

# Article

## Make a smart move

21st September 2008

Pension consolidation has been a common theme in the period after A-Day with many Advisers reviewing their clients' existing pension arrangements. Changes to the rules allowing self-investment of protected rights will increase activity in this area. As with any transfer recommendation you must ensure all aspects of client suitability are considered and documented. For the benefit of this article I have focussed on money purchase to money purchase transfers.

The FSA have made it clear the emphasis is on ensuring that advice is suitable and meets the client's individual needs. In practice what does this mean?

You must make it clear why the transaction is suitable for the client, allowing for his or her personal and financial circumstances. You must identify the advantages and any consequences and disadvantages of the transaction. With a personal pension or SIPP recommendation you must also explain the reasons why you consider the new arrangement to be at least as suitable as a stakeholder pension plan.

Often the devil is in the detail. To get to the detail there are several important questions to ask.

### **Charges**

What are the charges on the existing policy? Does the existing policy or fund have any exit charges?

### **Timescale**

How long is there before the client wants to take benefits? Is the client looking to invest over the short, medium or long-term?

### **Investment objective**

Does the policy still serve its original purpose? Does the client's risk profile match the fund choice available under the existing policy? How have the available funds performed? Is the fund or funds likely to meet the client's expectation of future growth?

### **Other funds**

Does the existing provider offer other funds that better match the client's attitude to risk and circumstances? Does the list of available funds provide sufficient choice over the period to retirement?

### **Investment strategy**

Would the investment strategy on a replacement plan better match the risk profile and investment objectives of the client both now and in the future? How important is it for the client to have control over the range of investments and strategy?

### **Taking benefits**

How and when is the client likely to take benefits? Are the benefits likely to be taken using flexible retirement options such as Unsecured Pension?

### **Guarantees and options lost on transfer**

Are there guarantees and options that are specific to the existing policy? If there is a guarantee is it important to the client? How would the client view losing such benefits on transfer? What life assurance or other ancillary benefits would be lost? Is replacement cover necessary and is this possible with the client's background?

### **Is the client invested in with profit funds?**

Is there a Market Value Reduction (MVR)? Are there any MVR free dates at which it will be possible to leave without penalty? How much extra growth would you need in the new plan to make good any MVR?

After considering these points you may decide that a recommendation to transfer to a SIPP is the most appropriate action. When considering what SIPP best fits the client needs there will be additional issues to consider but the following covers the main points.

**Charges applicable** - It is important to understand the range of charges and how they compare with the existing arrangement. Many look on SIPP's as the more expensive choice; this is often far from the truth. You should also check to see if charges are levied against the protected rights fund as well as the existing SIPP wrapper charges.

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SIPP illustration facilities vary. The illustration facility should allow you to build in the cost of the SIPP wrapper charges and an allowance for the cost of the underlying investments to ensure a true comparison can be made with the existing policy.

**Service reputation** – Research has shown that advisers and their clients' value first-class service.

**Financial standing** – In a world post Equitable Life and Northern Rock it is understandable if investors look to find out the financial standing of the selected provider. A company and provider/establisher with a strong financial history and background will be key ingredients.

Matching the range of permitted investments to the investor's needs – SIPP's provide access to a wide range of investment choices. Investing in any pension involves making decisions over many years. Also, their circumstances will change many times over that period. A SIPP that can allow for changing circumstances changes in investment strategy and appetite for certain types of investments is important.

**On going advice** – the nature and cost of any on going advice needs to be clear.

How do you satisfy the "at least as suitable as Stakeholder" rule? - On several occasions the Government has highlighted that Stakeholder pensions may not be the most suitable recommendation for all clients. The Stakeholder Pension Guide issued in September 2000 contained the following statement:

'A Stakeholder pension is just one of the pension choices available, but there may be another alternative that suits the individual better.'

Stakeholder pension products were initially limited to charging a maximum of 1% p.a. throughout the term of the contract. However, from April 2005 they were allowed to charge up to 1.5% p.a. for the first 10 years, reducing to a maximum of 1% p.a. after this. The main advantage is the certainty that charges will not exceed the level stated.

A possible disadvantage exists if there is compromise on the features available to minimise the cost. Stakeholder pensions tend to be less flexible than other products. Areas that may suffer include:

- a reduced range of funds or permitted investments;
- limited on-line functionality;
- limited at retirement options such as Unsecured and Alternatively Secured Pension;
- no option to provide for the cost of advice from within the product.

The challenge is to document the areas within the new product that are appropriate to the client's circumstances that can't be provided by the Stakeholder product.

There has never been a clearer need to review the accumulated pension funds of existing clients. The number of issues raised in this article shows that care is needed. A statement included in the original Securities and Investment Board Review of Past Pension Transfers in 1994 said "Pension Transfer Business is a legitimate form of business, for the simple reason that there are many situations in which the balance of advantage to the individual points to a transfer, or in which the individual has an informed preference for a transfer". Meeting the challenge of providing the client with sufficient information to form an informed preference is what it is all about.

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**END**

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## Notes for Editors

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

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

The A J Bell Group is now one of the largest SIPP trustee and administrators in the UK with in excess of 32,000 individual SIPPs and assets under administration exceeding £8bn. It provides third party SIPP administration services for Barclays Stockbrokers, Halifax Share Dealing, Skandia and E\*Trade.

Recent research by CoreData Research places SIPPcentre alongside Standard Life as advisers' two most preferred SIPPs.

A J Bell Group have won an array of prestigious industry awards recognising our reputation for leading products and services. A J Bell Group products include SIPPcentre, Sipdeal, Sipdealxtra and A J Bell.

