

## HEAD TO HEAD

## SIPPS

# What influences have driven the Sipp market over the past 20 years?



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## KEY SPEAKERS

**ANDY BELL:** The starting point for me was income drawdown in 1995. Then in 2000, we saw the UK's first online Sipp launched, which set the scene for the polarisation of the Sipp market.

The demise of Equitable Life was also a key driver of Sipp popularity. Pension savers began to see traditional, insured personal pensions in a different light and that really played into the hands of the Sipp market.

But probably the biggest influence occurred with the proposal in the December 2002 green paper on pensions simplification to allow residential property and other esoteric investments to be held as a pension scheme asset. This massively increased the press exposure of Sipp up to and beyond December 2005 when the government announced their U-turn on this issue. However, the genie was out of the bottle, and this was the catalyst for Sipp being elevated from being a niche to a mass market product. Finally, A-day in 2006 and regulation in 2007, both helped in different ways. The former in making pensions more attractive and the latter in providing a welcome regulatory framework for this sector of the financial services market.

**JOHN MORET:** I think I'm right in saying the very first, genuine Sipp – ie under what was the new legislation back in 1989 – was set up on February 28 of that year. I certainly agree that the retirement options space starting with drawdown and its various iterations has had a huge impact on the market.

Life companies generally, for a variety of reasons, have had to rethink their approach to personal pensions, as the commission models are unus-

tainable and that has driven a number of what were the major personal pension players into the Sipp space. We have seen the platforms emerge but they have only really started to gain traction in the Sipp market specifically in the last two to three years.

If you wind the clock back to when drawdown arrived in 1995, there were probably less than 50,000 Sipp at that time, maybe even 25,000. However you define a Sipp these days, it's very clear that in the space of 15 years there's been a tenfold-plus increase in numbers, which compared with almost any other part of the financial services market is pretty spectacular.

**PÁDRAIG FLOYD:** There has been a proliferation of offerings with the bigger players coming to the market, so what should people be looking for?

**MORET:** There is a world of difference between the online Sipp proposition and the full-blown, bespoke Sipp. Now that all Sipp are regulated, there is a need for advisers to undertake a degree of due diligence on their providers. That would encompass things like experience, financial strength and, as best they can, to gauge systems and controls, and a good understanding of the regulatory framework the Sipp providers are operating under, particularly the compensation arrangements. This can be unnecessarily complicated, but is nevertheless important.

Clearly they're going to look at cost, and the simpler the Sipp, the more appropriate it is to look at costs. As you move up the investment complexity, cost probably becomes less important. Far more important is the competency of the provider.

**BELL:** It has been a source of frustration to me that the Sipp market has recently started turning on itself. There is a sense that the Sipp providers have circled their wagons, but all guns are pointing inwards.

We should embrace and celebrate the fact that variety is the spice of life. In a market that demands varying degrees of flexibility, there will be many variants of product. Sipp providers shouldn't feel threatened by each other, nor should they define their strengths in terms of the perceived weaknesses in other products. Choosing a Sipp is a complex process and one where many people need the guidance of an experienced adviser.

We have long held the argument that price is arguably irrelevant in many Sipp where it is the ancillary charges such as those for investment advice and management that will dominate.

We have found online functionality and ease of use is key in the context of the advisers in the very popular mid-market space. Investment flexibility is important to a point, although we found more demand for allowing the likes of ETFs as opposed to unquoted shares.

**FLOYD:** What innovations do you anticipate developing in the market?

**BELL:** It's not hard to see the progression of online Sipp with integrated dealing into a service that can be accessed and properly utilised via mobile phone technology

As for product functionality, I don't think Sipp will continue to become ever more flexible. If anything, I think we will see the reverse, as those Sipp providers who have taken on all types of investments start to challenge themselves as to which assets give them a disproportionate administra-

tive headache and which leave them with liabilities that they are uncomfortable with.

The other obvious area for development is in group Sipp. To my mind, group Sipp are the natural replacement for the old style executive pension. A group Sipp that is collapsed into a product whereby no intervention is required from adviser or client, ie contributions are paid and automatically invested is really a group personal pension – and there are plenty of good ones to choose from already.

Although we do offer group Sipp, we have been very selective. We suggest an adviser should be able to justify any member of a group Sipp as an individual Sipp client. If they can't, you really do have to question whether the client would be better off in a personal pension.

Will group Sipp explode? The recent group sipp introduced for BT has a new type of Sipp customer that has never existed before. This is new territory and I would urge caution.

**MORET:** Our view is the risks associated with offering certain investments far outweigh the potential rewards. The only new area for us where there does seem to be a significant demand is unquoted shares, and that is something we're currently reviewing.

There will always be the odd niche player who will allow anything, and good luck to them. But what I would call the serious players will pull back slightly, and I guess the watershed is unquoted shares.

To date, we may see Sipp in the workplace as not having taken off. One of two things that will possibly change this, is the retail distribution review (RDR). We've already seen ▶

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## ANALYSIS



**Sipp are set to come into their own as firms look to diversify workplace offerings**

As Sipp approach the age of 21, it is fair to say the market really has come of age.

The proliferation of offerings following Standard Life's move into the market has started to

settle and we are seeing the polarised market of execution-only and bespoke Sipp developing into a triumvirate that includes the mass-market insured or hybrid Sipp. Many believe most growth of the Sipp market will come from consolidation of funds, including some £350m legacy business in insurance companies.

While this is certainly reasonable, the scope for running Sipp alongside share schemes is considerable. As employers decouple from final salary, they will look to replace

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them with more flexible savings vehicles. With the market moving online via any one of a number of corporate platforms coming to market, Sipp offer considerable potential as part of a suite of products aimed at mitigating capital gains liabilities, while maximising tax efficiency.

Turbulent markets may have more than halved the numbers of employees participating in SAYE schemes since the highs of 2001-2002, but more than half a million still take part today.

some clear statements from the Financial Services Authority (FSA) in terms of the remuneration structure on group arrangements. That may mean Sipp's become relatively more attractive.

The other development is the stage at which platforms gain some traction in the workplace environment, and the jury's out on that. But I would not be surprised to see Sipp's sitting alongside ISAs and a range of other investments in a flexible benefits environment.

Sipp growth will also be fuelled by retirement planning and the post-retirement space. There's a lot more work to be done there, but there is £350bn of legacy assets in insurance companies. That money has to convert into income at some point, and that's where we will see a lot of effort by providers to capture a share of those funds.

**FLOYD:** What will be the impact of the government increasing the higher rate tax, while limiting the relief that higher rate taxpayers obtain on their pension benefits?

**MORET:** I don't think it's going to have a huge effect on the Sipp market in the short or medium term because Sipp growth will come primarily through consolidation, rather than in the retirement space. Clearly the tax changes do hit prospective savings. The worry is the signal it sends and the increase in the lack of confidence in saving into a pension. If one broadens it out to think about public sector pensions, with the model we have in the UK at the moment for pensions tax savings looks increasingly unsustainable.

**BELL:** The government sees the pensions industry as a fattened calf while bringing almost all pension savers to readdress whether or not it is sensible to continue saving into private pensions. There must be consequences.

We came out of simplification with what I thought was a gentlemen's agreement with the government that we had created the framework within which they would deliver future policy. Sadly, we have seen a major piece of pensions legislation in every Finance Act since 2004.

The government could very well have dealt with their understandable desire to restrict higher rate tax relief for high earners under the current legislative framework, by reducing the annual allowance to £25,000 or £50,000. Instead, it has created a whole new legislative framework for

contributions, which I couldn't begin to try and explain in simple terms to a typical pension saver.

I'm very angry about this, not because of the policy, but, because again it didn't listen to the industry. When the annual allowance was set at £215,000, many of us said it was too big. It would drive large one off contributions into pensions, typically as a conversion from bonuses. The government said it didn't mind whether pension savers front end loaded, back end loaded or spread their contributions over their working lifetime. After all, they had the lifetime allowance to rely on. An increase in the cost of pensions tax relief from £18bn to £28bn predominantly as a result of pensions simplification and the percentage of tax relief going to those earning over £150k increasing from 8% to 25% in less than a decade were both problems that many of us in the industry warned against.

I don't have a problem with restricting tax relief on pension contributions for high earners, but I think it should be done proportionately. I expect to see a modest drop off in pension contributions after April 2011, but this will not be significant.

**FLOYD:** We've got the election coming up within the next few months, so what do you hope to see from the next administration?

**BELL:** The two things that I would like from the next government won't come as any surprise. One is that for those over age 75 – or whatever higher age is deemed to be appropriate – we simplify the death benefit rules for money purchase schemes.

The other is to reassess the whole issue of restricting tax relief on pensions for high earners, simply reduce the annual allowance to £50,000 or some other suitable figure.

**MORET:** In an ideal world, I'd go further and say start again, but I don't know whether there'd be too many people in the industry with any appetite for starting again on pensions legislation.

Doing something on simplification and making it easier for everybody to understand what's going on has got to be an objective.

I'm encouraged a little to see that the Conservatives are talking about setting up a new independent office for tax simplification, but then we've had quite a few initiatives over the years along those lines that haven't actually yielded any benefit.

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