

Article

Myths in the making

6th November 2008

The definition of a myth outlines an association with legend, fiction, fairy tale, folklore, fable, confusing data, personal desire and urban legend. What has this got to do with pensions? A great deal if you have been monitoring recent press comment surrounding SIPPs.

It seems we are in danger of a mythical world forming. In this world it seems some competitors are concerned with the increased popularity of SIPPs. Being a mythical world the reaction to this concern is to introduce messages and stories that have more than a hint of fable and confusing data. I am never one to look to spoil a good story. However, often it is better that fables are left solely for use when tucking the kids in at night.

Let us look at some of the issues currently under discussion and look to separate any myths from reality.

Myth? Great care is needed when using SIPPs because they are currently the subject of a FSA thematic review.

It goes without question that great care is needed when using any financial services product. However, judging by the number of calls I receive on this issue advisers are confused and they have good reason.

Thematic reviews are part and parcel of the work carried out by the FSA. One of the current reviews involves pension transfer advice and transfers to SIPPs is included as part of this. The original scope focused on transfers to SIPPs. Exploratory work carried out by the FSA in 2007 identified significant growth in transfers to Personal Pensions more generally. From this, the decision was taken to widen the review to also include assessing the quality of advice on transfers to all forms of Personal Pensions.

To quote the FSA website:

Pension Transfer Advice (including SIPPs)

We set up a project to assess the risk of poor quality advice when transferring into SIPPs. The project now includes transfers into PPPs, including SIPPs. The intended outcomes of this project are that consumers are given suitable advice when they are thinking about transferring into PPPs and SIPPs, and firms consider their TCF obligations when designing and marketing PPPs and SIPPs.

The FSA have made it clear that the emphasis is on ensuring that advice on transfers is suitable and meets the client's individual requirements e.g.

- Needs analysis.
- Analysis of costs, penalties involved in any transfer and the benefits.
- Documentation explaining how the new arrangement satisfies the at least as suitable as stakeholder test.
- Any investment and on going advice.

We understand that the review is also looking at how providers incentivise advisers to recommend their products. This will include an analysis of marketing literature, adviser remuneration and the role of broker consultants.

To suggest that this review is now focussing solely on SIPPs is selective use of the actual scope and clearly wide of the mark.

Myth? There are Treating Customers Fairly (TCF) issues when you use SIPPs.

The FSA TCF initiative aims to ensure firms deliver the six outcomes for retail consumers. SIPP providers, like all other providers of retail products and investments, will be focusing on ensuring that the products they manufacture and market are consistent with the outcomes that are applicable to them. Advisers must also take into account the need to deliver the outcomes. In particular, those related to the provision of suitable advice and clear information, when advising on SIPPs.

We take our TCF obligations very seriously but are not aware of any TCF issues identified as only applicable to SIPPs.

Myth? SIPPs are complicated and expensive.

When looking to select a pension provider, many advisers and clients tell us that the most important ingredients they look for are:

- Quality service
- A wide range of investments that match the changing needs of the client
- Competitive and transparent charges

The continued popularity of SIPPs clearly shows that all of these ingredients are available.

When looking at charges, a case study clearly illustrates why care is needed to understand the make up of the total cost. The figures and charges are based on a query via SIPPcentre.

Client details

- Male client, 40 next birthday, TV £100,000, Normal Retirement Age of 60.
- Investment is into a range of collectives as selected by the client, through one investment partner, with an average Total Expense Ratio of 1.5% pa.
- Adviser remuneration of 3% initial plus 0.5% fund based has been requested and charged (in addition) to the SIPP cash account.

The Reduction in Yield (RIY) shown on the illustration was 2.50%. Understanding how this RIY cost is made up lets you consider any merits of allegations on cost. The SIPP share of the 2.50% RIY in this case was 0.17%, a very reasonable price to pay for the flexibility, functionality and range of investment freedom on offer.

The underlying investments selected by the client are responsible for the majority of the cost. Ultimately, in this type of SIPP structure, the client and adviser are entirely in control of the decision on adviser remuneration, all investment decisions and hence the total cost. This example shows that the cost of the SIPP wrapper itself is not expensive.

Myth? With a SIPP you will often be paying for flexibility or functionality that you are not using.

This depends on the SIPP you are using and makes the mistake of assuming that all SIPPs are identical in structure and application of charges. The challenge to consider here is whether you can match any increase in investment flexibility and functionality to increases in the underlying charges.

In the case study above, the SIPP wrapper cost (ignoring the costs of adviser remuneration) on a RIY basis was 0.17%. The choice of investment or additional client requirements, such as income withdrawal, introduces additional cost. There are many SIPPs that work on the assumption that you only pay for such flexibility or functionality when you use it. In this type of structure, the client and adviser are entirely in control of all investment and benefit decisions and hence the total cost.

Myth? It is not in the best interests of investors to open protected rights to the risks that can arise from self-investment?

It is important to note that investment risk and protected rights is not new. External fund links allowing access to a wide range of fund managers and asset classes have been available in the pension market since the 1980's. Over this period many investors (including myself) have used these structures for investment of assets, including protected rights.

Investors must have a clear investment strategy that reflects their appetite for risk and downside loss that includes all of their pension assets. SIPPs allow you to do this so should be welcomed for the additional choice and flexibility they provide.

The issue with any good myth or story is that eventually you have no option but to return to reality. When reality bites you have a feeling of having been led down the garden path. To avoid this it is better that general statements and accusations are backed by substance and evidence. Only then can you sort out the myths from reality.

END

Notes for Editors

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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.

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.

