How do I choose the right SIPP Provider?

Introduction

A SIPP (Self Invested Personal Pension) is a special type of wealth creation vehicle based on a personal pension which can be established by any individual of any age, even if not actually employed nor resident in the UK.

The more advanced SIPPs are the most open pension frameworks that exist today and offer the most flexibility of any pension product in the marketplace.

However when it comes to choosing the right SIPP, the diversity and choice available has been further confused by an unusual high level of marketing and promotion which, inevitably, is putting further spin on what is a complex offering.

Who is to benefit from the SIPP?

The first place to start when looking for the right type of SIPP is to define who is to benefit from it. There are 4 main types of SIPP users, each with a type of SIPP relevant to their needs:

- Individuals - SIPP – as the name suggests these are stand alone SIPPs not linked to others;
- Groups of individuals – GSIPP - GSIPPs are used by individuals who have decided to pool their resources to improve their buying power. They are often confused with Corporate SIPPS;
- Syndicates - SSIP - specific investments, such as property funds, may be established using a SSIPP as a tax efficient incentive to attract investors;
- Corporate SIPPs - CSIPPs – a CSIPP is a SIPP provided to employees by their employer. It is regulated as a personal pension scheme but behaves like an occupational scheme

Although they are all based on the same SIPP principles, they are all delivered in entirely different ways so choosing the right foundation is vital.

What type of SIPP structure should you choose?

Next, decide what type of SIPP structure is best suited to your needs. The current market falls naturally into 4 types of providers:

- Independent CSIPP - with full open architecture for all asset classes
- Insured CSIPP - with a requirement to invest in that insurance company's funds and access to external fund managers
- IFA SIPPS - where an adviser company uses a SIPP to deliver some form of discretionary fund management
- Low cost SIPPs - which are generally restricted to platforms or stock broking services.

Each has their own advantages and disadvantages, so it is important to establish a specification for your needs first so you can benchmark potential providers. In the world of SIPPs it is easy to be distracted by the lure of cheap or "free of charge" offerings that are too restrictive and therefore may not deliver your requirements.

How do you balance fees with value for money and delivery?

As with all such complex products, the 'devil is in the detail' when it comes to pricing. Because there is no universal agreement on how SIPPS are priced it can be difficult to compare one with another.

There are 2 main ways SIPP providers charge for their products: per capita fee and percentage of funds under management. Some times they use a mix of both and sometimes one is used to offset the other, for instance no initial fee which is then "reclaimed" through a percentage of fees under management .

Which ever approach is taken, they all relate to 4 basic elements:

- Establishment of the new scheme
- Annual management charges for running the scheme
- Transactional charges, such as investment
- Specialist fees, such as property

The best way of comparing one SIPP with another is to break down the fees into the simplest common denominator, per capita fees, for each of the 4 elements above.

For instance if you want to compare a per capita fee based SIPP with a percentage of funds under management, take the percentage of funds under management, apply it to total funds being invested for the individual (don't forget to add in ALL the extras) and then compare that to the total initial and ongoing per capita fees.

What are the advantages of a trust based SIPP compared to an insured one?

A trust based SIPP is managed, within strict laid down rules and guidelines, with the primary objective of protecting investments of each individual SIPP member. Because the trustees own the assets of the scheme and not the SIPP provider, the member is ring fenced from any financial failure of the provider. This set up also makes it easier to separate out individuals' assets.

An insured SIPP, by comparison, includes both the provider and investment in one entity with investment more a reflection of total assets than individually owned. If the provider's business fails so does the investment and individuals would then have to line up and claim under the insurance company rules. Compared with a trust based SIPPs, members would have to wait for the total business debts to reconcile before any claim could be processed.

Any SIPP member can claim against the FSA compensation scheme (FSCS) for failure of their scheme. However the FSA have agreed for trust based schemes that that will look through to individuals when it comes to the level of settlement. This means, for example, a pay out of up to £50,000 for cash held in each individual SIPP "bank account" rather than each complete scheme.

How can you avoid possible miss-selling?

Against a background of different approaches and ambiguity there is a growing concern over miss-selling, which has been with us for many years and, unfortunately, will always be a risk regardless of the type of pension involved. It is vital, therefore to ensure complete suitability in order to avoid some element of setting up SIPPs for those who will not actually benefit from them.

As has always been the case with any workplace pensions, there is a need to balance what is best for the long term needs of the employer with those of the individual, for instance affordability. A CSIPP is not necessarily suitable for all employees but it is not necessarily being miss-sold just because all the flexibility is not being used immediately. As long as the employer and their adviser follow Treating Customers Fairly rules then the dangers of miss-selling any product is minimised.

There is also a danger of miss-selling where advisers are transferring from an insurance company personal pension to their SIPP without any changes in their approach to the funds they are invested in. This is particularly relevant were commissions have been paid for these transfers.

What are the handy hints for choosing the right SIPP provider?

A properly constructed and managed SIPP is one of the most open pension frameworks that exist today. It offers the most flexibility of any pension product in the marketplace - a scheme where the member can have as much or as little involvement in the control and decisions regarding their investment strategies within the scheme as they wish.

However, the SIPP market is still growing and developing and although there are a growing number of providers, not all offer a full proposition and not all know how best to install and run them.

Below are our ten top handy hints for choosing the right SIPP partner:

1. Make sure the provider has been involved with SIPPs for some years and not just entered into the market in order to be fashionable.

2. Ensure the SIPP is registered as a pension scheme as defined under Part 4 of Finance Act 2004

3. To be a true SIPP the schemes should include all HMRC allowable investment choices including quoted and unquoted shares as well as commercial property.

4. Watch out for restricted investment choices. Some providers use SIPPs as a means for promoting only their own investments. A good SIPP provider will be open and willing to discuss all investment options, including using your own preferred advisers.

5. Communication is key, so ensure your prospective provider has the expertise and experience to work with you in all communications (from presentations and handouts to newsletters and platforms) and are tailored to your needs and brand.

6. Ask them to demonstrate their systems and procedures and ensure they can accommodate your requirements. The flexible and tailored nature of SIPPs is best served by bespoke administration systems that provide an efficient and accurate service.

7. Make sure the SIPP provider has the necessary technical expertise to cover all aspects of advice from property to HMRC legislation. Their teams should be fully trained and have up to date understanding of the technical aspects of the rules and regulations in relation to SIPPs.

8. It's easy to hide charges in a scheme such as SIPP so make sure they have a transparent charging structure.

9. Individual experience is important as is flow of information. A good SIPP should have a full range of illustrations available, preferably on-line.

10. SIPPs by their nature are both powerful and complex. These types of benefits need to be managed in a structured and pro-active manner. Ask who your dedicated client account management is going to be.

For further information please contact Philip Hutchinson on 020 7648 5292 or at phutchinson@sippsolutions.com