area as the solutions being dreamed up by so called third way annuity providers are impacting on the options available in the SIPPs market. In the face of all this new debate, *MM* has again carried out a unique survey of SIPP providers and product features.

Trust in me

Table 1 provides details of SIPPs, including the plan trustees and details of outsourced services. One immediate criticism of providers is illustrated by this Table: while most providers offer a free annual valuation, it is reasonable to assume that clients who have bothered to self invest will want to access valuation information far more often. Only eight providers state that they provide online valuations at any time, while 13 charge a fee for ad hoc valuations, ranging from £6 to £105. The rest do not explicitly state whether ad hoc statements are available at all, and at what cost.

The Table also shows that plenty of services are still outsourced. This seems unlikely to stop, given the wide range of providers in the market in terms of size and capabilities, never mind the wide range of investments that must be administrated.

In business

Table 2 shows SIPP business levels as at 1 February 2008.

The total number of self invested SIPPs, from providers that disclosed their figures, is 233,906. It is hard to compare this to previous figures, as fewer providers responded to the November 2007 *MM* survey and far fewer providers were willing to disclose these figures in 2007. However, in the April 2007 SIPPs survey, of the 49 providers that chose to respond, 39 disclosed the number of fully self invested plans, a total of 145,729 plans. Even allowing for the four extra providers that disclosed figures – 43 out of 48 – in this edition of the survey, it is clear that SIPPs have undergone an amazing growth spurt over the past 12 months.

Conversely, the number of fully insured SIPPs has only grown fractionally, up from 110,087 last April to 123,830 this year. The reason for this appears to be twofold. Firstly, **Standard Life,** one of the biggest SIPP providers in terms of funds invested, abolished the need for a minimum investment in insured funds before any self investment may take place. This removal of 16,423 fully insured SIPPs, combined with a slight drop in the number of insured SIPPs from the likes of **James Hay** and **Friends Provident,** has almost offset the slight growth in fully insured SIPPs from **Aegon Scottish Equitable** and **LV=** (previously GE Life).

The growth in the total sums invested has also been impressive, leaping from £36.66bn last April to £50.68bn this time round. This pound on pound growth has clearly been down more to greater number of investors

Table 1 : SIPP provider, plan trustee and administrator

	Company	Plan name	Plan trustee	Administrator	Valuation statements	Services outsourced?
1	Aegon Scottish Equitable	Flexible PP/Retirement Control/Group SIPP	Aegon Scot Eq	Aegon Scottish Equitable	Annual and online free	Administration outsourced to Capita
2	A J Bell	Sippcentre SIPP	Sippdeal Trustees	A J Bell Management	Bi-annual. Fund value and transaction history online.	Investment management, choice of own professional connection (eg solicitor)
		Sippdeal e-SIPP	Sippdeal Trustees	A J Bell Management	Paper statements quarterly, fund val + trans history online	–
		A J Bell SIPP	A J Bell (PP) Trustees	A J Bell Management	Annual	Inv mgment choice of own professional connection
3	Alliance Trust	Alliance Trust Full SIPP	Alliance Trust Pensions	Alliance Trust Savings	Annual	No
4	Ashcourt Admin	Ashcourt SIPP	Ashcourt Pens T'tees	Ashcourt Administration	As required, no cost	Solicitor, property management, invt mgmnt
5	Bridgewater Pension Trustees	Pathfinder Private Pen Scheme	Bridgewater Pen T'tees	Bridgewater Pen Trustees	Annual	Borrowing, legal servs, valuations, fund mgmnt
6	City Trustees	City Private Pension	City Trustees	City Pensions	Annual	–
7	Cooper Parry FS	Cooper Parry SIPP	Park Row SIPP Trustees	Cooper Parry FS	Annual, ad hoc £100 plus VAT	–
8	DA Phillips & Co	The Premier Trust	DA Phillips & Co	DA Pensions	Annual, ad hoc free	Investment management
9	Dentons Pension Mgt	Dentons SIPP	Denton & Co Trustees	Dentons Pensions Mgt	Annual	–
10	E'pean Pens Mgmnt	E'pean Pens Mgt Schm	European Pens Mgmnt	European Pens Mgmnt	Annual, ad hoc £25 plus VAT	No
11	Friends Provident	Friends Provident SIPP	James Hay Pen	James Hay Admin Co	Annual; one free, then £48-£144	–
12	FundsNetwork	FundsNetwork SIPP	Standard Life Trustee	Standard Life Assurance	Annual and free online	No
13	Greyfriars Asset Mgmt	Greyfriars Pref Ret Acc	GAM Trustees	Greyfriars	6 monthly	No
14	Hargreaves Lansdown	Vantage SIPP	Hargreaves Lansdown Pensions Trustees	Hargreaves Lansdown Asset Management	Six monthly, at any time on request and online at any time	No
15	Hazell Carr Pension Services	Hazell Carr SIPP	Hazell Carr (AD) Services	Hazell Carr Pension Services	Annual, online FundsDirect vls free, ad hoc may incur fee	No
16	Hornbuckle Mitchell	Private Pension	HM Trustees, and client	Hornbuckle Mitchell Gp	Annual, on request free	No
17	HSBC Trust Company (UK)	The HSBC SIPP	HSBC Trust Company (UK)	HSBC Trust Company (UK)	Annual, discretional valuations and bank statements quarterly	Investment management
18	Investacc	Minerva SIPP	Investacc	Investacc	Annual	Yes, investment and property management
19	IPM SIPP Administration	IPM Personal Pension Scheme	IPM SIPP Administration	IPM SIPP Administration	Annual, additional valuations by investment administrator	Investment management
20	IPS Pensions	IPS Pension Builder	Union Pension Trustees	IPS Pensions	Annual	Property mgmnt, investment management, payroll
21	James Hay	James Hay PPenPlan	James Hay Pen T'tees	James Hay Admin Co	Annual; £60 thereafter	Subject to negotiation
22	Legal & General	Portfolio Plus SIPP	L&G Assurance Society	L&G Assurance Society	Annual	No
23	The Lifetime SIPP Co	The Lifetime SIPP	The Lifetime SIPP Co	The Lifetime SIPP Co	Every six months, then £50	Investment management
24	LV=	Transitions Retirement	NM Pensions Trustees	NM Pensions Trustees	Annual, ad hoc £60	Property management, discretionary management
25	Mattioli Woods	Mattiolli Woods SIPP	MW Trustees and	Mattioli Woods	Annual	Property management, investment management
26	MC Trustees	MC Trustees Private	MC Trustees	MC Trustees (Pensions)	Annual	No
27	Merchant Investors	Merchant Investors SIPP	Merchant Investors Trustee Services	Merchant Investors	Pinnacle fund, annually. Customised fund, quarterly	Discretionary fund management.
28	Michael J Field	The Michael J Field	MJF Pension Trustees	MJF Pension Trustees	Annual	Investment Management
29	Nigel Sloam & Co	NSS Solution SIPP	NSS Trustees	NSS Trustees	Annual (at least)	Inv advce prop mgmt and some consultancy to grp
30	Pilling and Co	Pilling and Co SIPP	Sippdeal Trustees	A J Bell Management	6 monthly	No
31	Pointon York SIPP Sols	The PY SIPP	Crescent Trustees	Pointon York SIPP Sols	Annual, ad hoc £50	Property management, legal, environmental
32	Rathbones	Rathbone SIPP	Rathbone Pension & Advisory Servs T'tees	Rathbone Pension & Advisory Services	Annual	–
33	Redswan Pensions	Redswan SIPP	Redswan Pensioneers/ Redswan Trustees	Redswan	Annual	Legal, accounting, tax, financial advice, prop mgmt, discretionary mgmnt, stockbroking
34	Rensburg Sheppards Invt Mgmnt	Premier Pension	Rensburg Sheppards Trustees	Rensburg Sheppards Inv Management	Six monthly	–
35	St James's Place	St James's Place Self Invested Pension Plan	Capita Life & Pensions Regulated Services	Capita Life & Pensions Regulated Services	Annual, ad hoc £105	Property management
		St James's Plc SIPP Pl	Alliance Trust Pensions	Alliance Trust Pensions	Annual	No
36	Scottish Life	Pension Portfolio	Royal London Mutual Insurance Society	Royal London Mutual Insurance Society	Annual, £110 thereafter and online at any time	No, apart from 3 discretionary managers
37	Scottish Widows	The Retirement Account	Scottish Widows Trustees	Scottish Widows, commercial property by Alliance Trust	Property valuations annual, policy and investment valuations online at any time	Comm prop purchase dealt with by Alliance Trust, with surv and legal dealt with by app panel. Other activities relating to prop purchase may need to be
38	Skandia	Skandia SIPP	Sippdeal Trustees	AJ Bell Management	Annual, ad hoc TCB, online	Admin outsourced to AJB. In SIPP, plcyhlders can appoint solicitors, prop mgrs or invest mgrs.
39	Standard Life	Standard Life SIPP	Standard Life T'tee Co.	Standard Life Assurance	Annual and online at any time	Property and investment management
40	Suffolk Life	Suffolk Life MasterSIPP	Suffolk Life Trustees	Suffolk Life Pensions	Annual and £100 min thereafter.	–
41	Taylor Patterson	Taylor Patterson SIPP	TP Trustees and client	Taylor Patterson	Annual	VAT, pension payroll, investment, property
42	TM SIPP Services	Elite Retirement	TM Trustees	TM SIPP Services	Annual, ad hoc variably cost	No
43	Towry Law	Towry Law SIPP	Towry Law	Towry Law	6 mnthly for discr inv mgmnt	No
44	Uptel Ltd	Uptel SIPP	Uptel	Uptel	Annual	Prop and investment mgment legal, accounts
45	Wensley Mackay	Wensley Mackay Personal Pension	WM Pension Trustee Services and member	Wensley Mackay	Annual	Legal, investment administration
46	Westerby T'tee Servs	Westerby Priv Pension	Westerby Trustee Servs	Westerby Trustee Servs	Annual	Fund management, legal services
47	Winterthur	Winterthur Life SIPP	Winterthur Pension Trustees UK	Winterthur Pension Trustees UK	Every six months, two ad hoc, £6 thereafter	Invt mgmnt. Day to day pension, invt and property administration outsourced to Capita.
48	Zurich Assurance	Zurich SIPP	Zurich Pension Trustee	Capita Life & Pensions Regulated Services	Annual, ad hoc £100	Admin: Capita, FS: FundsDirect, stocks and shares: Selftrade and four discretnry fund mgrs

Notes: Where a dash is shown, the survey was marked n/a, n/d or left blank. FS - fund supermarket. **Source**: Money Management

Table 2 : SIPP business levels

	Company	Fully self-invested plans	Insured SIPPs in force	Value of in force business £	Average SIPP value £	Proportion of business from transfers %	Properties in business	Average property price £	Typical size of borrowing £/%
1	Aegon Scottish Equitable	4,038	91,309	6.6bn	69,221	-	345	337,000	200,000
2	AJ Bell	28,338	0	4.5bn	162,000	65-80 (1)	–	–	–
3	Alliance Trust	6,487	0	–	–	–	–	–	–
4	Ashcourt Administration	405	0	64.4m	160,000	62	16	305,000	150,000
5	Bridgewater Pension Trustees	310	0	98m	316,000	75	22	150,000	50
6	City Trustees	1,014	0	>300m	295,858	–	176	350,000	50
7	Cooper Parry FS	212	0	38.7m	200,000	80	76	400,000	50
8	DA Phillips & Co	1,023	0	302.655m	295,850	75	235	350,000	160,000/50
9	Dentons Pension Management	1,644	0	782m	476,000	78	306	380,000	–
10	European Pensions Management	3,250	0	425m	129,230	40	40	296,000	139,000
11	Friends Provident	1,260	1,081	257.125m	204,067	99.6	11	391,591	–
12	FundsNetwork	3,500	0	>600m	175,000	85	–	–	339,800
13	Greyfriars Asset Management	500	0	–	–	60	120	450,000	200,000
14	Hargreaves Lansdown	40,000	0	1.8bn	45,000	67	0	–	–
15	Hazell Carr Pension Services	327	0 (2)	73.159m	223,728	<15	84	426,723	343,887
16	Hornbuckle Mitchell	10,200	0	>3bn	400,000	85	4,500	300,000	–
17	HSBC Trust Company (UK)	879	0	560m	600,000	95	58	350,000	50
18	Investacc	584	0	81m	138,000	90	172	260,000	100,000/50
19	IPM SIPP Administration	3,750	0	c.1bn	350,000	70	660	350,000	150,000
20	IPS Pensions	5,090	0	1,165m	250,000	–	1,293	–	–
21	James Hay	35,313	18,432	10.87bn	307,817	91.22	2,126	330,382	–
22	Legal & General	–	–	–	–	–	–	–	–
23	The Lifetime SIPP Company	449	0	58.3m	139,000	60	105	300,000	180,000
24	LV=	4,633	4,926	1,400m	295,000	77	822	283,000	–
25	Mattioli Woods	1,166	0	301m	332,500	–	–	–	–
26	MC Trustees	1,247	0	590.3m	200,000	83	395	361,000	50
27	Merchant Investors	2,714	2,908	141.343m	48,638	94	197	500,000	–
28	Michael J Field Consulting Actuaries	c.1000	–	–	–	–	–	–	–
29	Nigel Sloam	–	–	–	600,000	80	–	450,000	250,000
30	Pilling and Co	204	0	28m	138,000	25	3	–	–
31	Pointon York SIPP Solutions	4,000	0	675m	170,000	80	700	200,000	50
32	Rathbones	800	0	300m	375,000	80	–	–	–
33	Redswan Pensions	209	0	15.687m (3)	141300 (3)	75	28	250	26
34	Rensburg Sheppards	–	0	–	–	–	–	–	–
35	St James's Place - SIPP	844	0	c.322m	380,000	75	83	225,000	HMRC max
	- Self Invested Pension Plan	10	0	4m	400,000	90	0	0	–
36	Scottish Life	267	0	57m	212,500	79	37	223,100	–
37	Scottish Widows	–	3,902 (4)	324m	83,000	–	2	200,000	0
38	Skandia	–	0	–	–	65	–	–	–
39	Standard Life	46,900	0	7.7bn	164,000	–	660	256,108	29
40	Suffolk Life	10,300	0	3bn	290,000	–	1,250	360,000	140,000
41	Taylor Patterson Trustees	233	0	94m	450,000	90	124	400,000	55
42	TM SIPP Services	950	0	–	200,000	80	175	250,000	100,000-150,000
43	Towry Law	2,200	0	800m	360,000	95	0	–	0
44	Uptel Ltd	97	0	21.686m	223,569	70	23	360,000	144,000
45	Wensley Mackay	250	0	30m	120,000	60	100	250,000	150,000/40
46	Westerby Trustee Services	495	0	60m	121,000	89	82	350,000	200,000
47	Winterthur	6814 (5)	–	2.1bn (5a)	–	–	664	403,000	–
48	Zurich Assurance Ltd	0	1272 (6)	117.048m	92,087	100	1	207,000	0
	Total	233,906	123,830	50.68bn	246,033	–	–	–	–
	Average	–	–	–	–	75	402	305,699	–

Notes: Some figures are approximations. Where a dash is indicated the company did not disclose the information or the information was not applicable. (1) 80% from transfers for AJ Bell SIPP and SIPPDeal e-SIPP, 65% for SIPPCentre SIPP. (2) All SIPPs are structured to allow full self investment so no SIPPs are classified as insured only. (3) As at 05/04/07. (4) The Retirement Account was launched on 18 March 2007, and as at end of January 2008 there were 3,902 in force - a split of insured/self invested is not available. (5) As at 31/12/07 (5a) As at 31/10/07. (6) All plans contain some element of insured funds.

than increasing fund sizes, however, as the average fund size has fallen from £267,349 to £246,033 in the past year. The increased accessibility of SIPPs, either in the form of deferred SIPPs or direct SIPPs such as the offering from **Hargreaves Lansdown** – which has an average fund size of only £45,000 – has contributed significantly to both the growth in numbers and the fall in fund size.

The number of properties administered by each provider varies enormously, from none or one up to 4,500 by **Hornbuckle Mitchell**. This can be seen in some ways as a reflection of the 'trueness' of the provider's SIPP, as more traditional full SIPP providers are far more likely to deal with the more esoteric SIPP investment options, such as commercial property, than the newer, so called vanilla SIPP providers.

Transfers are still making up a huge proportion of SIPP business, at 75%, but this is slightly down on last year. Some providers expect transfer levels to remain at their current high level for the foreseeable future, but Tom McPhail, head of pensions research at Hargreaves Lansdown, said, "I do think that as a proportion of overall turnover transfers will probably diminish as increasing numbers of new SIPPs are set up, particularly group SIPPs."

Table 3 : Charges for self-invested portion of SIPPs

Company	Min inv £	Mthly prems £pm	Annl prems £pa	Single prems £	Initial charge £	AMC £	Trans in £	Trans out £	Vesting £	Inv servs £	Optional charges £	Charges subject to VAT
1 Aegon Scot Eq		See (1)			0	0-515, (1a)	0	0	0	0-515 (1b)	-	-
2 AJ Bell - SIPPCentre	0	0	0	1,000	120	480	75	75	150-250 (2)	See (2a)	See (2b)	All
- SIPPDeal e-SIPP	0	150	0	1,000	0	0	50	50	150 (3)	-	-	All
- AJ Bell SIPP	0	0	0	0	425	480	75	75	150 (4)	-	-	All
3 Alliance Trust	0	0	0	0	350	400	100	100	100 setup, 150pa	Various	-	All
5 Ashcourt Admin	1	1	1	1	500	750	25	25	150pa	-	TCB	All
Bridgewater Pension Trustees	0	0	0	0	250	500	0	0	100	£0	In specie contributions	All
8 City Trustees	0	0	0	0	275	500	0	125ph	-	-	150	All
9 Cooper Parry	0	0	0	0	450	550	95 (5)	TCB	200	On app	On app	All
DA Phillips & Co	0	0	0	0	300	400	105	105	105	-	270 for	All
10 Dentons Pension Management	0	0	0	0	495	485	TCB	TCB	250	Individually agreed	TCB	All (not inv servs)
European Pens	0	0	0	0	0	50-350	0	100	100 initial + 100pa	0 (6)	See (6a)	All
12 Friends Provident	75000 (7)	-	-	5,000	0 (7a)	0 (7b)	0	-	-	-	See (7c)	None
FundsNetwork	10,000	300	3,000	10,000	104 - 302 (8)	260-416 (8a)	0	0	0	260 + DIM	Various	Some DIM
14 Greyfriars Asst Mgt	0	0	0	0	600	0.25%	0	0	0	0	0	All
15 Hargreaves Lnsdn	78	78	780	780	0	0	0	75	0	-	0	Trans out
17 Hazell Carr Pens Services - Option 1	0	0	0	0	0	0.02%pm (9)	£50/per TF	105 (9a)	105	-	-	All
- Option 2	0	0	0	0	500	40pm	50/per TF	105	105	-	-	All
18 Hornbuckle Mitchell	0	0	0	0	345	445	0	200	150	20 (10)	See (10a)	All
HSBC	300,000	0	0	0	750	TCB, 1,000 min	TCB	TCB	TCB	CBC	0	All
19 Investacc	0	0	0	0	0	400	0	0	100pa D	0	0	All
20 IPM SIPP Admin	0	0	0	0	0	540	0	80	150	0	0	All
21 IPS Pensions	0	0	0	0	495	395	0	TCB	150	-	-	All
22 James Hay	0-50,000	0	0	0	290	455	0	0	0	0	0	None
24 L&G	25,000	200	2,400	5,000	0-295 (12)	Various	0	0	0 (12a)	110 (12b)	-	None
Lifetime SIPP Co	0	0	0	0	350	450	50	200	200	-	See (13)	All
LV=	20,000-100,000 (14)	0-200 (14a)	0-2,000 (14b)	0-2,000 (14c)	0-315 (14d)	0.5-1.4% or 525 (14e)	-	-	135pa for FS and FSO, 0 for DO	-	Various	DIM and prop mgr
Mattioli Woods	0	0	0	0	795	400	TCB	TCB	109+19 per	TCB	-	All
25 MC Trustees	0	0	0	0	250	562	0-141 (15)	562-842	202	0	Ext fees if app	All
26 Merchant Inv	1,000	100	1,000	1,000	350	0.25% (16)	75	0	0	-	-	Incl in figs
28 Michael J Field Consu	0	0	0	0	CBC	CBC	CBC	CBC	CBC	CBC	CBC	-
29 Nigel Sloam	0	0	0	0	660	1,100	TCB	TCB	TCB	CBC	TCB	All
Pilling & Co	1,000	100	1,000	1,000	200	200	-	75 (17)	150-250 (17a)	-	0	All
32 Pointon York	-	-	-	-	500	600	60	350	250	25	Unquoted	All
34 Rathbones	50,000	-	-	-	300	150.00	75	100	150	1.5% (18)	All	All
Redswan Pensions	1	0	0	0	245	395	95	295	230	-	Various	All
35 Rensburg Sheppards	0	0	0	0	0	0.25% (19)	0	0	0	-	0	Admin fee
37 Scottish Life	0	50	600	1,000	0	300 (20)	136	136	136	79 (20a)	Various	None
38 Scottish Widows	0	200	2,400	10,000	0	0.1-0.7% (21)	-	-	-	0.5-1%	Adviser	None
41 Skandia	0	150	-	1,000	150	160 (22a)	60	75	75	Various	25-250 (22b)	All
St James's Place - SII	0	0	0	0	350	400	100(23)	100	150 (23a)	0 (23b)	-	All
- Self invested pensic	0	0	0	0	295	335	35-125	35-125	80 (24a)	-	-	All
42 Standard Life	See (25)	See	See	10,000	0-302	0-416	0	0	0	0	0	None
43 Suffolk Life	0	0	0	0	300	475	0 (26)	0	0-150 (26a)	-	-	All (26b)
44 Taylor Patterson	0	0	0	0	125-400 (27)	125-500 (27a)	0-75	300	0-375 (27b)	-	Various	All
47 TM SIPP Services	0	0	0	0	375	615	TCB	TCB	100pa (28)	20	-	All
Towry Law	30,000 (29)	250	3,000	3,000	0	0	50	85	225	1%pa	0	None
Uptel	0	0	0	0	425	425	0	0	TCB, c.200	Referred	0	None
48 Wensley Mackay	0	0	0	0	0	480	100	100	0	0	-	All
Westerby Trustee Ser	0	0	0	0	295	500	0	75	120	-	Various	All
49 Winterthur	0	0	0	0	585 (30)	585	0	0		-	-	None
Zurich Assurance	10,000 (31)	200 (31a)	2,000 (31a)	10,000 (31)	300, 0 if 140,000 or more is held in Zurich pensions funds		0	0	0	150 for DIM	0	No

Notes: Where a dash is indicated, details were not provided or were marked n/a or n/d. D-drawdown.S-setup. BBR - below base rate. CBC - case by case basis. TCB - time cost basis. AMC - annual management charge. pm - per month. pa - per annum. DIM - discretionary investment management. DFM - Discretionary fund manager. FS - full SIPP. DO - discretionary option. FSO - fund supermarket option. RI - retirement investment bond. (1) 100pm or 1,000pa for flex pens, 50,000 single prem/transfer for ret control, 20pm for group SIPP. (1a) Depending on FSO or DFM. (1b) Some fund s'mkt/ DFM fees. (2) 150-250 set up, 75 for additional funds. (2a) Depends on chosen manager. (2b) May apply for on panel investments. (3) 150 set up, 75 for additional funds. (4) 150 for set up, 150 for additional funds. (5) TCB in specie. (6) 100 initial + 100 pa for stockmarket SIPP. (6a) TCB for non-standard administration. (7) After tax free cash. (7a) 0 for RIB only; 175 for RIB + unit trusts and ins co inv funds; 290 for RIB + any permitted inv. (7b) for RIB; 235-350 for RIB + unit trusts and ins co inv funds. (7c) 60 for ad hoc withdrawals. (8) 104 (core), 302 (non-core). (8a) 260 (core), 416 (non-core). (9) Min £12.50pm, max £40pm. (9a) £750 Exit Charge under option 1 on Full Trans out. (10) 20 per trans, 300pa max. (10a) In specie (800) and unlisted shares (800). (11) 0, or 50,000 on Select SIPP. (12) 0 for collective investment from Cofunds, 295 for self investments. (12a) 0, 130 for self invested, 130 if inc paid in preceding 12 mths; 50 for any additional inc w/d, variation of reg income or des of an additional sum for inc w/d. (12b) For appt of new inv manager. (13) Application for A Day protection by negotiation. (14) 20,000 for FS, 200,000 for DO, 100,000 for FSO. (14a) 200 for FS, 0 for DO and FSO. (14b) 2,000 for FS, 0 for DO and FSO. (14c) 2,000 for FS, 0 for DO and FSO. (14d) Up to 315 for FS and FSO, 0 for DO. (14e) Up to 525 for FS and FSO, 0.5-1.4% for DO. (15) 0 for two, then 141. (16) Min £15pm where pinnacle funds only, £37.50pm if customised fund. (17) 75 + 20 per stock. (17a) 150 for USP, 250 for ASP. (18) For Rathbones portfolio. (19) Capped at £1,250. (20) 500 for full self investment. (20a) Plus 151 annual fee. (21) Depending on fund size. (21a) Depending on manager selected. (22) 1,000 top up, SIPP wrapper only. (22a) Plus 200pa if invs held outside Skandia pension trustee bond, multifund or cash. (22b) 25 for telegraphic transfer, 150 for USP, 250 ASP. (23) If provider has to chase. (23a) 150 set up, 150 annual. (23b) 0 for standard invs, various for special invs. (24) 35 for cash, 125 for in specie. (24a) 80 initial, 165 annual. (25) 10,000, 300pm, 3,600pa. (25a) 300 if under 50,000, then 100. (25b) 3600 if fund is under 50,000, then 1,000. (26) 0 if adviser fulfills reqs, or 75 (max 300). (26a) 150 for UI/ASP, 0 for annuity purchase. (26b) Except protected rights and property fees. (27) 125 for cash SIPP, 300 for investor SIPP, 400 for Master SIPP. (27a) 125 for cash SIPP, 400 for investor SIPP, 500 for Master SIPP. (27b) 0 for cash SIPP, 375 for Investor and Master SIPP. (28) 100pa for income withdrawal, 50 for each additional tranche. (28a) For investment transactions. (29) 30,000 for SIPP, 100,000 total client investment. (30) 585 or 375 if 100,000 or more is held for 6 months. (31) 10,000 in insured funds, 50,000 in wider SIPP assets. (31a) Into self invested assets. (31b)

Table 3a: Charges for self-invested portion of SIPPs

	Company	Transaction charges					Charges subject to VAT
		UK shares	O'seas srs	IT/UT	Ins co funds	Dpsits	
		£	£	£	£	£	
1	Aegon Scottish Eq	22	22	22 (0 for UTs if through FS)	0	0	-
2	AJ Bell - SIPPCentre SIPP	0 if held via on panel investment partner, otherwise 30			30	30	All
	- SIPPDeal e-SIPP	0	0	0	-	-	All
	- AJ Bell SIPP	30 to set up account with stockbroker		0 if held in inv a/c	30	30	All
3	Alliance Trust	0	0	0	0	0	All
4	Ashcourt Admin	0	0	0	0	0	All
5	Bridgewater	0	0	0	0	0	All
6	City Trustees	30	30	30	30	30	All
7	Cooper Parry	150 to est nominee	TCB - min 150	30	30	0	All
8	DA Phillips & Co	0	0	0	0	0	All
9	Dentons Pens Mgt	None if held in nominee				0	All (except inv
10	European Pens Mgt	0	0	0 (25 for EPMS stockmarket SIPP)	n/a for all except EPMS stkmkt SIPP, then 25 per	0 (100 init + 100pa for external account with EPMS stkmkt	All
11	Friends Prov	24	24	24	0 for FP PIB and	24	None
12	FundsNetwork	10 + 0.3% (min 20, max 50)		0 core, 50 for non-	0	0	Some DIM services
13	Greyfriars Asset Mgt	0	0	0	0	0	All
14	Hargreaves Lansdown	0 for UTs and ICVCs, from 9.95	5 surcharge on normal	0 for UTs, from 9.95 for inv trusts	-	0	None
15	Hazell Carr	0.25% of amount trans.(Min. £25 Max.£100) If in FundsDirect 0.2% of amount invested (Min. £15 Max £35)					All
16	Hornbuckle Mitchell	20 (max 300pa)	20 (max	20 (max 300pa)	20 (max 300pa)	20 (max 300pa)	All
17	HSBC Trust Co (UK)	As agreed with investment manager					All
18	Investacc	0	0	0	0	0	All
19	IPM SIPP Admin	0	0	0	0	0	All
20	IPS Pensions	0	0	0	0	0 for first 6, 5	All
21	James Hay	0 for Select and Collect funds, 7 for Panel inv/mgr trans, 14 for WoM and other investment					None
22	L&G	20	20	20	35	20	None
23	Lifetime SIPP Co	0	0	0	0	0	All
24	LV=	n/a for FSO, 0 for DO, 35 for FS					DIM charges
25	Mattioli Woods	TCB	TCB	TCB	TCB	TCB	All
26	MC Trustees	0	0	0	0	0	All
27	Merchant Inv	35	35	35	35	35	Incl in figs
28	Michael J Field	CBC	CBC	CBC	CBC	CBC	-
29	Nigel Sloam	0	0	0	0	0	All
30	Pilling & Co	1.65 for first £10, then 0.5%, min £10. Higher min may apply on o'sea shrs					All
31	Pointon York	25	25	25	25	25	All
32	Rathbones	10 + 1.35% on first £10,000, then	20 + 1.5% on first 10,000, then scaled		-	-	UK and overseas shares
33	Redswan Pensions	First 3 free, 25 thereafter, max 250pa, 0 if in nominee name					All
34	Rensburg Shep	0	0	0	0	0	None
35	Scottish Life	27-151, variations for use of fund supermarket					None
36	Scottish Widows	0	0	0	0	0	None
37	Skandia	Depends on invt manager					Depends on inv
38	St James's Pl - SIPP	-	-	-	-	-	All
	- Self invested pens	20 plus commission		ITs, 20 plus com,	70	45	All
39	Standard Life	10	10	10	50	0-50	None
40	Suffolk Life	0 if transaction is paperless and can be handled elctronically, otherwise 25					None
41	Taylor Patterson	n/a for cash SIPP, 30 for investor and master SIPP				0	All
42	TM SIPP Services	20, max 200 pa, 10 per trans via nominee a/c			20, capped at 200pa		All
43	Towry Law	45	45	45	45	45	All
44	Uptel	0	0	0	0	0	None
45	Wensley Mackay	10 within annual	25	10 within annual fee		0	All
46	Westerby	0	0	0	0	0	All
47	Winterthur	16	16	16	16	16	None
48	Zurich	40	40	40	40	-	None

Notes: Where a dash is indicated, details were not provided or were marked n/a or n/d. D-drawdown.S-setup. BBR - below base rate. CBC - case by case basis. TCB - time cost basis. AMC - annual management charge. pm - per month. pa - per annum. DIM - discretionary investment management. FS - fund supermarket. UT - unit trust. IT - investment trust.

Charges

Table 3 shows some of the charges for the self invested portion of a SIPP. It is clear that, as in previous surveys, the trend among providers is to have low or no minimum levels of investment in the SIPP, leaving providers with high minimum investments in the minority.

SIPPs are fairly unusual among financial products in that the initial and annual management fees are usually a set number of pounds, rather than a percentage of the total fund invested. Providers vary in terms of the reasons why they charge a flat rate. **L&G** claims that it is because percentage fees allow for cross subsidy between large and small funds, but SIPPs fees allow more for the concept of actually paying for the work undertaken in each instance, the client paying for what they receive (plus the provider's margin). **Hargreaves Lansdown**, on the other hand (which charges no initial or annual fee), states that fees expressed in cash terms are a throwback to the pre technology days where transactions and fees were costed individually.

The cost of these initial and annual charges can vary significantly, with initial fees from nil, from a large number of providers, up to £795 from **Mattioli Woods**. Annual charges are similarly varied, again with some providers charging no annual fee while **Alliance Trust**, for example, charges a whopping £750 pa. These charges cover a variety of things, depending on the provider. **Hornbuckle Mitchell** states that its annual fee of £445 covers valuations of the scheme, an annual review and any additional work in reporting to the Inland Revenue. In general providers have said that the annual fee covers ongoing administration and the DWP disclosure requirements.

Ordinary personal pension plans deduct annual fees from the investment; fees for SIPP provider admin are usually drawn from a separate cash account held in the client's name on which the provider can draw as required. Although interest is usually added to this (otherwise it would constitute yet another, less obvious charge) it is arguable whether it is better for the client to have such a large chunk of money in cash rather than invested. **Hornbuckle Mitchell**, for example, keeps sup to five years' charges at outset in the cash account.

Fees for investment services and optional charges vary from provider to provider, with charges varying depending on manager selected, or optional extras utilised. It is also worth nothing here that it is standard practise among SIPP providers to hold a small proportion of any pension transfer sum in a cash account in order to cover annual fees for some years, to avoid potentially difficult expensive encashment of illiquid investments.

Table 3a shows the transaction charges

Table 4 : Commercial property charges

	Company	Property purchase charge Initial £	Annual £	Charges subject to VAT
1	Aegon Scottish Eq	707, or 832 if mortgage arranged	608	Y
2	AJ Bell SIPPCentre SIPP	550	300	Y
	SIPPDeal e-SIPP	-	-	-
	AJ Bell SIPP	c. 550	120	Y
3	Alliance Trust	600	350	Y
4	Ashcourt PT	TCB	TCB	Y
5	Bridgewater Pensions	400, + 100 if lending is involved	0	Y
6	City Trustees	-	-	-
7	Cooper Parry	TCB - min 750	0, then 200 for each additional property	Y
8	DA Phillips & Co	540	120	Y
9	Dentons	TCB - c. 500-900	No fixed fee	Y
10	EPM (all prods except:)	n/a	n/a	n/a
	- Self inv personal pension	TCB - min 600	TCB - min 400	Y
11	Friends Provident	550 (add charges may apply)	550 (add chgs may apply)	N
12	FundsNetwork	650 (add charges may apply)	200 (add chgs may apply)	Some comm prop fees
13	Greyfriars	400	0	Y
14	Hargreaves Lansdown	-	-	-
15	Hazell Carr	600	300	Y
16	Hornbuckle Mitchell	800	200	Y
17	HSBC Trust Company	TCB	TCB	Y
18	Investacc	0	250	Y
19	IPM SIPP Admin	350 w'out mortgage, 700 with mortgage	0	Y
20	IPS Pensions	500-750	0	Y
21	James Hay	550-900, dep on whether panel solicitor is used, + 0.1% of val in excess of £400,000	500	N
22	L&G	400 init and 150 on completion	600	N
23	The Lifetime SIPP Co	640	250	Y
24	LV=	1,300	1,200	Prop mngrs chgs
25	Mattioli Woods	TCB	-	Y
26	MC Trustees	562 if no loan, 842 with loan	954 if no loan, 1,011 with loan	Y
27	Merchant Inv	600	300	Incl in figs
28	Michael J Field Consulting Actuaries	CBC	CBC	-
29	Nigel Sloam	TCB	TCB	Y
30	Pilling & Co	-	-	-
31	Pointon York	TCB	TCB	Y
32	Rathbones	-	-	-
33	Redswan Pensions	500	150	Y
34	Rensburg Sheppards IM	-	-	-
35	Scottish Life	427	599	N
36	Scottish Widows	0	0.1-1.25% dep on prop value	N
37	Skandia	550	360	
38	St James's Place - SIPP	600	350	Y
	- Self invested pension plan	670	700	Y
39	Standard Life	650	200	Some comm prop chgs
40	Suffolk Life	TCB - c.1,500-1,700	TCB, c.600	N
41	Taylor Patterson Trustees	575, or 800 if preferred solicitors not used (add fees may apply)	150 or by agreement (+100 if a m'gage has been arranged)	Y
42	TM SIPP Services	TCB-650min	-	Y
43	Towry Law	-	-	N
44	Uptel	TCB - c. 600	0	N
45	Wensley Mackay	300min	-	Y
46	Westerby Trustee Services	500 in UK, TCB o'seas, min 750	150	Y
47	Winterthur	395 initial + 290 on completion	504	N
48	Zurich Assurance	374	675	N

Notes: Where a dash is shown, the survey was marked n/a or n/d or left blank. ph-per hour. M-with mortgage. L-with loan. Y,incl-prices quoted include VAT. TCB - time cost basis. CBC - case by case basis.

Table 5 : Charges and other plan details for the insured portion of the SIPP

Company	Min amount for insured portion £	Charges for insured portion: Initial %	Bid/offer spread %	Annual %	Policy fees £	Switching investments £	Other	Allo-cation rates	Commission for insured business: Initial %	Renewal %	Level %	Fund based %	Other
Aegon Scottish Eq	1-35,00 (1)var (1a)	0	0	-	max 20 switches pa	-	100	Var (1b)					
Friends Provident	75,000	-	5	0.75	5.04 pm	15 (first 2 free)	Y (2)	104-105.3	0-6	-	-	0.25-4	-
L&G	25,000 (3)	0	0	0.0	0	0	0.1-1.1% (3a)	100	Up to 2.5% of 1st MP	-	Up to 5%	Up to 1% FB	-
LV=	3,000-20,000 (4)	0	0	0-0.5	0	0	Y (4a)	100	Up to 6	-	-	Up to 1	-
Merchant Inv	0 (5)	£350	-	-	-	0 (5a)	-	-	-	-	Up to 5%	Up to 1.5%	Y (5b)
Scottish Widows	0	-	-	-	-	0(6)	Y (6a)	100	0-6/0-50 (6b)				
Standard Life	0	0	0	0	0	0	-	100	0-5	0	-	0-1	-
Zurich Assurance	10,000	0	0	0	-	-	Y (7)	100	Up to 8	0	0	Up to 1	-

Notes: L - LAUTRO, av - average, RP - regular premium, SP - single premium. MP - monthly premium. A dash indicates no answer was given or answer was given as n/a or n/d. FB - Fund based. (1) £1,000 for flexible pension plan, £35,000 for retirement control, £1 single premium or where no commission has been paid and £25,000 where commission has been paid for group SIPP. (1a) Depends on commission structure. (0b) Two commission structures are available, depending on whether the flexible pension plan (commission up to 50% of annual premium via an adviser charge), the retirement control plan (up to 6% initial and 0.5% FB) or the Group SIPP (bespoke commission) (2) If FBRC (fund based renewal commission) is taken, effective AMC is increased by amount of FBRC. (3) £25,000 must be invested in insured funds, Cofunds collectives or a combination of the two before any other self investment is allowed. (3a) 0.6% for funds less than £25,000, 0.1% for funds over £25,000, additional 0.5% if funds are under £15,000. (4) £3,000 for discretionary option, £20,000 for full SIPP and fund supermarket option. (4a) Investment management charges range from 0.36% -1.94%pa depending on fund/s selected. (5) Minimum fund for self investment is £25,000. (5a) Between pinnacle funds. (5b) Standard or funded options available. (6) A charge only applies where switching is deemed to be excessive. (6a) Fund management charges and adviser payment charge, if applicable. (6b) Two commission options exist, with commission available on single payments and transfer values, regular payments and fund based. (7) Drawdown fees for set up (£75) and annual fee (£120).

Table 6 : Additional options

	Company	Retirement: PR-no. of segs	ID-no. of segs	PD-no. of segs	Other features: Inc contribs	Other
1	Aegon Scottish Equitable	1000	1000	1000	●	–
2	AJ Bell SIPPCentre SIPP	●	●	●	●	Accepting protected rights from April 2008
	AJ Bell SIPPDeal e-SIPP & AJ Bell SIPP	●	●	●	●	–
3	Alliance Trust	●	●	●	–	–
4	Ashcourt Administration	As required	As required	As required	❍	No commitment to make contributions
5	Bridgewater Pen Trstees	1,000	1,000	1,000	❍	–
6	City Trustees	●	1,000	1,000	❍	–
7	Cooper Parry	●	●	●	●	–
8	DA Phillips & Co	1,000	1,000	1,000	●	–
9	Dentons Pen Mngmnt	●	●	●	●	Over 75s can establish a SIPP
10	European Pens Mngmnt	●	●	●	❍	–
11	Friends Provident	10,000	10,000	10,000	❍	–
12	FundsNetwork	●	●	●	●	–
13	Greyfriars	1,000	1,000	1,000	●	–
14	Hargreaves Lansdown	●	●	●	❍	–
15	Hazell Carr	1,000	1,000	1,000	●	Fully flexible structure catering for all benefit types and varying levels of investment sophistication within one product
16	Hornbuckle Mitchell	1,000	1,000	1,000	●	Land, unlisted shares and all HMRC permitted investments are allowed
17	HSBC Trust Co (UK)	●	●	●	●	–
18	Investacc	1,000	1,000	1,000	●	–
19	IPM PP	1,000	1,000	1,000	●	–
20	IPS Pensions	●	●	●	●	–
21	James Hay	1,000	1,000	1,000	●	–
22	L&G	❍	1,000	1,000	●	–
23	The Lifetime SIPP Co	1,000	1,000	1,000	●	Ability to move from cash only to managed prtflio to full SIPP, reduced cost for the 1st 2 stages
24	LV=	1,000	1,000	1,000	❍	–
25	Mattioli Woods	1,000	1,000	1,000	●	–
26	MC Trustees	10,000	10,000	10,000	●	–
27	Merchant Inv	●	●	●	●	–
28	Michael J Field	●	●	●	●	All investments and bank accounts are registered jointly in name of SIPP member and provider
29	Nigel Sloam	1,000	1,000	1,000	❍	Annual meeting and consultancy services included in annual fee. Member is always a trustee and other trustees may be appointed by the member. Other bank accounts permitted. Clients hold monies jointly with provider
30	Pilling & Co	1,000	1,000	1,000	❍	–
31	Pointon York SIPP Sol	1,000	1,000	1,000	●	–
32	Rathbones	●	●	●	●	–
33	Redswan Pensions	●	●	●	–	Totally flexible
34	Rensburg Sheppards	1,000	1,000	1,000	❍	–
35	St James's Place - SIPP	1,000	1,000	1,000	●	–
	- Self invest pen plan	●	●	●	❍	–
36	Skandia	●	●	●	●	No insured investment required, adviser remuneration can be paid from the SIPPs assets, sub trust arrangement means that investments such as unit trusts outside Skandia and property are held in the joint names of the trustees and the client, giving the client more control and security
37	Standard Life	●	●	●	●	Unique dripfeed drawdown option that provides customers with an efficient way of taking benefits and maximising death benefits
38	Suffolk Life	1,000	1,000	1,000	●	Accepts self investment of protected rights
39	Taylor Patterson Trstees	●	●	●	●	Contributions at member's discretion
40	TM SIPP Services	1,000	1,000	1,000	●	–
41	Towry Law	●	●	●	❍	–
42	Uptel	●	●	●	●	Annual accounts
43	Wensley Mackay	●	●	●	●	–
44	Westerby Trustee Serv	●	●	●	❍	–
45	Winterthur	1,000	1,000	1,000	❍	–
46	Zurich Assurance	●	●	●	❍	–

Notes: Where a dash was indicated, the survey was marked n/d or n/a. **Notes:** ● - yes, ❍ - no

Table 7 : Allowable investments

Company	SIPP bank acc	Com prop	DFMs	Equities quotd	ETFs	Exem prop UTs	Gilts/bonds/loan stock	Hedge funds	Inv trusts	Offshore inv bonds	Overseas curr	TIPs	ICVCs/UTs	Unau exem UTs	Warrants	Other
1 Aegon Scottish Eq	●	●	●	●	●	●	●	●	●	●	●	●	❍	●	●	Protected investment products
2 AJ Bell																
- SIPPCente SIPP	●	●	●	●	●	●	●	●	●	●	● (1)	●	●	●	●	Traded endowments, land (subject to certain conditions) and other deposit accounts and term deposits
- SIPPDeal e-SIPP	●	❍	❍	●	●	●	●	●	●	●	❍	❍	●	●	●	–
- AJ Bell SIPP	●	●	●	●	●	●	●	●	●	●	● (1)	●	●	●	●	Traded endowments, land (subject to certain conditions) and other deposit accounts and term deposits
3 Alliance Trust	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Unquoted equities
4 Ashcourt Admin	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	–
5 Bridgewater Pens T	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	–
6 City Trustees	●	●	●	●	❍	❍	●	●	❍	❍	❍	●	❍	❍	❍	–
7 Cooper Parry	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Cash
8 DA Phililps & Co	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	–
9 Dentons	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Full HMRC allowable range, subject to acceptance by administrator in terms of investment prudence
10 European Pens Mgt	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Will consider all allowable investments
11 Friends Prov	❍	❍	❍	❍	❍	❍	❍	●	❍	❍	❍	❍	●	❍	❍	Individual shares
12 FundsNetwork	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	–
13 Greyfriars Asset Mgt	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	–
14 Hargreaves Lans	●	❍	●	●	●	●	●	●	●	❍	❍	❍	●	●	●	–
15 Hazell Carr	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	CFDs, futures, options, unquoted shares, connected employer shares, overseas equities, TEPs, VCTs, UK hotel rooms
16 Hornbuckle Mitchell	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	All HMRC permitted investments
17 HSBC Trust Co (UK)	● (2)	● (2)	● (2)	● (2)	● (2)	● (2)	● (2)	● (2)	● (2)	● (2)	● (2)	● (2)	● (2)	● (2)	● (2)	–
18 Investacc	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	–
19 IPM SIPP	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Non-standard investments
20 IPS Pensions	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Unquoted equities, hotels, land, nursing homes, gold bullion
21 James Hay	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	–
22 L&G	●	●	●	●	❍	●	●	●	●	●	❍	●	●	●	●	Stocks and shares on a recognised UK or overseas stock exchange, fixed interest securities, debenture stocks, warrants, permanent interest bearing shares, convertible securities, commodity futures, venture capital trusts, deposit accounts, rents, depository investments, TEPs
23 The Lifetime SIPP Co	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Any permissible investment that will not lead to a potential tax liability.
24 LV=	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	–
25 Mattioli Woods	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	–
26 MC Trustees	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Hedge funds limited to 10% of member's total fund. MC Trustees also offers unquoted share purchases provided that they meet HMRC criteria
27 Merchant Inv	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Unquoted shares, hedge funds, TEPs, REITs and structured products may only accept non-protected rights only
28 MJ Field Consulting Actuaries	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Any HMRC permitted CBC
29 Nigel Sloam	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Any permitted investment as long as not classed as unauthorised transaction - eg unquoted investments, in-specie transfers
30 Pilling & Co	❍	❍	❍ (3)	●	●	●	●	●	●	❍	❍	❍	●	❍	●	–
31 Pointon York SIPP Sols	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Unquoted shares
32 Rathbones	●	❍	●	●	●	❍	●	●	●	❍	●	❍	●	❍	●	–
33 Redswan Pensions	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	All allowable be legislation other than taxable property
34 Rensburg Sheppards	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	–
35 St James's Place																
- SIPP	●	●	●	❍	●	●	●	CBC	●	CBC	●	●	CBC	CBC	CBC	All permitted by HMRC
- Self invstd pens pl	●	●	❍	●	●	●	●	●	●	●	❍	●	●	●	❍	–
36 Scottish life	●	●	●	●	●	●	●	●	●	●	❍	●	●	●	●	depository interests, contracts or policies of insurance, property, REITs, some European and N Am listed shares, other investments that Scottish life deems acceptable. All except depository interests only available though full investments option within self investments arrangement
37 Scottish Widows	❍	●	●	● (4)	● (4)	● (4)	● (4)	● (4)	● (4)	● (4)	● (4)	● (4)	● (4)	● (4)	● (4)	Most allowable investments
38 Skandia	●	● (5)	I (5a)	●	●	●	●	● (5b)	●	●	❍	●	●	●	●	–
39 Standard life	●	●	●	❍	●	●	●	●	●	●	●	●	●	●	●	–
40 Suffolk life	●	●	●	❍	●	●	●	●	●	●	●	●	●	●	●	Some additional restrictions for protected rights investments
41 Taylor Patterson T	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	–
42 TM SIPP Services	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	–
43 Towry law	●	❍	●	●	●	●	●	●	●	●	●	●	●	●	●	Any that Towry law approves
44 Uptel	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	–
45 Wensley Mackay	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	–
46 Westerby Tst Ser	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Unquoted shares at absolute discretion of Westerby Trustee Services
47 Winterthur	●	●	●	●	❍	n/d	●	●	●	❍	❍	●	❍	❍	❍	–
48 Zurich	●	●	●	●	❍	❍	●	❍	●	❍	❍	●	❍	❍	●	–

Key: DFMs - discretionary fund managers. CFDs - contracts for difference. CBC - case by case basis. TEP - traded endowment policy. (1) Provided held via an off panel investment manager and valuation provided in sterling. (2) If covered by the requisite discretionary fund management agreement. (3) Apart from Pilling & Co. (4) It is not possible to self select the majority of the investments detailed above, but they may be available at the discretion of the discretionary fund manager. (5) UK only properties. (5a)If they are an FSA authorised manager. (5b) Subject to being quoted on a recognised stock exchange. **Notes:** ● - yes, ❍ - no for some SIPP investments. As with almost all SIPP charges, there is huge variation in what is accessible and what the fees are for accessing different investments. Many providers have no transaction charges for any of the investment options on the Table, while others have fees varying from around the £25 mark (from the likes of **City Trustees, L&G, Pointon York**) up to £45 for **Towry Law**. Some providers, such as **Rathbone**, impose a small basic fee and then a charge as a percentage of the investment. The maximum charge in the case of the Rathbone investments is £145.

Table 4 shows the charges for commercial properties held in a SIPP. One of the most commonly held criticisms of vanilla SIPPs is that they do not allow investors to hold many of the more esoteric investments allowable by HMRC. However, commercial property clearly does not fall under the definition of esoteric, as only eight providers that returned our survey either do not allow investment in commercial property, or chose not to disclose their fees for such an investment.

Unsurprisingly, there is again significant variation in the fees. Initial charges vary from nil from Investacc up to £1,300 for **LV=**, which LV= claims is because it covers the cost of outsourcing property management to Savills, rather than leaving the investor to find their own. However, several providers work on a time cost basis, with **Suffolk Life** predicting that the initial fee will be around the £1,500-£1,700 mark on a time cost basis. Annual fees also vary, with several providers charging nothing. **LV=** is again a high cost culprit, with an annual fee of £1,200.

Insurance policy

Table 5 shows the charges and plan details for insured SIPPs. Some providers insist on a minimum portion invested in insured funds before any self investment may occur. Last year there were nine providers that insisted on this minimum, which has fallen to only five this year. However, there is still a similar number with minima of £10,000 and above – seven last year compared to five this year.

This minimum level of insured funds has been criticised by some SIPP providers, saying that it prevents the funds truly being self invested, but providers that do impose this minimum have defended themselves determinedly, stating that it is reasonable to insist that clients have a reasonable sum in insured funds before adding workload and risk with self investment.

Optional extras

Table 6 shows a number of additional options offered by SIPP providers, including retirement options and other features.

The retirement options figures have changed very little, with almost all providers offering phased retirement, income drawdown and phased drawdown. **L&G** is the only provider to not offer all of these options, providing only for income drawdown and phased drawdown. The situation was similar last year, with only a couple of providers failing to provide all three options.

A few more providers than last year offer extra options, ranging from the ability to invest protected rights to consultancy services. These additional extras are more prevalent than last year, offering the opportunity to pick the provider that offers the additional services required, rather than looking at a universal offering across the board. This seems to support the suggestion that SIPPs are unlike many other financial products in that it is not simply a case of looking at the product and considering the pricing, but of considering what aspects of the SIPP might be needed and what is not worth forking out for.

Spoilt for choice

The issue of allowable investments has been a contentious one among SIPP providers for the past couple of years. Now, more providers offer the full range of investments, and are more transparent about what is offered within their SIPP.

Table 7 shows the investments allowed by each SIPP provider. There is not a vast amount of change since last November, the first time that we put a comprehensive list of allowable investments on the survey.

Of the investments on which we surveyed providers, the worst offenders in terms of limiting investment were **Friends Provident**, which only allowed two of the 15 investments on which we questioned them, **City Trustees**, with seven allowed, and **Pilling & Co**, with eight allowed. Interestingly, **Hargreaves Lansdown**, often accused of being the most vanilla of vanilla SIPPs, allows 11 of the 15 investments.

The fact is that the vast majority of providers offer the full range of investment options on which we surveyed them, suggesting that the dilution of the SIPP claimed by some providers is not as prevelant as many think. However, the real differentiation between providers comes with the extra investments that they allow on which we did not survey them, such as unquoted shares. Few providers offer access to the full range of HMRC allowable investments, while some others allow access to one or two extra items on the list.

The key in solving the problem of available investments seems to be weighing up the investment options available (including consideration of those that might be required in the future) against the potentially high initial and annual fee of using a provider that offers these options.

> The FSA has stated their concerns about the risk of clients paying for services that they do not need

In conclusion

We may not have exactly seen a SIPPs revolution over the past year, but there is no doubt that things are slowly changing.

The amazing growth in the sums of money invested in SIPPs is testament to this ever expanding industry area, and the levelling of the playing field in terms of basic options, such as key features documents and point of sale illustrations suggest that competition is forcing SIPP providers to make improvements in some areas.

However, there is still a vast difference between the top and the bottom providers in terms of initial and annual fees and allowable investments. Choosing a SIPP provider is no longer a question of paying the (usually high) fees and deciding what investments look appealing later. It now means assessing what investments might need to be accessed in the course of the lifetime of the SIPP and what fees are worth paying for the potential to access these investments. For some, the full SIPP, with its often higher fees, may be well worth it for the potential to access more obscure investments within the pension fund, while for others who anticipate earning more in the future, deferred SIPPs may provider the key. For yet others, who simply want the ability to move their pension fund between a wide range of funds and the occasional less obvious investment, the lower cost SIPPs with perhaps higher fees for the odd obscure investments, and a limited investment range, may make more sense.

Some providers are raising concerns about the transparency of pricing if SIPPs continue to evolve as they are. Malcolm Gordon, of SIPP Centre, has raised his concern that, "The FSA has stated their concerns about the risk of clients paying for services that they do not use or need. The true SIPP model separates out the costs of the service, advice and investment and the client will only pay for the services that they actually use." Whether this will prove to be a significant problem going forward remains to be seen, but it seems likely that pressure will continue on providers to improve transparency in their charges.

DAVID ARCHIBALD

CUSTOMER SERVICE MANAGER

STANDARD LIFE

David is the Customer Service manager responsible for Standard Life's SIPP Customer Centre. David is a career Standard Life man with 26 years' experience in customer service, specialising in the pensions arena.

There are clearly advisers who are not qualified to give drawdown advice

Q&A

Jo Dymock asks Alistair Hardie, Alan Ritchie and David Archibald what product developments we will see in the SIPP market over the next few years

Standard Life launched its SIPP in December 2004, and in the three years since then it, has become an accepted market leader in terms of sales and flexibility. *MM* asked the team how they see the SIPPs market at the moment, and what changes we are likely to see coming up.

Q: Why have you chosen not to go down the route of a minimum sum in insured funds with the Standard Life SIPP? Do you think it's a model that can work?

AH: It's a model that clearly works for some providers, but we need to step back here and think about the conversation that the adviser has with the client. Are they happy to say, "You could have this SIPP with A N Other company and have to keep an amount invested in their insured funds." We don't think that's conducive to a good discussion with the customer, and don't think advisers think that's a good way of giving advice.

Why should you place that type of investment constrain on an adviser and a customer? We've got a very good investment house in SLI [Standard Life Investments] and customers can get great value from investing in SLI, but let's have the adviser and the customer making the decision about whether they want investment management from them.

We thought that was one of the weaknesses in the market – the minimum requirement in insured funds – and we just think it turns advisers off.

AR: It was perhaps an easier decision for Standard Life to make because we're in the unique position of being an insurance company that has a world class investment company associated with it. SLI has done so well recently that we don't need this minimum restriction. People go into our insured funds because they want to, not because they have to.

Q: Do you think that the SIPP market splitting into three areas, pure, vanilla and deferred, is going to happen, or is it already happening?

AH: What we are seeing is an emergence of more fund platform SIPPs. We're in partnership with FundsNetwork and that's a good value proposition. Cofunds has teamed up with L&G. A lot of SIPPs have got a platform as part of their proposition.

There is definitely a role for SIPPs that offer a wide range of funds at reasonable cost.

In terms of the deferred SIPP, if you look at our model, if you just want insured funds then that's fine, you don't pay any SIPP charges. If you then want to start to self invest then you pay the appropriate charges as and when you make that transaction. I think deferred SIPPs are probably fine, but the adviser and the customer really need to be thinking there might be charges here that aren't necessary. A deferred SIPP has its place in the market.

Advisers don't want to be constrained on where the customer is invested. They want to be able to use the flexibility of the SIPP. You've got the control and choice. If you don't have that and you have to transfer from the personal pension to perhaps another provider for the SIPP, that's cumbersome and costly. My view on the SIPP market is that there are a number of different models out there and it's about the industry providing advisers and customers with the propositions that can meet their needs and when their needs change

ALISTAIR HARDIE

MARKETING MANAGER (RETIREMENT SOLUTIONS)

STANDARD LIFE

Alistair has 20 years' experience working in the insurance and financial services sectors. His responsibilities include the management of Standard Life's executive pension solutions and the relationships with a number of key service providers.

Advisers that recommend a SIPP today need to show that it's better than a stakeholder for x reason

the proposition can flex to meet those needs going forward. It's predominantly an advised market and as long as the adviser can understand the proposition and can advise the customer of any constraints I think that's fine.

The key thing is that the SIPP is about choice, control and flexibility.

Q: Do you think there is a sufficient level of education and experience among advisers about SIPPs? Are they up to speed or is there room for improvement?

AH: There are clearly a lot of great advisers out there, with rigorous processes and internal compliance functions to support them. Also, advisers still have to comply with RU64. So advisers recommending a SIPP today need to show that it's better than a stakeholder (or alternative product) for a particular reason.

AR: There are many advisers out there who know everything about SIPPs – who probably know more than all of us in this room! There are certain areas where some advisers specialise and others where they would benefit from more support from providers. one such area is income drawdown. This is an important feature of a SIPP, especially with the baby boomer approaching retirement.

Some advisers understand the benefits of drawdown less well than others. Indeed, 80% of all the money that buys an income in retirement goes into annuities, largely for those around the ages of 60 to 65. Perhaps if advisers had access to more support from providers in explaining the benefits of income drawdown, we would see more customers encouraged to enjoy those benefits instead of purchasing an annuity.

Drawdown enables the customer to benefit from the upside exposure to stockmarkets, which is especially important if you're likely to live for another 30-odd years in retirement. Buying an annuity is great for some customers, especially the very risk averse. For everyone else, I would like to see advisers considering drawdown as a viable alternative.

AH: Not all advisers are qualified to give drawdown advice. Some are very qualified to held people adapt the portfolio, but when it actually comes to taking benefits, that's when they need to hand over to someone else who can advise on an annuity or drawdown.

AR: For those advisers, now may be the perfect time to invest the energy into getting the qualifications required to adviser on drawdown. With the baby boomers coming up to retirement, there is a huge market for income solutions and advisers who can offer the full range of options should prosper.

Q: Are providers and clients happy with the transparency of SIPP pricing? Do they know what they're getting for their money?

AH: I'm not sure if I can answer that for the industry, but in terms of what we do, we've always treated our SIPP as if it were a regulated product. So our literature clearly explains our charges, allowing comparison with the rest of the industry.

In more complex areas, such as commercial property where there are solicitors and surveyors fees, we make sure that we speak to the customer and their adviser so that they know what charges will apply and when.

Q: There seems to have been a shift in focus away from just talking about allowable investments for SIPPs and talking more about what the options are for retirement and what innovations there are in that area.

AR: It's a very exciting time, and I'd completely agree with you. You can't underestimate the importance of the baby boomer generation.

These people have been in the accumulation phase for many years, so there was lots of emphasis on what they should put their money in. SIPPs offered choice, flexibility and control while clients built up their retirement funds. Now they are approaching the stage where they want to start taking the income and there are two very extreme options in the UK at the moment.

We've got the annuity where most customers tend to purchase a flat income for life. That's great if you need certainty and you're not worried about benefiting from any upside potential, but if you're going

ALAN RITCHIE

MARKETING MANAGER (RETIREMENT SOLUTIONS)

STANDARD LIFE

Alan specialises in developments for the retirement income market and is leading Standard Life's guaranteed income project. He is also leading the design and development of retirement planning tools to support advisers in giving holistic retirement advice.

If more advisers were up to speed with the drawdown feature they would understand there are merits and benefits

to live for another 30 years, inflation's going to eat away at that for a really long time. Perhaps advisers should encourage more people to consider taking their annuities that bit later in life.

At the other end of the scale you've got drawdown. This retains the investment risk of a pension but can provide a great opportunity for many people – very flexible, very tax efficient and retains the death benefits lost with an annuity.

With a SIPP you can take drawdown income when you need it, you don't have to take the same amount every year because that's what you committed to a long time ago. If you've got a particular lump sum coming in from somewhere else you could take no income from your SIPP that year and save an absolute fortune on your tax bill. So advisers have a lot of great value to add there.

Another area where advisers can add massive value to customers is on inheritance tax. A SIPP adviser can help the client work out how much money to keep in the pre-pension state, where you're free of inheritance tax, and how much to shift into the drawdown state, where you can take income from that money but the inheritance bill is much larger.

Whether minimising IHT or income tax is the main issue, advisers can work out the optimal position manually or use Standard Life's dripfees drawdown facility to do this automatically.

So drawdown is great for those customers who can afford to take a bit of risk, but what happens if the market goes through a bad spell? This is where the real evolution comes in. We'll see guaranteed products coming into the market that will enable the customer to maintain that high equity exposure, to try to benefit from growth over the rest of their life, but still have a minimum level of income guaranteed.

It will be a great method for an adviser to work out how much the client needs to lock away to meet their basic living needs and how much they can afford to take more risk with.

AH: I think one of the challenges for the industry is how do you take the financial worry out of retirement for the customer? The annuity does that, in that it gives you a guaranteed income. Most of the annuities purchased from SL are level annuities, and that's probably true of the industry as a whole.

You get the guaranteed income but there's no inflation proofing, so the real value of your annuity's going to fall over time. So in terms of some of the innovations, this is an area where we can make a difference. We can offer something that allows customers to choose to guarantee some of their income and benefit from the upside in the market as well as making it tax efficient should they die early (in the sense of maximising the fund available to dependants).

[Standard Life has a guaranteed product launching as part of its SIPP in the second half of this year].

Q: Do you think we will see the online revolution having an impact on the SIPPs market? Will people want more access to valuations of their pension fund and the ability to trade online?

DA: Online utilisation is changing rapidly, and we're investing a lot of time and money in preparing for it. My view is that what we do today will pay dividends two, three, four years down the line. We've got to be ready for online quotations, online applications and online switching and trading. All of that puts the customer and the IFA in control in their own time. What that does as an industry is provide customers with the best possible access to manage this critical investment. It also creates efficiencies for us.

It has the added benefit of increasing the accuracy and efficiency of transactions and allows us to focus on providing a truly value added service to our customers and advisers when they contact us. We won't have to spend time on the mundane but focus on adding value to these key relationships, which is a key objective for us.

I have a dream that the SIPP will be treated by advisers and customers like a bank account, perhaps not daily, but people will go online weekly or monthly, to see how their fund is doing and what, if anything, needs to be done.

In this way we can make sure they have the right information at the right time. if markets are falling, they are better placed to react in a timely and appropriate manner. I believe that this vision will become a reality in the next four to five years.

Back to the future

Given increasing life expectancy, what features should advisers look for in a SIPP to ensure that it is suitable for their clients at all stages, from fund accumulation through to taking benefits? **Neil Marsh**, managing director at Hornbuckle Mitchell, looks at the issues

Anyone who has upgraded, or as current jargon has it, future proofed, their home entertainment system will know that a number of tricky decisions have to be made. For example, which type and model of TV is best if you want a genuine high definition (HD) picture? And is Blu-ray or HD-DVD the way to go for a DVD player? Unless you are a fully fledged technology buff these questions can be bewildering, (although it has just been announced that Blu-ray has won the DVD format battle, so that is one less decision that you need to make).

In some ways, choosing a SIPP is a similar experience. There is a lot of information to assimilate and the consequences of a poor decision could be unnecessarily expensive, or might leave the client with something that later proves lacking in vital features.

This is especially the case when you consider that a SIPP could last an individual from when they start to seriously organise their pension arrangements, perhaps in their 30s or 40s until well after their retirement and conceivably right until they finish taking benefits in their 80s or beyond. Not many TVs and DVD players will last as long!

Over this sort of time period, a SIPP could start with a relatively simple investment approach, with a few collective funds. Over time, direct investments in stocks or bonds, discretionary fund management or even commercial property might be added.

Later on, decisions have to be taken over how benefits are to be taken. For many SIPP investors, particularly those with substantial pension funds and other assets, conventional annuities are not attractive. So retirement income could be started by using unsecured income, as income drawdown is now known, before moving on to alternatively secured pension (ASP), if an annuity is still unattractive when the age of 75 is reached. And, given the complexity of pensions and the ingenuity of many involved in providing them, newer options for individuals, such as scheme pension, should not be ruled out.

So future proofing a SIPP at the outset, as far as this can be possibly be done, could be an extremely far sighted decision in later life. The alternative is to run up against arbitrary product restrictions over making investments and taking benefits that lead to an unhappy and frustrated client. Leaving aside any regulatory implications, this means that an adviser will need to spend more time dealing with negative issues, rather than being proactive in running their business.

Population changes

Demographic trends and other market developments provide more reasons to look ahead when selecting a SIPP. Recent research from Defaqto found that life expectancy for men and women is expected to rise from 76 and 81 in 2004 and to 81 and 85 respectively by 2031. In total, the number of retired people in the UK will climb from 11m to 15.3m and 82.6% of independent financial advisers (IFAs) think that income drawdown and ASP will be either important or very important for future advice. So when looking for a SIPP with full functionality, advisers should look at its ability to cope with different scenarios post retirement, as much as its pre retirement features.

However, when a client is starting out with a SIPP, it should be remembered that their investments may well diversify and grow. This is particularly the case if they are a high flier, or if they are likely to use their SIPP to consolidate existing pension assets with a unified investment strategy. Or they may be an entrepreneur looking to make large lump sum contributions when their business pays off.

Either way, it can be a very good idea to find a SIPP that allows a seamless and cost effective transition from a simple investment structure to one that is more tailored. Not all SIPPs do this - some providers have their own rules on what can be held, or complicated charging structures that are intended to persuade investors to use their own investment funds. Such products are not really proper SIPPs, as they do not allow full investment as permitted by HM Revenue & Customs (HMRC).

Esoteric investments

Other issues to watch out for on investment are unlisted shares and commercial property. In order to make their lives easier, some SIPP administrators have restrictions on areas such as this. Even if they say that they permit, say, commercial property to be held, the SIPP administrator may not have much experience in the field. As a result, certain categories of property, such as brown field sites, may not be allowed due to a lack of familiarity with the regulations governing them. Or perhaps only the administrator's choice of solicitor might be permitted.

As a result, where full flexibility is needed – and remember how long a SIPP can run for – advisers should ensure that their choice of SIPP really gives the investment freedom that the most demanding client could want.

Scheme pension vs ASP

It is arguable that full flexibility in a SIPP is even more important when retirement approaches and decisions have to be made on how benefits are taken. Many individuals seem to have something of a phobia about annuities. People see them as poor value and are worried about what happens if they die prematurely. They also do not like the idea of locking themselves into an income at, say, 55 or 60, when they know that their retirement could last for many years.

Fortunately, a SIPP is the ideal investment vehicle for taking a more flexible approach, where assets are invested as the client and adviser see fit and an income is taken from the pension fund. An unsecured pension, as income drawdown is now termed, allows a retiree to start by only taking tax-free cash with no income. Then, when income is needed, it can be at zero to 120% of the Government Actuarial Department (GAD) rate and on death, funds can be paid to beneficiaries with a 35% tax charge and no inheritance tax (IHT). Up to age 75, this offers a good alternative to annuities for many.

Once a retiree reaches 75, then either an annuity is purchased – at a better rate than earlier in retirement – or one of two options is available, if the SIPP allows them. These are ASP and scheme pension.

ASP has now become the financial version of a delinquent youth's ASBO – an uncomfortable straitjacket. Given its restriction, advisers may well want to investigate scheme pension and to find a SIPP which allows it to be used.

Whereas ASP uses a formula to decide how much annual income can be taken from a pension fund, scheme pension benefits from a greater degree of flexibility. This is particularly beneficial when a client passes age 75; for someone with a £500,000 fund at age 74, an annual income of approximately £67,000 can be taken using unsecured pension. At 75, under the ASP rules, this falls to £43,000 approximately. This shows how ASP can prevent individuals maximising the income from their fund, which might be done if they have other sources of wealth and wish to ensure that the fund is depleted before their death.

The flexibility of scheme pension comes from the fact that the income limits are set by an actuary, rather than fixed in relation to GAD rates. The actuary determines the level of income for a client, depending on their age and expected mortality, with the aim of ensuring that the pension fund is used over their expected remaining lifespan. So for an individual in poor health, the income would be greater than for an individual in good health.

Actuarial tables show that an individual aged 75 in good health can expect to live to 89. With an assumed growth rate for the pension fund of 7.5% a year, the annual income can then be calculated and this will be significantly higher than for the same individual under ASP. As a result, individuals have a better chance of stripping out their pension fund as income over their remaining life. Again, it should be stressed that this approach is normally taken by relatively wealthy clients not solely dependent on their pension income.

As it is government policy for pensions to be used to provide an income, this approach is in line with this and merely aims to maximise the income taken in the expected remaining years of retirement. For most, this is more appealing than leaving pension assets to the taxman.

In addition, the scheme pension income is reviewed at least every three years by an actuary, to ensure that the level of income is sustainable, given actual fund growth. If fund growth is poor, a cut in the level of income may be recommended, although the final decision is with the client. This gives more flexibility over maximising income or spreading pension assets over a longer period.

One benefit of scheme pension is that an ill health event is more likely to occur after the age of 75 than before. Someone in good health at 75 could be diagnosed with a serious illness a year later and under scheme pension, the actuary can alter their income to reflect the reduction in their expected longevity.

Scheme pension could be used pre age 75 of course. For a 55 year old who been diagnosed with cancer, scheme pension would enable them to draw a higher income than would otherwise be possible. This may be important if they are undergoing treatment and are unable to work, or if they want to do what they can to improve their quality of life despite illness. But in most cases, it is envisaged that individuals will use income drawdown, or unsecured pension, as a first step in taking benefits, if they do not purchase an annuity. However, at age 75, or if a significant health event takes place, scheme pension can be an extremely useful option to have as part of a SIPP. It should be noted that not all SIPP providers offer this facility.

Looking forward

Just as anyone buying a DVD player now should opt for a Blu-ray model, rather than HD-DVD, so anyone looking at a SIPP to suit their needs as they get older and move retirement, should consider a product that offers them the maximum flexibility. Investment flexibility is obviously extremely important to a fully functional SIPP, but retirement income flexibility is the other side of the equation.

As people continue to live longer and lead more active lives in retirement, finding the optimal degree of flexibility is likely to become an important aspect of retirement planning. The right SIPP can help achieve this and can keep unnecessary cost and disruption to a minimum, by enabling an individual, with the help of their adviser, to move smoothly and efficiently through the various stages of using a SIPP.

JOHN MORET

DIRECTOR OF SALES AND MARKETING

SUFFOLK LIFE

John is often referred to as "Mr SIPP" having spent much of his working life since 1990 promoting the advantages of SIPPs. He was the inaugural chairman of the SIPP Provider Group (AMPS) and has worked closely with Government and regulators on a range of issues.

The deferred SIPP is a personal pension dressed up in many cases to be a SIPP

Q&A

Jo Dymock asks John Moret from Suffolk Life whether the SIPPs market is splitting into sectors, and what that means for the consumer

Suffolk Life has been in the SIPPs market since the mid 1990s. It provides a bespoke SIPP, with collective assets of around £3bn and over 10,000 investors. *MM* asked how they see the division of the SIPPs market, and whether the changes are a positive move.

Q: What do you think about the growth of so called vanilla SIPPs, offering a less full investment range, or higher charges for more esoteric investments, and deferred SIPPs?

JM: I think that the commodity SIPP, which is essentially an execution only type SIPP, has a place in the market. It's very different from our proposition, but I think there are probably growing numbers who are comfortable running a DIY pension, perhaps alongside their main pension as well.

I think the average SIPP size for Hargreaves Lansdown is about £40,000. One assumes that in the majority of cases that wouldn't be the total wealth of the individual. It's almost a voluntary contribution plan dressed up as a SIPP. There's definitely a place for that with growing numbers of people who have the expertise or want control and are happy doing it themselves.

I think the deferred SIPP is a different kettle of fish though. It's a personal pension dressed up in many cases to be a SIPP. I think that does raise some questions, particularly when you see in published figures that the bulk of the assets are invested in the provider's own funds and then you start to question why are those products being called SIPPs when in essence they are a personal pension?

It's dangerous to generalise, as there will be people who are investing outside those host funds or have plans to do so, but if you put that fact alongside the proportion of business that might have arisen from internal transfers, then I think you get into the territory about which the FSA has expressed concerns. I'm not saying there isn't a place for that middle ground SIPP, and the collective investment SIPP, invested in unit trusts and one or two other investments, maybe direct equities on a platform, there is definitely a case for that.

They will generally be less expensive than the bespoke SIPP and offer a genuine alternative to the insurance company deferred SIPP. We feel that there is a battle going on there which is likely to continue. Platforms and fund supermarkets are looking to secure a foothold in insurance company territory.

I think the separation of vanilla, deferred and bespoke SIPPs is already firmly there. You have already got those three segments. I call that a mini, midi and maxi type SIPP and I think the battles are definitely being fought in the midi area at the moment. There will always be a need for the maxi, bespoke type offering, particularly where individuals are attracted to commercial property or some of the higher risk type investments, hedge funds etc, alongside direct equity investments such as unit trusts.

I think we've seen growth in all those segments and we believe growth will continue in all three. But particularly in the midi segment a lot of it is recycled money, not new money, which is worth keeping an eye on in the future.

Q: Are advisers educated enough about SIPPs? Do they know enough about the way the market is heading?

JM : I think advisers are comfortable with SIPPs. There are varying degrees of knowledge and experience. Certainly in that midi space some of them would not expect to get involved in commercial property transactions and asset allocation and that type of work and might look to stockbrokers and discretionary investment managers to undertake that role, so it's dangerous to generalise, but in the pensions market advisers see that SIPPs are here to stay, and in the more professional market, pensions is generally a key part of their business and SIPPs are very important.

Also the SIPP model fits pretty well with the way that the adviser marketplace appears to be going on the back of the RDR [retail distribution review] – the way advisers are remunerated through SIPPs is very close to the customer agreed remuneration, especially at the bespoke end of the market.

Clearly there are still some concerns about incentives, commissions, coupled with the incidence of transfers. That's something the FSA is probing as part of their thematic review. If it reveals anything, I doubt it will be on a major scale, perhaps a few advisers will have been wooed. I think the quality of advice has improved significantly, partly on the back of simplification.

The other factor is the role of platforms and wraps. Increasing numbers of advisers are using platforms, and clearly a SIPP is in effect a mini platform, and in that respect it fits in pretty well with advisers who are building business around a platform.

Q: Why are SIPP initial and administration fees fixed, rather than a percentage of the sum invested, like most other investment products? What does the fee actually pay for?

JM : I guess it's the way the market has evolved, if you think about the services that have been provided. The argument with the initial and annual fee, primarily to do with the ongoing administration of the plan, providing annual statements, valuations, and potentially investment administration (although that's often charged separately), is that most of that work in terms of its cost has a fairly fixed cost independent of the size of the fund.

There may be more investment activity and more transfer payments with a bigger fund size, and those are quite often charged for on a per transfer basis, but I think that's why the market's working that way.

On top of those operator or provider charges you've got to add the investment management charges and usually those will be percentage based, regardless of whether or not the investment is accessed through a platform. I think interestingly there are one or two products that are percentage based. The one that springs to mind is the Scottish Widows product, which is purely basis points and that's a new approach, perhaps one which is familiar to the adviser marketplace at whom the product is directed.

Q: Will we continue to see such a high proportion of SIPP growth coming from transfers? It is still around the 75% mark.

JM : I think for the foreseeable future it will remain high. I think the main sources will be transfers from life companies, personal pensions, legacy products etc.

The other big area is occupational scheme transfers and final salary transfers, and I think we'll see more of those as time goes by. I also think we'll see growth from occupational money purchase schemes and possibly group personal schemes.

I think we'll see continuing growth there. I think that reflects one of the key attractions of SIPPs, which is consolidation of all your pensions, so you get a single view of your pension wealth. I think that has a lot of advantages.

That said, if you look at the figures post simplification, the levels of contributing SIPP investors has gone up, and the level of those contributions is increasing with the changes in the earning rule and limits. I think we are seeing more contributions as well, but transfers will continue to be the dominant source for a few years yet.

We are seeing more contributions, but transfers will continue to be the dominant source for a few years yet

We are seeing the outflow from final salary schemes continuing to grow, and we expect to see growing amounts of transfers across into SIPPs and personal pensions, although clearly with the caveat that it has to be advised transfers, and in many cases the advice may be not to transfer. There is a lot of money in final salary occupational schemes. Probably about £1trn. Perhaps over 5-10 years, we'll see a quarter of that released from final salary and other occupational schemes across into SIPPs and a bit into personal pensions.

Q: Which area of SIPP growth do you think will be the main one to watch through 2008 and beyond?

JM : The group SIPP market. That's not an area we're involved in, but we're keeping a watchful eye on it.

It could be an interesting area of development over the next few years, perhaps reflecting the developments in personal pensions and SIPPs. If there was one area to look out for, that's what I'd highlight.

Generally I think the marketplace is settling down from A-Day and regulation. Certainly on the regulatory front, the market place as far as operators are concerned is still too crowded, and we will see an increase in consolidation. We're just starting to see one or two small deals being done in that area.

Crib sheet: SIPPs

Self invested personal pensions (SIPPs) are designed to allow individuals to control their pension, using a wide range of investment vehicles and accessing less obvious investments such as commercial property.

Regulation

SIPPs have been regulated for a relatively short amount of time - only since April 2007.

Prior to this SIPPs were unregulated, with the FSA using only the regulation of the underlying products as a means of regulating the SIPP wrapper. Many large providers, such as life offices, already treated their SIPPs as regulated products, so had few, if any, changes to make, and all providers were prepared for regulation, making it a fairly uneventful switch.

Who can contribute

Although the legislation on SIPPs does not decree any minimum investment levels, many SIPP providers insist on either a minimum initial investment or lump sum, or minimum sum held in insured funds before any self investment may occur. These limits vary significantly from provider to provider.

Tax relief on contributions

SIPPs receive tax relief in the same way as personal pensions. The way that tax relief is received depends on whether the individual is either a non or basic rate taxpayer (starting rate taxpayers will no longer exist following the income tax changes in the 2008/09 tax year) or a higher rate taxpayer.

- From 6 April 2008, non and basic rate taxpayers will receive tax relief on pension contributions at the basic rate of 20%. The individual pays only the contribution net of 20% basic rate tax, and the HMRC pays the basic rate tax directly to the pension provider to add to the pension pot. A contribution of £100 would therefore cost £80 with the other £20 paid by the Revenue to the provider.
- A higher rate taxpayer receives tax relief at a total of 40%, the balance over basic rate tax claimed either by an adjustment to their PAYE code or via a self assessment tax return.

Types of SIPP

While some may argue that there are few, if any, differences between SIPPs, it seems clear that there are three different types emerging:

- The full or bespoke SIPP - these products can be seen as the true SIPP. They allow access to all allowable investments, and may have particular specialisms, such as commercial property. The charges on these SIPPs are occasionally higher than other types, but average fund sizes are also generally higher.
- Vanilla or basic SIPPs – vanilla SIPPs have grown up mainly as a directly sold product, with a smaller average fund size than the other SIPP types. The full range of HMRC allowable investments is not generally available, and even some more obscure standard investments may carry higher fees.
- Deferred SIPPs – these products are basically personal pensions, often with fees comparable to stakeholder pensions, until the self investment option is switched on. Fees are increased depending on what level of self investment is carried out, and what investment vehicles are used. These providers may not always allow the full range of HMRC allowable investments, but are likely to offer more than the vanilla SIPP providers.

Tax and allowable investments

The investment element of the fund is able to grow free of income tax and capital gains tax, although the fund cannot reclaim the 10% tax credit on UK equity dividends.

Some investments are not allowed to be tax free, according to HMRC, and these investments may attract a penalty tax.

The question of allowable investments has been an area of much debate. Since the government's U-turn on allowable investments in the Pre Budget report of December 2005, some investments, such as gold bullion and so called exotic investments such as classic cars and art, may be subject to a high penalty tax of 40% of the value of the asset and a 15% charge payable by the pension scheme. Any further income from the asset is charged at 40%.

However, many investments are still allowed on a tax free basis, including ICVCs, unit trusts, commercial property, government securities and stocks and shares on UK or recognised overseas stock exchanges.

Protected rights

Protected rights investment is a somewhat muddy area in SIPPs at the moment, but this issue will be resolved in the next couple of months by DWP, when it is expected to allow all SIPPs to hold protected rights. It is widely expected that this will come into force in October this year, but some commentators believe that it may be postponed until the new tax year in April 2009.

At the moment, only 'appropriate schemes' may hold protected rights. This means that some providers are able to hold protected rights within the SIPP, provided that they are invested in a certain way, and other providers may not hold protected rights at all.

Annual fees

SIPPs, unlike most investment vehicles, are usually subject to set initial and annual fees, rather than a fee expressed as a percentage of fund value. SIPP providers state that these fees are more transparent, allowing providers to charge for the actual costs involved, rather than using cross subsidy between funds to make up a shortfall or boost profits. Fees for investments within the SIPP, such as unit trusts or ICVCs, are still expressed as percentages, as they are usually more dependent on the size of the fund.

It is standard practice for providers to hold a portion of any transfer or premium in a cash account within the SIPP to pay fees - the amount that is held may vary from provider to provider though. This is to prevent expensive encashment of potentially illiquid investments in order to cover fees.

Transfers

Any allowable investment may be transferred into a SIPP, either from an occupational or a personal pension scheme. Any allowable investment held outside the SIPP may also be transferred in.

Transfers in from occupational schemes are relatively popular into SIPPs due to the large fund sizes involved, making SIPPs a potentially more attractive option than a straightforward personal pension with limited investment options. Also, the Pension Protection Fund (PPF) will only cover income up to £27,800 (as of April 2008), so any sum over this would be at risk if the scheme folded.