Article

SIPP evolution, the road to success

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For many advisers and clients, SIPPs are viewed as personal pensions with a wider investment choice. The market historically aligned itself around three distinct variants.

The first could be described as the conventional SIPP, dealing in all areas from share portfolios and collectives to commercial property.

The second, typically a lower cost option, which offers 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 of the advice domain and tend to deal online, mainly in collectives, stocks and shares.

As you would expect, the SIPP market continues to evolve. Recent developments include SIPP structures that, in essence, operate 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 (without triggering extra wrapper charges) and online access for valuations and administration into the bargain. This has been a particular area of growth over recent times.

With a SIPP are you paying for flexibility or functionality that you are not using?

This depends on the type of SIPP you are using and makes the mistake of assuming that all SIPPs are identical in structure and application of charges. As outlined in the previous section, SIPPs come in all shapes and sizes. The challenge to consider is whether you can match any increase in investment sophistication to increases in the underlying charges.

A case study can be used to clearly demonstrate this point.

Mr Male Client is age 40 with a transfer value of £100,000 and a plan to retire at age 65.

Mr Client is paying a fee direct to his adviser for the advice and invests initially in the SIPP cash account. In doing this you can isolate and identify the cost of the SIPP wrapper.

The reduction in yield (RIY) in this instance is – **0.17%.**

The client and adviser are entirely in control of all investment, benefit and remuneration decisions and hence the total cost. If you introduce an element of added investment sophistication or adviser remuneration then you introduce additional cost. Mr Client wants to invest in a range of UK exchange traded funds (average TER of 0.35% p.a.) and wants to include adviser remuneration of 3% initial plus 0.5% fund based trail. As you would expect there is an increase in the RIY.

The reduction in yield (RIY) is now – **1.07%.**

If you then consider a more sophisticated investment solution e.g. a range of collectives where the average charges are 1% initial plus 1.60% p.a., you again see a natural increase in the RIY.

The reduction in yield (RIY) is now – **2.00%.**

Any decision in future to use options such as Unsecured Pension will introduce additional charges. In short, the client will only be paying for flexibility and functionality as it is introduced or used.

Despite challenging market conditions the SIPP market continues to grow. Much of the success and growth has been built on simple foundations.

Competitive transparent charges

For a fair comparison, advisers and their clients need to consider all costs; which means more than just point-of-sale establishment and annual administration charges. Also, individual charges must not be compared alone. Many well-established SIPP providers already have transparent products with all charges and adviser remuneration clearly and fairly disclosed in a way consistent with the Retail Distribution Review. Also, the Mr Client case study demonstrates that SIPPs can compete head on with other Personal Pension structures when looking for competitive charges.

Whenever costs on SIPPs are discussed, cross subsidy from other areas is often thrown into the discussion. The interest rate on cash accounts is used as the prime example. Any margin on money held in cash can cross subsidise the cost to the client on the underlying wrapper but any focus on this is missing the point. The client and adviser are in control of how the money is invested. The key question is whether the SIPP wrapper in question will allow you to invest in other cash accounts as selected by the client.

A wide range of investments that match the changing needs of the client

As you would expect, clients and their investment strategies vary considerably. No matter what approach you are looking to adopt, passive, active or index based. SIPPs can cater and accommodate them all. Few mainstream pension products cater for scenarios that vary across using cash deposit facilities, Exchange Traded Funds, a range of fund platforms, discretionary portfolio services, equity trading, commercial property and insurance company trustee bonds. Client circumstances will change and SIPPs give you the comfort of knowing you can adjust the investment strategy to accommodate them.

Some doubters question whether the success of SIPPs can continue. Many providers can demonstrate that the road to success continues with no end in sight.

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

Notes for Editors

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A J Bell is the UK's largest privately owned SIPP provider and is continuing to grow rapidly in challenging capital markets. Invesco Perpetual and Midas Capital own 23% and 15% respectively of the share capital, the remainder being owned by Andy Bell and the management team.

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

A J Bell is now one of the largest SIPP trustee and administrators in the UK with in excess of 36,000 individual SIPPs and assets under administration exceeding £8.4bn*. It provides third party SIPP administration services for Barclays Stockbrokers, Halifax Share Dealing, Skandia and E*Trade.

Research by CoreData Research placed Sippcentre as one of the two most preferred SIPPs.

A J Bell has won an array of prestigious industry awards recognising our reputation for leading products and services. A J Bell products include Sippcentre, Sippdeal, Sippdealxtra, A J Bell Platinum and A J Bell Securities.

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