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Article

Fact of fiction?

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Recent press coverage suggested that some advisers are frustrated with the lack of flexibility shown in the SIPP industry. Is there truth to this suggestion? Alternatively, is this a case of a firm demonstrating a lack of understanding of the dynamics of the market in question? Let us examine the issues and leave you to make your own mind up, is it fact or fiction?

The SIPP market has grown at pace over recent years and you could suggest that some of the new products have created an element of confusion. You may even argue that some new entrants have the odd strategic urge to create confusion, one for another day.

In the drive to play in this market you will see Personal Pensions and Private Managed Funds dressed up as SIPPs which can be a tad confusing. Allowing for all of this, I firmly believe that advisers understand the fundamentals of the market i.e. that SIPPs come in all shapes and sizes. I regularly come across discussions that involve talk of mini SIPPs, midi SIPPs and full SIPPs. The terminology might change a little but there is one basic concept that remains true. The range of permitted investments varies to satisfy the demands of particular consumer types. Also, there is a clear price differential that is correlated with the range of product allowable investments.

As a quick reminder, the first product type could be described as the conventional SIPP, dealing in all areas from share portfolios and collectives to commercial property. This is likely to be the product that traditional long term SIPP users know well.

The second, typically a lower cost alternative, will offer access to a wide range of investments but does not venture into the more labour intensive assets like commercial property. This helps to keep the costs down, often below those on offer from insured Personal Pension products with external fund links.

The third variant is the low cost execution only model, which appeals to those who rarely take advice and want to adopt a DIY approach. Clients using this model tend to be outside the advice domain and deal online, mainly in collectives, stocks and shares.

Recent developments involve SIPPs that work on a factory gate priced model with the ability to increase cost as you increase the investment sophistication and introduce adviser remuneration. The more sophisticated products offer a genuine whole of market investment choice with online access for valuations and administration into the bargain. Importantly, the client will only pay for increased flexibility that they use.

Research recently carried out by A J Bell outlined why advisers recommended this product. The single biggest driver was low charges followed closely by online functionality, online control, investment choice, quality administration and ease of use. It is little surprise the market leading SIPPs score heavily in these areas. If you buy into the suggestion that charges are the main driver then it makes sense that products vary in shape and size with a strong link to the charges payable. A case study perhaps explains this point best. Using the charges on our own Sippcentre product as an example, the point should become clear.

We have a Mr Client, male, aged 40 with a transfer value of £150,000 and a plan to retire at age 65. If you assume that Mr Client is paying a fee for the advice and you invest initially in the SIPP cash facility you are able to isolate and identify the point of sale cost of the SIPP wrapper.

Reduction in yield (RIY) is – 0.12%.

The client and adviser are entirely in control of all investment, benefit and remuneration decisions and hence the total cost. If you look to introduce an element of added investment sophistication or adviser remuneration then you introduce additional cost. Let’s assume that you want to consider investing in a range of UK exchange traded funds with an average TER of 0.35% p.a. Also, you want to include adviser remuneration of 3% initial plus 0.5% fund based trail. This all leads to a natural increase in the RIY.

Reduction in yield (RIY) is – 1.17%.

You may then consider a more sophisticated investment solution involving a range of collectives where the average charges are nil initial plus 1.50% p.a. Again, this leads to a natural increase in the RIY.

Reduction in yield (RIY) is – 2.40%.

Any decision in future to use options such as income drawdown or indeed more sophisticated investments will introduce additional charges. In short, this means the client will only be paying for flexibility and functionality as it is introduced or used.

The FSA has been encouraging adviser firms to consider the above points in the suitability process. The natural course of this means that you should be well placed to decide if this is all fact or fiction.

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Please note this document is intended for trade and national press individuals.

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Established in 1995, A J Bell specialises in providing administration, trustee and actuarial services for SIPP and SSAS.

A J Bell is now the largest privately owned provider of self administered pensions and institutional stockbroker services in the UK, with in excess of 40,200 individual SIPPs and assets under administration exceeding £11.2bn. It also provides third party SIPP administration services for Barclays Stockbrokers, Halifax Share Dealing, Skandia and E*Trade.

Our customer proposition - Market leading, low cost, transparent, service, value, choice, leading functionality, integrity, award winning.

Our business - Market leaders, growing, innovative, own intellectual property, profitable, stable, we don't provide advice or investment management.

Research by CoreData Research places Sippcentre alongside Standard Life as advisers' two most preferred SIPPs.

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