

FEATURE HEAD TO HEAD

GROUP SIPPS

How do you define a group self-invested personal pension?



JOHN MORET

Director of sales and marketing
Suffolk Life



ANDY CHESELDTINE

DC specialist
Hewitt

KEY SPEAKERS

ANDY CHESELDTINE: At one level you can say that your group personal pension (GPP) is a Sipp, because technically that's what they're set up as from a legal perspective. The rest is about how the market perceives them, but I would see a group Sipp as being something that offers the functionality of a Sipp, ie allows individual members to choose where they're going to invest and gives them the maximum possible flexibility, while providing the benefits of reduced administration costs and simplified administration in terms of how the thing is put together.

JOHN MORET: I think definition is all important in this market as there is still scope for confusion, particularly around the difference – if there is one – between the true group Sipp, as Andy has described it, and the corporate Sipp. What Andy has alluded to is not really a group Sipp in the sense of it being an extension to a GPP. It is more akin to a corporate Sipp. The corporate Sipp has a place and whether that distinction is helpful or not, I'm not sure. There is no distinction as far as the Financial Services Authority is concerned, between a personal pension and a Sipp these days; it's just the breadth of the investment that distinguishes them.

This year has been a watershed and we are now seeing quite a step change with group Sipp – the sort that Glaxo, Willis, and Stagecoach have introduced – and my understanding is that these are moving much more into the mainstream of defined contribution (DC) pension provision for large numbers.

FLOYD: How do you see group Sipp fitting within the current benefits environment?

CHESELDTINE: We think of it as being just another form of employee benefit, another form of DC scheme. We don't see that it's a choice of either trust-based DC or GPP or group Sipp; we see it as entirely reasonable to have a trust-based DC and a group Sipp or corporate Sipp. We know that 90% of any large workforce will want low impact, low admin, low discretion pensions. They will pick a default option and they will stick with it until they leave the company. We also know that the other 10% will want gradually more and more input and engagement with the plan and to make their own decisions.

MORET: Winding the clock back about six or seven years ago when I researched this market, the three main markets for what was termed a corporate Sipp were senior investment bankers and fund managers, senior executives of large companies with a DC scheme, and partners in technology, finance and business service centres. The total target market was sized at around 90,000 customers and about £9bn in assets. It is a lot larger now, but as for who it is suitable for, it depends on the nature of the company and their existing benefit provision. Certainly there are going to be some industries where you would expect take-up because of the investment choice. Even if it appeals to only the 10% of those who choose to do something with their investment, that's a pretty sizeable target market. Two other areas of interest are share ownership rollover and the use of drawdown, which is a huge and expanding market.

FLOYD: Do employers see this as a great opportunity?

MORET: In some ways you're back to what's the appeal of the contract-based arrangement to an employer as opposed to either a trust-based arrangement or similar. And the debate on trust versus contract will continue to rage for quite some time. I think group Sipp's increasingly will replace the GPP, because a group Sipp is still a GPP, but with greater investment flexibility.

CHESELDINE: I'd say that there's a continuum of investment choice that employers will want to see available within a group Sipp, for employees to select from. You start with a single share-type investment and then get into unconstrained. You then might consider offering ethical funds, in a concurrent Sipp. Finally, if you're a trustee group and only offer passive funds, you may wish your employer to facilitate investment into active funds via a group Sipp.

FLOYD: As far as you're concerned, Andy, do you see any particular difference in charging? Some believe that transparency in a group Sipp is higher than in many GPPs, and it's easier certainly for the member to understand.

CHESELDINE: I think that is true, but probably not in my market. Bear in mind that I speak from experience of a very specific subset of clients; by definition if they're coming to us they're working on fees not commission, and when there isn't commission clouding the affair then charges tend to be quite transparent anyway. I agree that in a Sipp the charges can be more transparent than in a GPP. It isn't always the case, but it certainly can be true.

MORET: In this context I'm not sure that there's a huge difference

between the group Sipp and the individual Sipp. The case for transparency has been advanced for Sipp's and I've been quite outspoken about this in the past. We are seeing a bit of a clouding of the issue on the individual Sipp side. I don't think the charging is as clearly defined as it used to be, and we know that there are areas where there is certainly scope to obscure the full cost. And that applies equally on group Sipp's.

CHESELDINE: Behavioural finance and quality of communication are extremely important in this area. What has become quite prevalent in the last five years is to position the investment choices to members as a default with a core range of 10 or so funds, then a large self-select list underneath. You try to steer people away from the big list, so that only those with a positive interest will look at it, as the majority of people are put off by too much choice. We have to understand that communication isn't just one word that means everything; you've also got engagement, ie how much do the members value the pension scheme, and you can do lots of communication aimed at increasing engagement.

Or you can communicate to try and get them to make a decision and you will fail. 90% of people will not make an investment decision if they can avoid doing so. So getting people to make decisions is going to be very difficult, but we then have to consider the Sipp side, where members have already actively made a choice to get involved with a Sipp. It's a bit like additional voluntary contribution payers, they've actively decided to do something, they are automatically more engaged. They will ▶

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ANALYSIS



Sipp's have taken the PP market by storm, but employers should exercise caution, warns Pádraig Floyd

Whether you like it or not, trust-based schemes are the new pensions order. A-day also means that technically, a group Sipp and a GPP are one and the same.

However, as in most parts of the pensions world, the devil is in the detail. There are areas of the Sipp market that are not as open and transparent as they might be, even though the naysayers will naa-naa-naa with their fingers in their ears until they are blue in the face.

Nevertheless, defining what is and what is not a group Sipp is not merely an exercise in semantics.

The group Sipp offers the more ambitious or engaged investor the opportunity to access a wider investment universe while satisfy-

"Employers should be mindful of the grey areas between the roles of the two regulators governing these schemes"

ing the more cautious – typically default – DC investor with safe passage to retirement.

However, a lack of advice in this area could rapidly result in some investors discovering the freedom of investment without the expertise to exercise it sensibly.

Employers should be mindful of the grey areas between the roles of the two regulators governing these arrangements and carefully consider their responsibilities not only at implementation, but for ongoing governance.

almost certainly be making their choices through an independent adviser, which should help. But does individual advice actually help or just consolidate behavioural biases? And then finally there's understanding, which overlays both of those areas. It isn't just a question of engagement or making decisions, but does the member fundamentally understand what he's got?

MORET: The delivery of the communication is absolutely vital. I was reading that the Stagecoach scheme has a default fund, but that there are 2,000 other funds available on the platform. Few employees will find that attractive. If you're pitching at executives and senior managers, that's one thing, but if this is going in across the workforce, then advice does become an issue. If you select the no advice model, that raises other concerns. The problem I see in this market is the adviser to the employer is probably not going to get involved with advice to the individual. It's possible the provider may have his own appointed representatives, but it is an area the regulators will take quite an interest in.

The smart adviser will see this as an opportunity and some of them are obviously already there. But I do worry about the no advice model.

CHESELDINE: In terms of occupational DC, it doesn't necessarily matter if people haven't had personal advice from our perspective. If they've been put into a decent default, I don't really care if they don't change out of that if it's initially a passive global equity fund as part of a lifestyle option. But financial advisers typically will choose active funds, and whichever fund they choose, it's very unlikely to be the best fund for all the time to retirement, and it is very untypical to see a member move themselves.

MORET: We shouldn't forget that a lot of the Sipp that are set up aren't actually going to be contract-based, but trust-based. So we're already into some areas where the regulatory framework may be unclear. We've touched on the issue of suitability, but in a group context it takes on a slightly different dimension. As far as the adviser's concerned, commissions and incentives are an issue. But I'd be interested in what Andy's got to say on whether once the employer has made the decision to put in or to make a group Sipp available to employees, it can then wash its hands of it and hand it over to the experts.

CHESELDINE: Yes, we need to recognise that the market is segmented, so there's a chunk of employers at the bottom end of the market that are not going to get involved at all. At the very top end there will be organisations that stick with trust-based because they want to have lots of control. At some specific GPPs, there will be employers that do want a paternal culture and set up governance committees. In all of these organisations there is a constant debate about what to do. Clearly, somebody has to be responsible for making sure the admin works, that investment of contributions is swift and that switching is executed quickly. Is anyone going to sue the employer for not having managed that process?

FLOYD: Where do you think group Sipp are going to go within the next two or three years?

CHESELDINE: I don't think group Sipp sound the death knell for GPPs and stakeholder; they're an effect rather than a cause, but I think they will grow. I hope they will not be the all-purpose answer but that they will be suitable for 5% to 10% of a working population. Whether you establish them in the GPP where individuals can flick a switch and turn it into a Sipp – and pay additional costs for doing so – or whether you set it up as a separate scheme with people having the ability to transfer between one or the other one, so redirect contributions, I don't think it matters too much if it fits the culture of the employer.

MORET: Certainly I think the group and the individual Sipp sit comfortably alongside personal accounts. There are very few current Sipp players who could actually cope with the sort of scale we're talking about, and I think we will therefore see some new entrants. The platforms see the pensions market as key to their future, and we'll see others looking to move into this market quite quickly. One other area that also worries me is what happens when somebody is in a group Sipp and then leaves? Do they go into an individual Sipp, because that may be totally inappropriate? Who provides the advice at that point? The whole thing could be a real mess. You have the same situation within GPPs, but the group Sipp makes the issues bigger and more complex. So there are still big sizeable issues to be resolved before this market really takes off. **PM**

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