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Title Corporate SIPPs Employee Benefits

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Author Biography

Philip Hutchinson is Head of Corporate SIPP sales. Based in London, he is responsible for developing Pointon York SIPP Solutions' next era of high-quality, innovative retirement planning solutions, designed to help organisations gain competitive advantage, for workplace pensions.

Philip has over 20 years experience in a variety of general management roles, 13 of which were spent in human resources and change management consultancies. Over the last nine years he has specialised in reward, in particular benefits strategy and flexible benefits.

Most recently, he worked at Mercer, AWD and Jardine Lloyd Thompson, where he was responsible for HR, reward & benefits consulting, providing strategic and technical advice to clients.

Philip is a member of the Institute of Directors and an affiliate member of the Chartered Institute of Personnel & Development. He is also the author of Tolley's "Flexible Benefits - Practical Guide" and the CIPD "Executive Guide to Flexible Benefits".

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ABSTRACT

This paper is a high level guide to Corporate Self Invested Pension Plans (CSIPPs) and looks at the key issues you need to consider in deciding whether they are right for your organisation. It covers design, communication, implementation and administration factors, and takes in recent market and product developments.

Topics covered include:

- Changing world of work and attitudes to wealth creation
- What is a CSIPP, their advantages and disadvantages?
- Integrating CSIPPs into existing benefit structures
- Developing a high level CSIPP strategy to suit pensions objectives
- Investment strategy, advice and management considerations
- Designing a new CSIPP to enhance and support developed strategies

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- ➔ Developing a communication plan that engages employees
- ➔ Good CSIPP administration platforms, systems and other considerations when installing a CSIPP
- ➔ Ten tops tips for choosing the right CSIPP partner

3-6 KEYWORDS

SIPPs
Pensions
Investments
Transfers
Shares
Employee Benefits

Introduction

In the increasingly competitive world of work, today's employer is under greater pressure to ensure the benefits they provide contribute directly to influencing employee behaviour, generate a maximum return on investment and help win the war for talent.

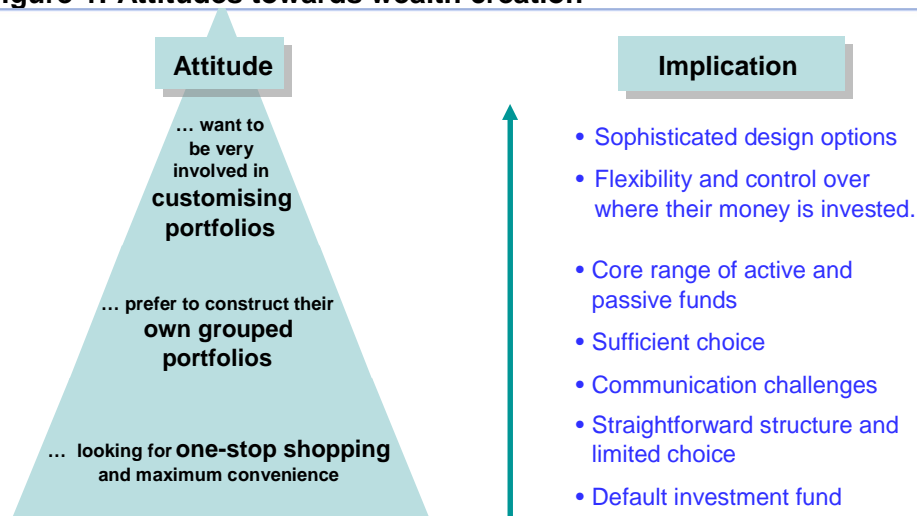
Employees are becoming more sophisticated in terms of their benefit expectations, looking for increased choice and value, in particular wealth creation. Increasing diversity, in particular age and lifestyle, are helping to fuel a change in the provision of pensions in the UK.

Changing attitudes towards wealth creation

Flexible Wealth Creation is the act of creating growth in the value of your investments in such a way that can be changed to respond to different circumstances.

The challenge for employers is balancing their key drivers with those of their employees' changes in attitudes. Most organisations manage this by segmenting their workforce into defined "attitude" groups. Figure 1 below is an example showing three distinct groups of employees and their different attitudes towards wealth creation. This is matched by the implications of each group which in turn is used to determine pension strategy.

Figure 1: Attitudes towards wealth creation



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Traditionally each group would have its own separate pension provision (expensive and with a large administrative burden) but an increasing number of companies are now looking at CSIPPs as a more flexible and effective addition or, in some cases, an alternative to their existing DB, DC or AVC pensions schemes.

What is a CSIPP and its advantages?

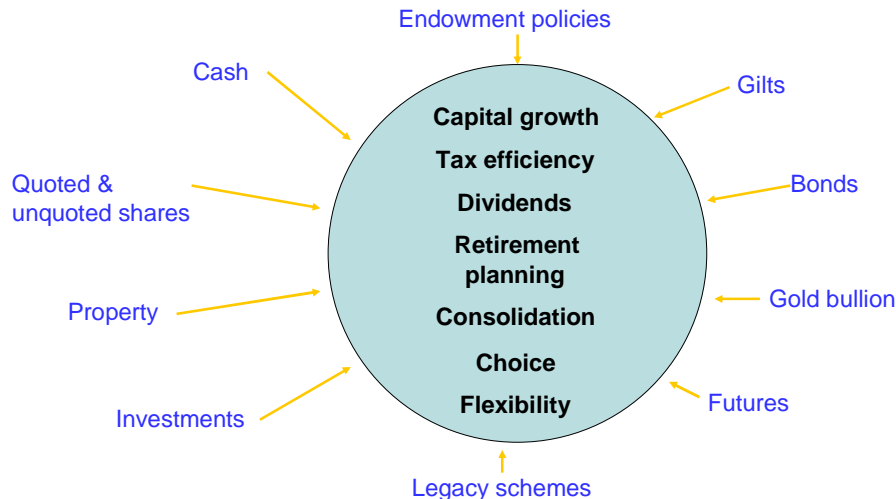
A SIPP, a Self Invested Personal Pension, is a special type of wealth creation vehicle based on a personal pension which can be established by any individual of any age, even if not actually employed nor resident in the UK.

A CSIPP is a SIPP made available to employees by their employers. Not only does this afford preferential pricing due to "bulk buying" but the economies of scale also enable better communication and more efficient administration.

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.

Figure 2 below illustrates some of the investments that can be put into a CSIPP to create wealth. Since 6th April 2006, the HM Revenue & Customs rules have not generally restricted the types of investments a SIPP can invest in, and there is no longer a detailed list of permitted investments. However there are certain assets that obviously do not qualify such as tangible moveable property (residential property, fine wines etc).

Figure 2: Using CSIPPs to create wealth



Employees can have as much or as little involvement in the control and decisions regarding their investment strategies within the scheme as they wish. Employers can have as much or as little involvement in the control and decisions regarding the design, development, communication, installation and administration of the scheme as they wish.

Advantages of CSIPPs

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.

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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 makes 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.

The Market for CSIPPs

The current market falls naturally into the Independent CSIPP (with full open architecture for all asset classes) the Insured CSIPP (with a requirement to invest in that insurance company funds with access to external fund managers), the IFA SIPP (where an adviser company also has a SIPP) and the low cost SIPPs) which are generally restricted to platforms or stock broking services).

This diversity and choice is further confused by an unusual high level of marketing and promotion which, inevitably, is putting further spin on what is a complex offering.

Against this background 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 CSIPP's for those that don't actually benefit from them.

As has always been the case with any work placed pensions, there is a need to balance what is best for the long term needs of the employer with the individual, for instance affordability. A CSIPP is not necessarily suitable for all but it's not necessarily being miss-

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sold just because all the flexibility is not being used immediately. As long as the employer and their adviser follows 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 prevalent where commissions have been paid for these transfers.

Although a major advantage of CSIPPs, more choice and flexibility coupled with an increasing “consumerism” approach to internal marketing will require more education, advice and monitoring for individuals, employers and their advisors.

The CSIPP market is only just beginning to grow. At present, there are a number of providers of CSIPPs, but not all offer a full proposition or know how best to install and run them. There are ten top tips for choosing the right CSIPP partner at the end of this paper.

Integrating CSIPPs into existing benefit structures

CSIPPs, by their very structure, are not just a wealth creation and pension product. If designed and delivered properly, they can be a powerful vehicle for delivering change, for instance harmonisation of several existing schemes into one.

As such, the integration of a CSIPP into an existing benefits structure should be a top down project; starting with the strategy and underpinned by a robust and efficient administration process.

Figure 3: CSIPPs integration

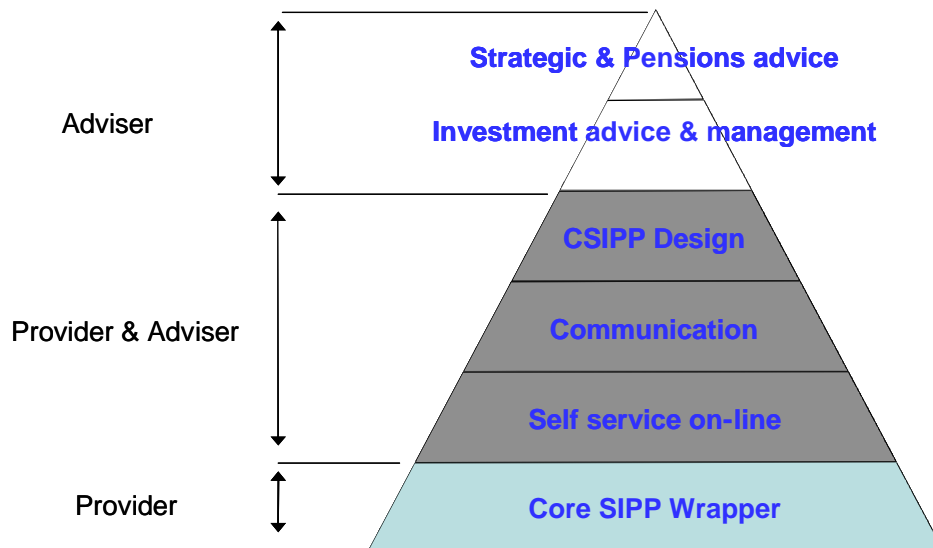


Figure 3 shows the main elements you need to install and run a CSIPP and who, typically, is involved at each stage. These are covered in more detail below.

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As most employers already have existing advisers, benefit communication and administration systems a modular solution, based on a core SIPP wrapper, is easier to integrate than a stand alone product.

Developing a high level CSIPP strategy

As with similar strategic HR initiatives, it is important to understand what it is you are trying to achieve with your new CSIPP at the outset.

To ensure this it is usual for the CSIPP specialist to consult with the employer's adviser to enable them to integrate the CSIPP advantages into a high level benefits and pension strategy.

The first step is to set the context for the new initiative by establishing a clear link to your business objectives and the return on investment you are looking for. Then this needs to be referenced to existing benefits, employee preferences and your competitive position.

Tax, compliance and employment law are the three main elements that shape any benefit, so it is important to understand current legislation and future changes.

A high level view on employee engagement, communication, selection mix, administration and IT are key and covered in the sections below.

Ensuring CSIPPs will suit pension objectives

The key to the successful choice and implementation of a CSIPP scheme is to establish if a CSIPP is the right solution and if so, develop a clear strategy linked to your pension strategy and objectives. For instance using a CSIPP as a top up for a restructured DB scheme.

A good way of doing this is to carry out a feasibility study. This looks at all the investment required and how it measures up to the advantages delivered. For instance the cost savings associated with using a CSIPP to replace several existing legacy schemes.

The study should also establish the practicalities of delivering the CSIPP by looking at tax and employment law implications, communication, administration, outsourcing, IT and infrastructure issues.

Investment strategy, advice and management considerations

From a CSIPP perspective, there are 4 basic scenarios, for which CSIPPs can be used, which will dictate what investment advice and strategy will be required.

Self direct - This is where employees are empowered to choose investments themselves.

Grouped portfolios - This is where the employer provides a selection of investment pots based on fixed criteria, for instance age bands, lifestyle preferences etc.

Default option – this is where the employer provides just one fund choice.

In specie transfers - These include Share Incentive Plan to SIPP share transfers, commercial property, legacy pensions etc.

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Some employers prefer an open framework giving employees total freedom to choose while others prefer an element of control. The balance is between flexibility and responsibility (for making an informed decision).

Each type of CSIPP provider has its own unique charging structures, so there is a need to ensure the right balance between the investment strategy and associated costs. For instance some insured CSIPPs may be cheaper than full open architecture but not offer facilities such as SIP to SIPP, commercial property etc.

In terms of integrating investment management into the day to day administration of the CSIPP they key requirements are:

- Management of individual employees investments
- Valuations across entire portfolio
- Transaction tracking and history
- Appropriate correspondence

Ensuring the design of a new CSIPP enhances and supports developed strategies

The design of any pension, in particular CSIPPs, should be based on quantifiable data and not individual desires. There should be a robust link between contributions, investments and benefits.

Figure 4: CSIPP design issues

Design Structure	Investments
➤ Positioning	➤ Self direct options
➤ Flexibility	➤ Open framework
➤ Restrictions	➤ Grouped portfolios
➤ Eligibility	➤ Default option
➤ Scheme year and rules	➤ Passive vs. active management
Contributions / transfers	CSIPP pricing
➤ Core	➤ Cost-neutrality
➤ Voluntary	➤ Sharing costs
➤ Bonuses	➤ Provider fees / commission
➤ New hires	➤ Tax and National Insurance

Figure 4 outlines the four key areas of CSIPP design and gives examples of the types of issues to be considered for each.

The design structure defines issues such as who will be eligible to join the scheme and how much flexibility there will be. For instance, will employees be allowed to transfer in their own legacy pensions?

Contributions and transfers looks at the rules and framework governing what employees can put into their CSIPP. For instance will employees be allowed to invest their bonuses in the scheme?

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Investments, based on the comments in the last paragraph, define the structure and options available.

CSIPP pricing sets the rules for how the scheme costs are met. For instance, if the employees wishes to put the scheme in on a “cost neutral” basis they may offer the CSIPP as a voluntary (employee paid) benefit. They may also choose to operate the scheme as salary sacrifice and use their NI savings to offset scheme costs.

Whichever option is chosen, it is vital to ensure the administration, IT and internal structure can support your design to ensure the correct strategy can be communicated effectively.

Developing a communication plan that engages employees

Education is the vital component of communicating a CSIPP scheme. Employees should understand the options available to them and the consequences of their discussions as they will ultimately be responsible for them.

As communication is such a complex and yet vital part of the successful introduction of a CSIPP scheme, employers may consider creating a launch project team to manage this part of the process.

Figure 5: Developing a communication plan

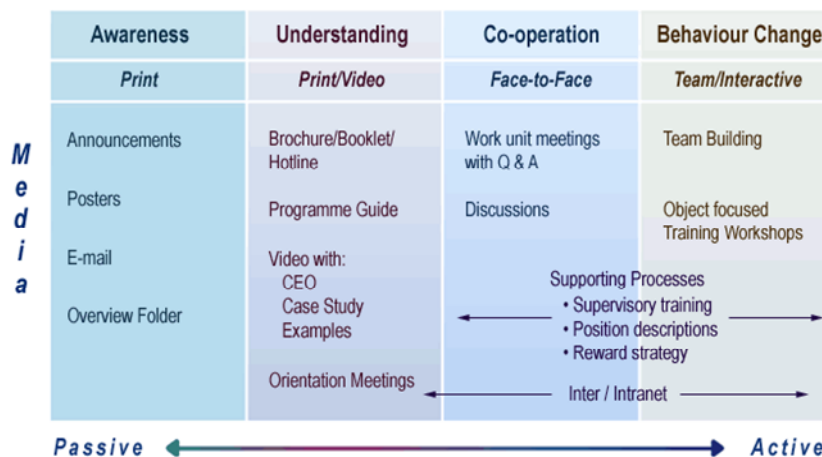


Figure 5 (adult learning model) is an example of an effective communication strategy and key messages designed ensure the new CSIPP scheme supports and enhances the employer’s objectives. It is based on a good range of communications to ensure employees get the message, support and buy into it.

The communication plan should ensure that communications are understandable to employees and that communications successfully convey the required message . To support this plan, there are practical requirements such as developing the appropriate communication material for the benefit platform, employee handbook, user guide to the website and commonly asked questions and answers.

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As a SIPP is a personal pension, there is a requirement for basic documentation and communication support including:

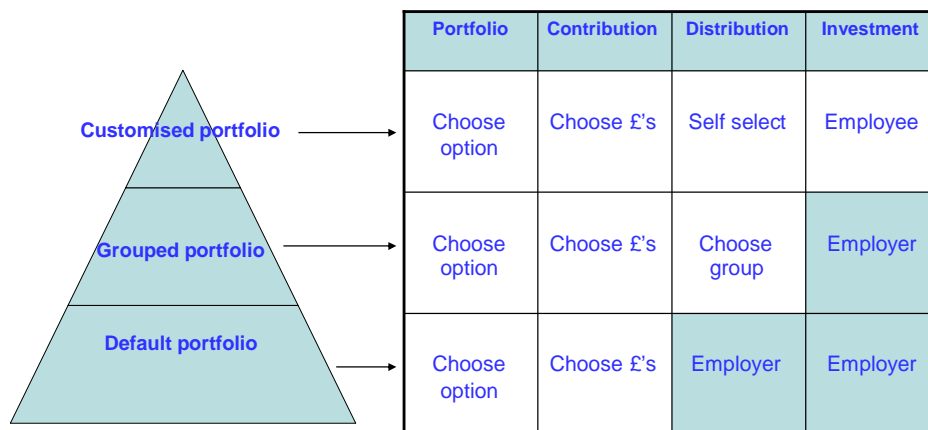
- Employers Agreement
- Illustrations
- Pre-populated member application forms
- Contribution schedule template
- Member schedules and welcome letters
- Annual Valuation Report

The best adviser and employee access system and platform to use

In a world driven by technology, it is important to remember that the message is far more important than the media. Choice of systems and platforms should always be to support a chosen strategy and not the other way round.

Figure 6 below maps out the various options for employee access and choice for CSIPP designed to offer the three portfolios (described in investment choices above).

Figure 6: CSIPP employee options



Only the top portfolio will require a full CSIPP. The other two will only require employees to choose which type of “pot” they would like. The systems and platform required to support this arrangement needs to be flexible enough to offer full choice at one level and simplicity of choice at the others.

There are variety of systems and platforms available today and there modular nature means it is difficult to give a definitive guide. However, for sake of illustration, the examples below give two different types of approaches.

On-line / self -service

Most existing employee benefits self-service / on-line administration platforms can accommodate the front end communications and administration required for a CSIPP. These are either provided by advisers or by the employer themselves.

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The main functionality required, for CSIPPs, for this type of platform is:

- Online web based access
- Employee self-service
- Employer administration access
- Choice of portfolio, contribution and distribution of investment
- Optional investment platform for self select

View only “portals”

For those employers and / or advisers who do not want on-line and / or self service, usually because they want their employees to take proper advice before choosing options, a “view only” portal is better suited.

The main functionality required, for CSIPPs, for this type of platform is:

- View individual records
- View all records (limited access)
- Provide individual illustrations
- View account summaries
- View bank account values
- Regular technical bulletins

Good CSIPPs administration platforms, systems and other considerations when installing a CSIPP

The flexible and tailored nature of CSIPPs is best served by bespoke administration systems that provide an efficient and accurate service.

The leaders in the market have developed platforms that allow them to incorporate individual, partnership, group, corporate and property syndicate SIPPs within one system:

The core SIPP “wrapper” is the engine of a good CSIPP and provides “Cradle to grave” administration. It should also be properly managed (as a project) all the way from initial concept through to installation, employee enrolment, contributions (including transfers) and investments.

It should also manage reports (including HMRC, payroll etc) and tax reclamation along with all the other requirements for administration of assets within the scheme.

Finally the core SIPP wrapper should ensure the production of annual statements, as a minimum.

Offering a modular and flexible foundation for SIPP management, allows other facilities to be included:

- Contribution Management
- Tax Claims
- Bank Account and Scheme Asset Management
- Property and Loan Management
- Earmarked and proportional ownership of assets
- Automated Price Feed
- Annual Valuation

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- Fee Invoicing
- Income Drawdown and pension payments
- Total control over administration processes via built in workflow system

Service is key to any form of administration and CSIPPs are no exception. Good providers have an administration team solely dedicated to CSIPPs who focus on the needs of corporate advisers and clients.

These specialist administration teams provide the full range of services for company pension schemes, dealing with the receipt and investment of the payroll contributions. The teams ensure that the employer is provided with a dedicated service for their particular scheme.

A true CSIPP provider has processes in place that co-ordinate all aspects of scheme administration processes once the scheme is established. These ensure that the scheme runs within rules and regulations, dealing with contributions, investment instructions, valuations, drawdown of pension benefits and death claims - in fact everything to ensure the smooth running of the retirement plan from cradle to grave. The processes will ensure that work is carried out to the required standards and within agreed service levels.

Considerations when installing a CSIPP

Due to the complexity and timescales involved it is important to create a project management team. This team will include key personnel from the employer's company, their advisers and the CSIPP provider. There must be a structured framework for implementation and it is advisable to deal with infrastructure issues as soon as possible. Best results are achieved when the CSIPP is introduced at an even pace with clearly defined measures of success.

Conclusion

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. At present, there are a number of providers of CSIPPs, but not all offer a full proposition or know how best to install and run them.

Ten tips for choosing the right CSIPP partner

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 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 handbooks to newsletters and platforms) and are tailored to your needs and brand.

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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 manager is going to be.

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