“Achieving the right pensions balance”

Philip Hutchinson – Head of Corporate SIPP Sales (Pointon York Sipp Solutions)

Article for Finance on-line

They say that life is about balance and never has this been truer than for today’s world of pensions. In an increasingly competitive world, employer’s are under greater pressure to balance their investment in against the bottom line returns they are supposed to encourage.

Employees too are re-balancing their expectations, looking for increased choice and value, in particular wealth creation.

Against this background an increasing number of companies are looking at Corporate Self Invested Pension Plans (CSIPPs) as a more flexible and effective addition or, in some cases, an alternative to their existing DB, DC or AVC pensions schemes.

One of the main advantages of CSIPPs is their investment flexibility. This makes them more attractive to employees who want more flexibility and control over where their money is invested.

This is important as it is common knowledge that improving the attractiveness of a benefits helps to combat apathy, increase employee engagement and, as a result, contributes to improved contribution from employees.

This investment flexibility also makes CSIPPs ideal for employers looking to actively manage default or lifestyle investment funds within the same scheme. For instance, creating a range of age related investment pots as an alternative to a DB scheme.

Although they do not completely replicate a DB scheme, the CSIPP structure proves a closer alternative than traditional and hybrid DC schemes because it gives the employer (and employee) greater control over the final value of money available on retirement. All of this without the balance sheet issues currently plaguing a lot of DB schemes today.

According to the latest CIPD Reward Survey, CSIPPs are now becoming more popular than hybrid pensions schemes as replacements for DB pensions.

The combination of the above make CSIPPs an ideal and cost effective vehicle for harmonising legacy schemes and / or consolidation of pre-existing plans / transfers. Their flexible construction allows employers to use them as a common denominator for equalising both contributions and benefits.

Another advantage of CSIPPs is the tax advantages of in specie transfers such as transfer maturing shares. Not only does this increase the actual value of the benefit but also allows employees who are asset rich but cash poor to contribute to their pension.

With a growing interest in commercial property investment as an alternative method of creating wealth, CSIPPs also offer a tax efficient vehicle linked to pension provision.

As with any pension, the benefits of CSIPPs can be enhanced through salary and bonus sacrifice, if appropriate to circumstances of individual employees. Employee NI savings can be used to “boost” the contributions to the SIPP. Company NI savings can be used to offset any costs associated with the set up and running of the CSIPP.

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In an ever changing and demanding corporate environment, companies are increasingly looking to CSIPPs as a future proof vehicle for providing flexible and effective wealth creation and pensions for their employees.

The CSIPP market is only just beginning to grow and, as is the case with all such initiatives, the market is still developing. At present there are a number of providers for CSIPP but 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 CSIPP partner:

<u>Ten “handy hints” for choosing the right CSIPP partner</u>

1. Make sure the provider has been involved with CSIPPs for some years and not just entered into the market in order to be fashionable.
2. Ensure the CSIPP is registered as a pension scheme as defined under Part 4 of Finance Act 2004
3. To be a true CSIPP 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 CSIPPs as a means for promoting only their own investments. A good CSIPP provider will be open and willing to advise on all investment options, including using your own preferred advisors.
5. Communication is key, so ensure your prospective provider has the expertise and experience to work with you in all communications (from presentations and handbooks to newsletters and platforms) and are tailored to your needs and brand.
6. Ask them to demonstrate their systems and procedures and demonstrate they can accommodate your pension, payroll and HR requirements. A good test is to find out if they can deal with one single payment per month to be applied across all employees.
7. In order to integrate the CSIPP into your reward and benefits strategy, make sure the CSIPP provider has the necessary consulting expertise and technical team to cover all aspects of advice from pension’s strategy to HMRC legislation.
8. It’s easy to hide charges in a scheme such as CSIPP so make sure they have a transparent charging structure.
9. Employee experience is important as is flow of information. A good CSIPP should have a full range of illustrations available, preferably on-line.
10. CSIPPs 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.