

# Article

## Who's talking now

November 09

The SIPP market is experiencing growth, development, challenges and change all at the same time. Challenging economic conditions and client suitability are hot topics of discussion.

With SIPPs becoming more mainstream one must be careful not to mistake popularity with the potential for widespread abuse. It is an unfortunate consequence of a hugely competitive industry that many fall into this trap. There is a connection between the two but evidence of popularity does not automatically mean that abuse is likely.

The FSA report on the quality of advice on pension switching highlighted some of the potential issues with suitability. It assessed the quality of advice given to customers since A-Day to switch their existing pensions into a personal pension plan (PP) or self invested personal pension (SIPP) and firms' systems and controls relating to this advice. In many of the problem cases the switch involved extra product costs without good reason.

It is therefore understandable that many advisers will focus on charges and the actual SIPP structure itself to ensure that the client is not paying for flexibility or features that are not being used. It is always important to avoid general statements. Saying SIPPs are expensive is a little bit like saying eating out in a restaurant is expensive. The simple truth is that it all depends on your choice of establishment and selection from the menu at hand. It might well be an expensive night out but on the other hand it might not. You (or your partner) are in control of where you go and what you eat. The same choice and control issue exists when choosing a SIPP.

### **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. 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 the point.

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

Using the charges on our own Sippcentre product as an example, the point should become clear. Assume that Mr Client is paying a fee direct to his adviser for the advice and he invests initially in the cash fund I am able to isolate and identify the cost of the SIPP wrapper.

Reduction in yield (RIY) is – **0.17%**.

The client and adviser are entirely in control of all investment, benefit and remuneration decisions and hence the total cost. If we look to introduce an element of added investment sophistication or adviser remuneration then we introduce additional cost. If we assume that he wants to consider investing in a range of UK exchange traded funds (average TER of 0.35% p.a.) and we want to include adviser remuneration of 3% initial plus 0.5% fund based trail there is a natural increase in the RIY.

Reduction in yield (RIY) is – **1.07%**.

If he was to 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., we again see a natural increase in the RIY.

Reduction in yield (RIY) is – **2.00%**.

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

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 the 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.

There is no doubt that lessons need to be learned from the thematic review. In addition we can be sure that changes can and will be made to improve the comparability of Personal Pensions and SIPPs. Future success will involve meeting all of these challenges and difficulties head on. The popularity of SIPPs will continue to grow and continue to be the subject of healthy discussion and debate. As Oscar Wilde once said "The only thing worse than being talked about is not being talked about!"

**END**

**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 the largest privately owned provider of self administered pensions and institutional stockbroker services in the UK, with in excess of 40,000 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.

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.

Moneywise have awarded Sippcentre the accolade of Best Low-Cost SIPP Pension Provider for the 5th consecutive year.

A J Bell has been announced as the winner of the 2009 Best SIPP Provider award at the Professional Pension Awards and more recently picked up Best SIPP Provider at the Moneyfacts Investment Life & Pensions Awards.



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