

SIPP Costs Research

A study of the costs of a selection of IFA-distributed SIPPs under different investment scenarios





Executive Summary

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- CoreData Research UK has looked at SIPP charges in four ‘real-life’ scenarios where an IFA could use a SIPP as the pension vehicle for a client. By using these scenarios, it is possible overcome some of the problems of producing cost illustrations for SIPPs, chiefly the fact the underlying investment cost varies depending on how a SIPP is invested.
- In producing this report, CoreData worked with the following SIPP providers: AJ Bell, Hornbuckle Mitchell, James Hay, LV=, Prudential, Scottish Widows, Suffolk Life, Winterthur Life and Xafinity. These providers represent some of the leading firms in the SIPP market and have a range of approaches to SIPP provision.
- The following companies were approached but did not take part for various reasons (usually lack of time or resource or SIPPs being a non-core product): Aegon, Legal & General, Met Life, Merchant Investors, Pointon York SIPP Solutions, Rowanmoor, Standard Life and Scottish Life.
- The four different scenarios for SIPP use are: £200,000 invested in a selection of collective investment funds, £500,000 invested with a discretionary fund manager, £100,000 invested in low-cost assets, such as exchange-traded funds, and a £1m investment in property.
- The scenarios take account of different methods of IFA remuneration. In the first three scenarios costs have been shown where only natural trail commission is taken, if this is applicable, and also where 3% initial commission is taken. The last scenario, for a substantial property investment, is assumed to have been done on a fee basis.

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- The SIPP wrapper costs for each provider is shown and how this is made up in terms of an initial cost, annual administration costs, transfer in or out costs, transaction charges and other charges.
- In addition, a reduction in yield (RIY) figure is obtained in each scenario, showing the effect of the total charges and commission over 25 years. This can be compared to the RIY for other types of pension, such as a personal pension or stakeholder, although it should be remembered that a SIPP has additional features.
- Analysing the results shows that the assumption that a SIPP is an expensive form of individual pension is not necessarily true. A SIPP investing in low-cost funds can be extremely competitive in comparison to mass-market pensions and the underlying investment costs, not the SIPP wrapper costs, are more important in affecting total cost.
- Fixed fees, rather than ad valorem (percentage) fees help make SIPPs very competitive for larger funds. Investing a large sum in direct property, where fixed set-up and annual fees are incurred, is likely to be an extremely cost-effective form of pension, as benchmarked by RIY.



Background



Self-invested personal pensions (SIPPs) are a rapidly growing segment of the UK personal pension market. Estimates vary, but it is reckoned that there are now approaching 500,000 SIPPs held by UK individuals, worth approximately £10bn in assets and industry surveys put the annual growth rate of the SIPP market at up to 25% a year in recent years.

Since their creation by Chancellor of the Exchequer Nigel Lawson in 1989, SIPPs have moved from being a specialist vehicle for a small minority of wealthy investors disenchanted with life office pensions to an increasingly popular option for a wide range of individuals. The SIPP market was given a considerable boost by pension simplification changes introduced in April 2006 and extensive press coverage of SIPPs at that time. As has been said, the term SIPP then became a generic term for an upmarket pension, even a consumer brand, for many investors. SIPP also benefited from being untainted by past pension scandals; previous CoreData research among individuals has found a high degree of antipathy to life office pensions and strong affection towards SIPPs.



The main benefits of a SIPP are generally seen as:

Investment flexibility. In theory, a SIPP can invest in any investment permitted by HM Revenue & Customs, although in practice SIPP providers tend to restrict the investments they are willing to allow to be held within their SIPPs. SIPP providers look at the cost of holding particular assets and the likely demand for them, their ability to police it and any possible reputational risk to the provider, and their expertise and knowledge of an asset. It can be difficult for investors to find a SIPP willing to hold unlisted securities, private equity or certain types of commercial property for example.

Separation of investment and administration, so the individual investor or their adviser can manage the SIPP investments, while the SIPP operator provides administration services. This means if the client or the adviser wishes to, they can change SIPP administrators, by transferring the pension assets to another SIPP operator. And it is also possible to keep the same SIPP provider/administrator, but change investment managers.

Better quality administration is seen as an advantage of SIPPs, as SIPP customers have traditionally demanded higher standards and more personalised service than that offered by life offices. Technology is also helping providers by allowing online SIPPs to be offered with administration efficiencies.



Against this, SIPP charges traditionally appeared high compared to insurance company personal pensions. SIPP providers may operate fixed charges for setting up a SIPP and administering it, with additional charges levied for a wide range of services. In addition, underlying investment charges will also apply. However, SIPP providers and IFAs may argue that for the type of clients who use SIPPs and for larger pension funds, fixed charges are more cost-effective than an ad valorem charging structure and service, not price, is a differentiating factor for the more affluent SIPP customer.

As the SIPP market has grown, charging structures have evolved to suit different customer needs. For example, there are relatively low-cost, online SIPPs that offer a range of easily accessible investments to customers that might have relatively small amounts to invest. At the other end of the spectrum, a full service SIPP for a wealthy investor with a complex pension portfolio may use a mixture of fixed fees and charges made on a time-cost basis, to reflect the work involved in running this type of SIPP. It should be recognised that there is a variety of charging structures in the SIPP market and it may no longer be the case that SIPPs are expensive in comparison to other pension wrappers, particularly for funds of £100,000 and more.

SIPP are now distributed through various channels to a number of different market segments under the overall SIPP umbrella. For example:

- The direct to the investor SIPP market. This is made up of activist investors who prefer to make their own investment decisions without an adviser. These individuals prefer to deal directly with a SIPP provider who provides the pension wrapper, online trading facilities and a reporting service. Investment is usually in mutual funds, direct equities or bonds and other liquid instruments, such as exchange-traded funds (ETFs).



- The advised (IFA) SIPP market. This consists of individuals who are clients of an independent financial adviser (IFA), who sets up a SIPP on their behalf and advises on investment strategy. An IFA might set up a SIPP for a client in order to consolidate a number of existing pensions and apply a single investment strategy, or to invest more widely than is allowed in personal pensions (eg if direct property or shares are held), or because the client is in income drawdown and needs investment flexibility and a full range of decumulation options. In some cases, the IFA handles the client relationship and works with a discretionary fund manager (DFM) who runs the investment side of the SIPP.
- SIPPs are also widely used alongside, or as part of, fund supermarkets and wrap platforms. For instance, some SIPP providers offer investment through a fund supermarket, which gives access to a wide choice of funds, as part of their proposition. Wrap platforms used by IFAs may offer a SIPP wrapper as part of their service. Here there is a debate over whether a generic SIPP wrapper suffices, or whether an IFA should be able to use their choice of SIPP provider.
- There is also a growing group SIPP market which can take several different forms. Here a SIPP might be used by several senior members of a small business to buy their office premises, which is then rented to the business. This type of group SIPP is usually seen as being the preserve of small, professional services firms, such as architects, accountants or solicitors. Or a SIPP facility could be offered to senior staff in a business as part of a wider corporate pension plan; this is sometimes called a 'top-hat' arrangement. SIPPs are also becoming associated with company share save plans and share incentive schemes, as it may be possible for shares purchased or awarded through these arrangements to be placed in a SIPP, maximising tax reliefs. A number of FTSE 100 companies are understood to have set up SIPPs for their staff on this basis.



While the SIPP market has boomed in recent years, there have been concerns that some individuals have been wrongly advised to take out a SIPP by advisers, as a cheaper pension vehicle could have been more appropriate for them. There have also been concerns that ‘churning’ may have taken place, with individuals transferred from another pension vehicle to another so an adviser could earn commission on the transfer. The Financial Services Authority (FSA) started to regulate SIPPs in April 2007 and in December 2008 it started a thematic review of small SIPP providers with a report on the findings of the thematic review issued in September 2009.

In its findings, the FSA raised a number of concerns. Among these, it stated that some SIPP operators are behind where it would expect all regulated firms to be in embedding Treating Customers Fairly (TCF). It also said it was concerned by a relatively widespread misunderstanding among SIPP operators that they had little or no responsibility for the quality of the SIPP business they administer, because advice is the responsibility of others, such as IFAs.

The FSA also observed what it called ‘variable quality in the disclosure and confirmation of charges by firms’, particularly with regard to interest payable on SIPP bank accounts. The FSA also raised the issue of disclosing commissions received by the SIPP operator from third parties and stated that ‘where fees or commissions are disclosed it must be in a comprehensive, accurate and understandable way’. The FSA also said that it believed it was good practice for SIPP operators to have mechanisms to routinely and periodically review, benchmark and revise their charges.



The FSA clarified that SIPP providers do not have to provide projections for customers, but this can be good practice. If projections are to be provided, they should comply with the FSA's rules and show all charges, expenses and deductions a client will, or may be expected, to pay. The FSA acknowledged that it may be hard to show underlying asset charges for a SIPP, as the investor will decide where the SIPP assets are held, but the FSA said it is difficult to envisage how meaningful projections can be given without the expected underlying asset charges.

As well as the FSA concerns about SIPPs, there has been an industry debate among IFAs and providers on SIPP regulation and how SIPPs are operated. While most advisers and providers think that the market is functioning properly, there has been some concern on issues such as the use of the term 'SIPP' and the suitability of SIPPs for clients. In some cases action has been taken to address these concerns, such as a recent initiative by the Association of British Insurers (ABI) and the Association of Member-Directed Pension Schemes (AMPS). In November 2009, the ABI and AMPS jointly issued good practice guidance for SIPP customer literature. One aim of this is to enable SIPP charging structures to be set out clearly and accurately for the benefit of customers.



Methodology



In producing this report on SIPP costs, CoreData aimed to help benchmark SIPP costs by asking SIPP providers to show how much a SIPP would cost in various scenarios where an IFA could set up a SIPP for a client. As noted above, there is not a formal system for SIPP cost projections using a reduction in yield (RIY) calculation, as the underlying assets held in a SIPP can vary. So using different scenarios with different assumed underlying costs is one way around this.

The scenarios used are laid out in more detail later on in this report, were devised by CoreData, in consultation with SIPP providers, in order to show common situations where SIPPs are used. These can be summarised as follows:

- £200k invested via a SIPP in a range of collective investment funds. This could be described as a typical SIPP set up by an IFA. At this point, the benefits of a SIPP in terms of cost should become apparent, if it has fixed initial and annual costs, in comparison to ad valorem fees on other pension vehicles. Here, the IFA is assumed to have the investment expertise to set up a portfolio using collective investment funds, such as unit trusts or Oeics and will review the investment mix a regular intervals, in this case annually.
- £500k invested via a SIPP with a discretionary fund manager (DFM). At this level of investment, it could be expected that an IFA would work with a DFM who will run a tailored portfolio for the client using a wide range of underlying investments. Here, the DFM will monitor the portfolio and make investment changes as and when they feel necessary. Some SIPP providers have relationships with DFMs, such as a panel of DFMs, which makes the use of a DFM more straightforward.



- £100k invested via a SIPP in low-cost investments, such as exchange-traded funds (ETFs). ETFs are becoming increasingly of interest to individuals and advisers as a low-cost (typical TERs are 50 basis points) way of investing in equities, bonds and other asset classes. It is expected that the Retail Distribution Review (RDR) will further increase interest in ETFs, so this scenario is designed to look at SIPP costs in this developing market segment.
- Purchase of a commercial property for £1m with a SIPP. In this scenario, SIPP funds, together with a mortgage, are used to buy a commercial property, with rent received then paid into a SIPP. This could be done by a small business wanting to purchase its own premises through a SIPP, or by a wealthy individual wishing to invest in property. Here, there are likely to be a range of costs for the property purchase, which will vary depending on the exact nature of the property and the transaction.



These scenarios cover four situations where a SIPP could be used. By showing the SIPP wrapper costs and an RIY figure, the cost of the SIPPs can be compared on two levels – the SIPP wrapper costs and the overall cost as shown by the RIY. The RIY figure will also enable cost comparison to be made to other pension vehicles. In order to be able to calculate the RIY figure, underlying investment costs and IFA remuneration has been stated in each scenario, along with the length of time the SIPP is assumed to be held for.

It should be noted, however, that cost is only one element that IFAs and individuals should consider when setting up a SIPP. Other aspects of the SIPP, particularly the administration standards of the provider, the range of investments and other services offered and the financial strength of the provider are very important considerations. For SIPPs where investment flexibility is important and for clients with large and complex investment portfolios, cost may rank below other factors when deciding which SIPP provider to use. In any event, IFAs selecting a SIPP for their clients will consider a range of issues as part of their work; having a low-cost product is likely to be a false economy if the administration is consistently poor or the provider is financially weak or badly run.

At the same time, SIPP wrapper costs, remuneration costs and underlying investment costs are coming under focus as a result of the RDR. Greater transparency and unbundled costs are likely to be among the consequences of the RDR, so showing how costs break down in these SIPP scenarios can help show how SIPPs may have a role to play for a wide range of investors following the RDR.

Some SIPP providers and IFAs also feel that there is a presumption by the FSA that SIPPs are more expensive than, say, personal pensions and it is hoped that this report will help show whether or not this is the case and the circumstances when SIPPs make good sense.



SIPP scenarios – General assumptions

IFA distribution only

It is assumed in all scenarios that the SIPP is set up through an IFA and not directly with a customer, so all charges are based on a SIPP provider's normal arrangements with IFAs. However, when no initial commission is taken, the costs may be the same for a customer dealing direct with the SIPP provider, if the SIPP provider does this (some SIPP providers may only have distribution through intermediaries) and if the SIPP is one that direct investors can access.

Adviser remuneration

For each of the first three scenarios, the costs are shown in both of these situations:

No initial commission taken by the adviser, with only the natural trail commission that may be given on the underlying investments held (eg 0.5% for a mutual fund, nil for ETF) paid to an IFA. It is assumed that the natural trail commission comes out of the underlying annual management charge (AMC) on SIPP investments, ie it is not deducted in addition to the AMC.

The intention here is to show how the SIPP costs work for a fee-based ('new model') adviser who is not taking initial commission, but only any natural commission where this applies to any underlying assets.



Adviser commission taken on the basis of 3% initial commission for setting up the SIPP, with natural trail commission of 0.5% taken where applicable on the underlying assets.

This shows the impact of initial commission on the overall cost of the SIPP. The figure of 3% was selected as this was considered to be the maximum that SIPP providers normally permit as part of their remuneration options, although more may be taken in some cases.

In the fourth scenario, where a SIPP is used to purchase and hold a property, worth £1m, because of the size of the SIPP fund and the nature of this investment, it has been assumed that no trail or initial commission is used and any adviser remuneration is agreed separately and outside the SIPP charges. In this scenario, it would be expected that sophisticated client would prefer to pay a fee, as this would be cheaper than initial commission.



VAT

VAT applies to SIPP wrapper charges where the SIPP is set up on a trust basis and this is often the case for specialist SIPP providers. For insurance companies offering SIPP, the SIPP charges do not carry VAT. This will have an effect on the charges paid by the SIPP client and on the RIY figures shown.

Reduction in Yield (RIY) figure

The SIPP providers were asked to provide a RIY figure on the basis that the SIPP is taken out by a 40 year old who will retire at 65, ie over a 25 year term. Over a shorter term, the RIY figure will be higher, but the 25 year term has been assumed as pensions are a long-term investment for most individuals. However, it is probably realistic to assume that the typical SIPP customer is in an older age bracket than the typical new personal pension customer, particularly in these scenarios as a relatively large initial investment is made into a SIPP. A growth rate for 7% pa has been assumed for the first three scenarios and of 5% pa for the last scenario on property investment.

As a benchmark for RIY figures, with a flat 1% AMC over 25 years, the RIY would be 1.1%, while with the stakeholder pension maximum charges of 1.5% for 10 years and then 1%, the RIY would be 1.3%.



SIPP cost scenario results



Scenario 1 - £200,000 invested in a range of popular collective investment funds

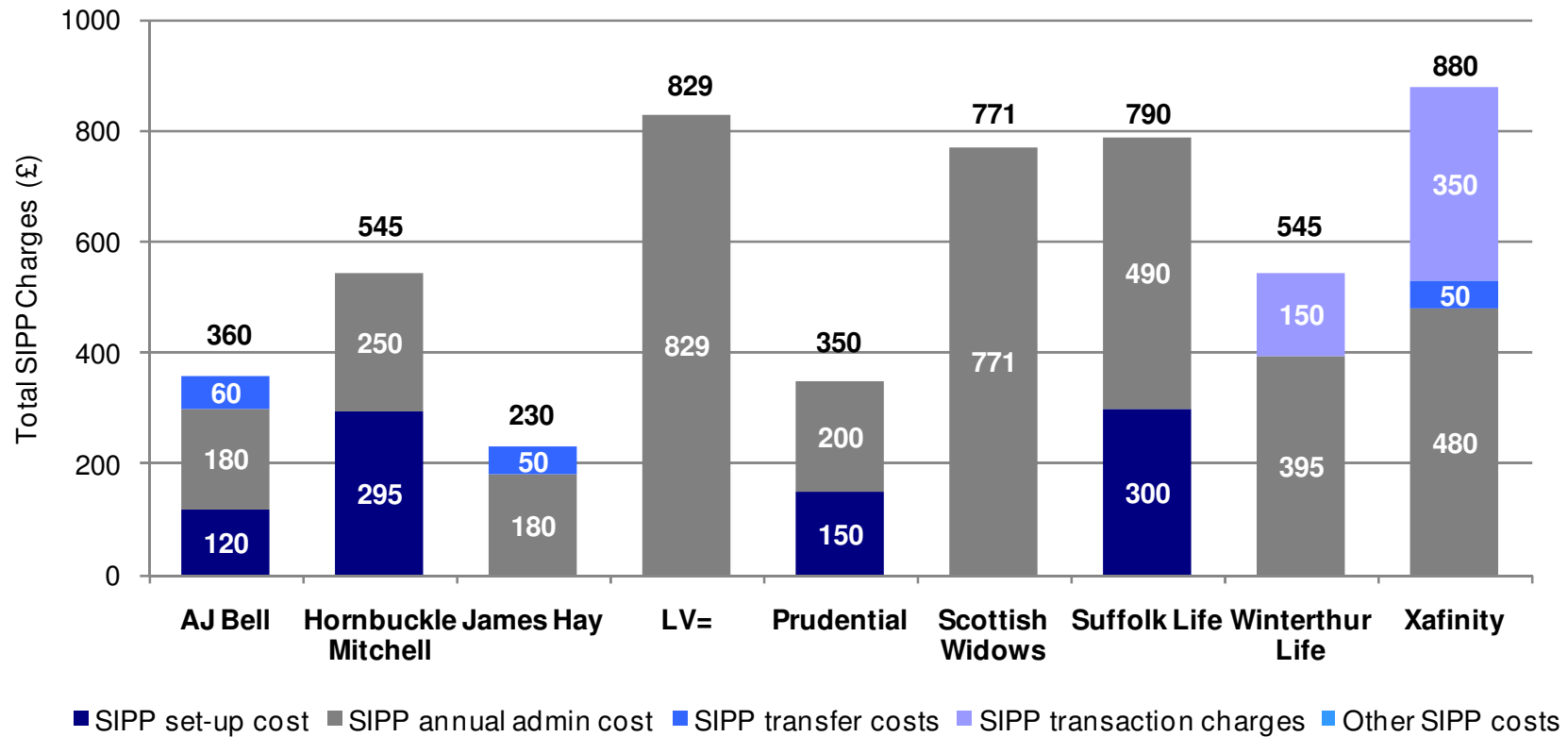
This is intended to show a typical SIPP set up with an IFA which invests in a selection collective investment funds, such as unit trusts.

Initially £200,000 is placed in a SIPP, in the core cash facility, as the result of a transfer out from another pension provider. The £200,000 is invested equally in 10 separate mutual funds with different mutual fund managers. The funds are all popular funds so can be assumed to be on any common fund platform which the SIPP has access to. The funds are accessed the IFA via a fund platform, if one is available, or via the SIPP's normal mechanism for investing in mutual funds. For simplicity, all the funds have an AMC of 1.5% and natural trail commission of 0.5% pa, which is paid out of the AMC to the IFA by the fund manager.

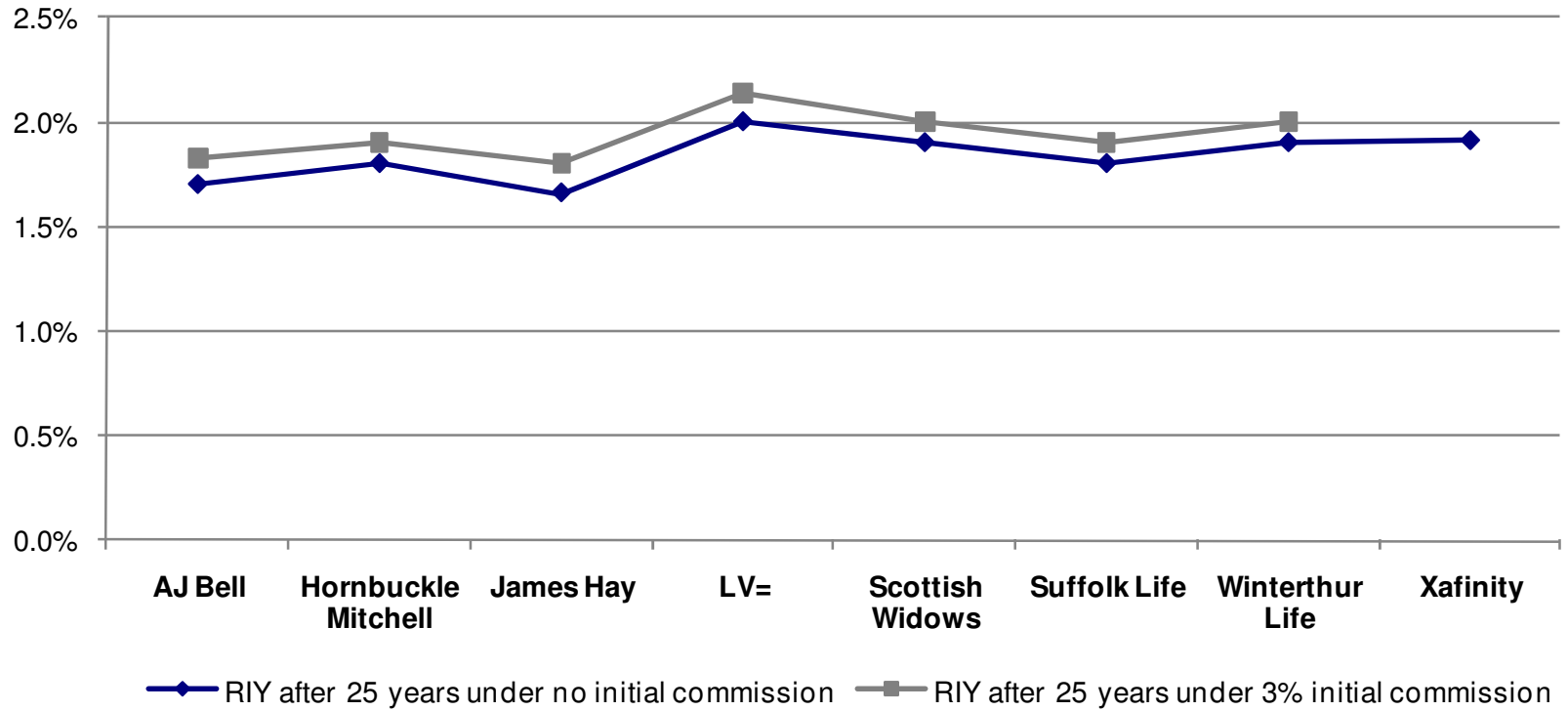
After 11 months, the IFA carries out an investment review for the client and it is decided to divest completely from three funds and invest in three new funds (£20,000 into each new fund). The AMC remains 1.5% with natural trail 0.5%.

The SIPP costs and RIY are shown for two situations for adviser remuneration as outlined in the general assumptions: i) Trail commission only is taken by the IFA and; ii) Initial commission of 3% plus trail commission is taken.

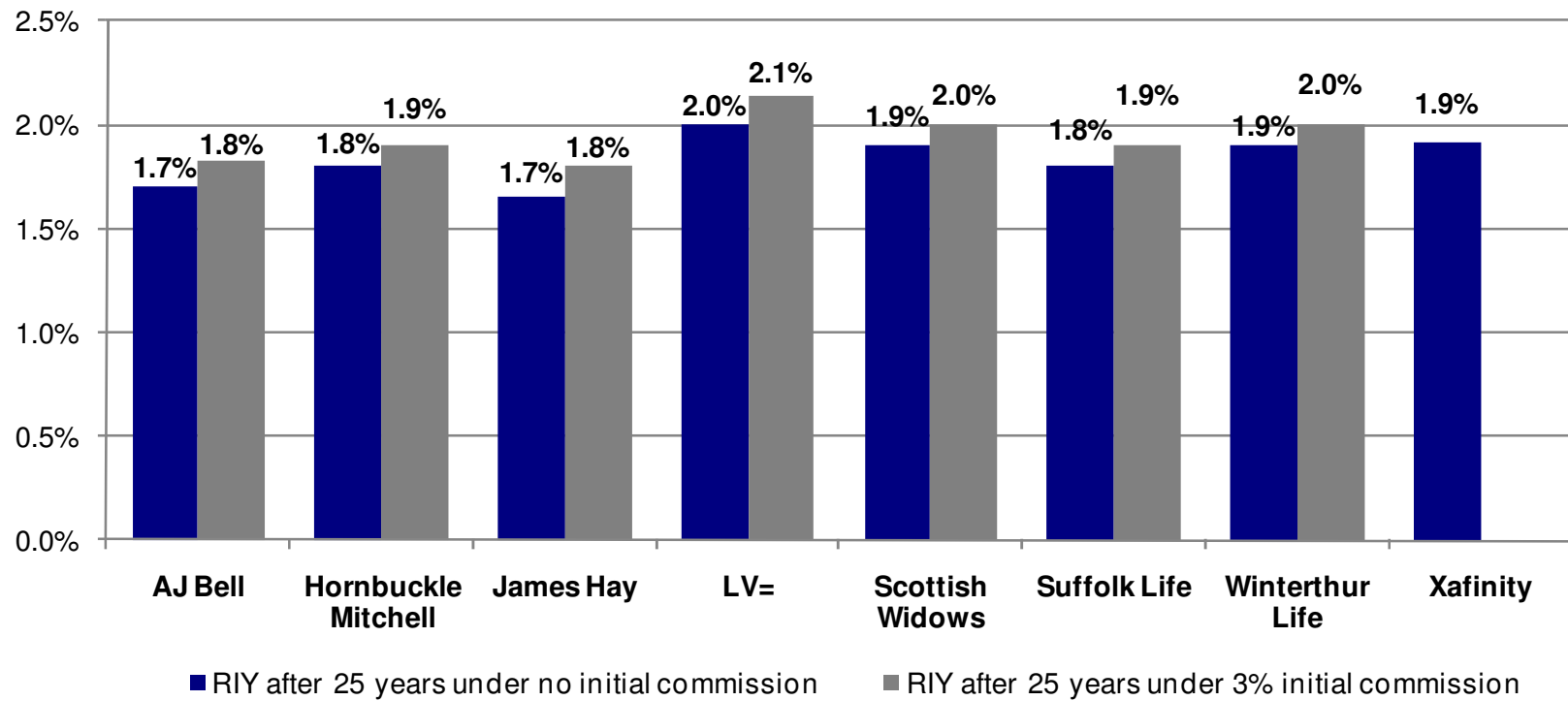
Scenario 1 - £200,000 invested in collective investment funds



Scenario 1 - £200k in collectives RIY figures



Scenario 1 - £200k in collectives RIY figures





Scenario 1 – Comments on the results

- James Hay's iSIPP, followed by Prudential and AJ Bell's Sippcentre had the lowest charges. James Hay had SIPP wrapper costs of £230 and RIYs of 1.7% (no initial commission) and 1.8% (3% initial commission). Prudential had a SIPP wrapper cost of £350, while AJ Bell had a SIPP wrapper cost of £360 and RIYs of 1.7% and 1.8% respectively.
- In this scenario, the biggest impact on costs over a 25 year period comes for an assumed 1.5% annual fund cost, rather than SIPP wrapper costs and initial commission.
- Over a 25 year term, annual trail commission of 0.5% will have a bigger impact than an initial commission of 3% - the latter raised the RIY by 10-20 basis points (0.1%-0.2%) over this period.
- The likelihood of this scenario will vary by provider, as the typical SIPP will vary between providers depending on their client base. Hence some provider's charging structures will be more suited to this scenario.
- While charges are above stakeholder levels, there will be a very wide choice of funds via a fund platform. There is also the potential to invest more widely if necessary and utilise the full range of retirement options.
- Permitted investments will vary for the SIPPs used. See appendix 1 for each SIPP's investment range.
- NB: Xafinity did not supply a RIY for this scenario when 3% initial commission was taken. Prudential supplied its SIPP wrapper costs but not RIY figures in this scenario and other scenarios.

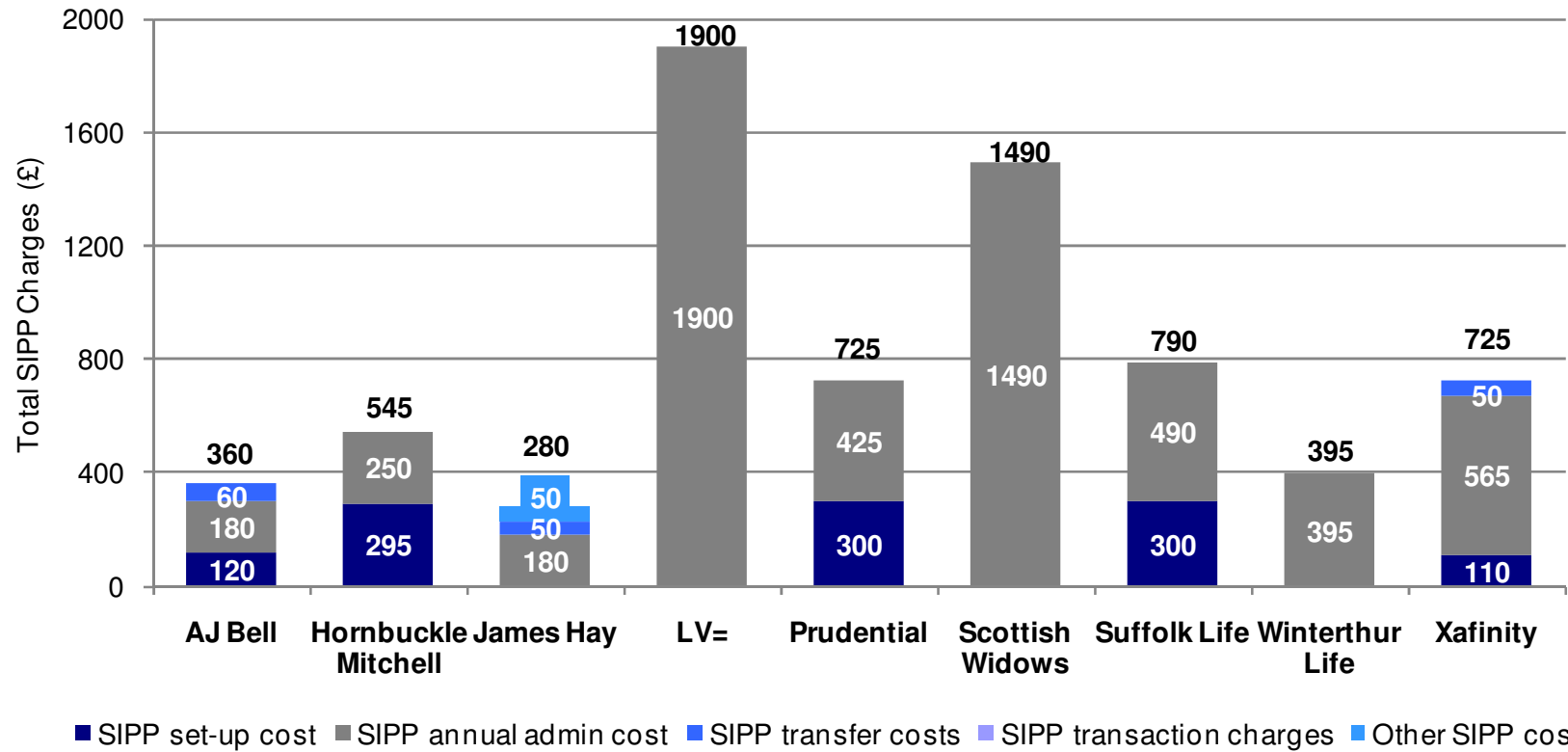


Scenario 2 - £500,000 invested with a discretionary fund manager (DFM)

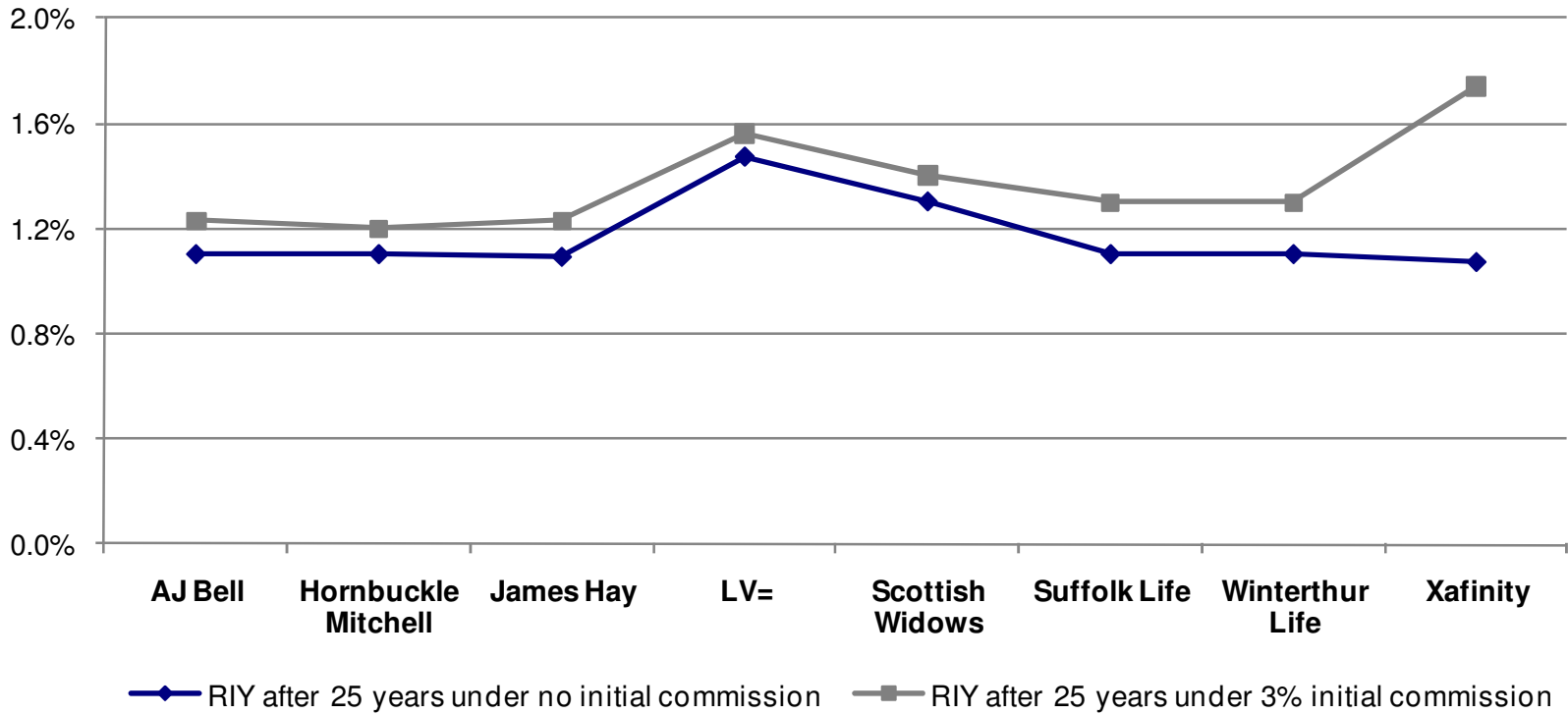
This is intended to show SIPP costs when a discretionary fund manager (DFM) is used by an IFA. A SIPP is set up with assets of £500,000 transferred in as a cash sum, as the result of a transfer from another pension fund. The client's IFA wishes to invest the total assets with a DFM in a portfolio to be run by the DFM which will invest in unit trusts and Oeics, directly held equities and other securities. The DFM is assumed to be on a panel of external DFMs if the SIPP provider maintains such a panel. The DFM's cost of managing the portfolio is 1% per annum and it gives the SIPP provider regular valuations of assets held on the client's behalf, which it trades through a nominee account.

The costs of the SIPP are shown for the two remuneration situations: i) No initial commission and no trail commission is taken by the IFA (assume any natural trail on underlying assets is retained by the DFM). ii) Initial commission of 3% is taken by the IFA from the SIPP assets.

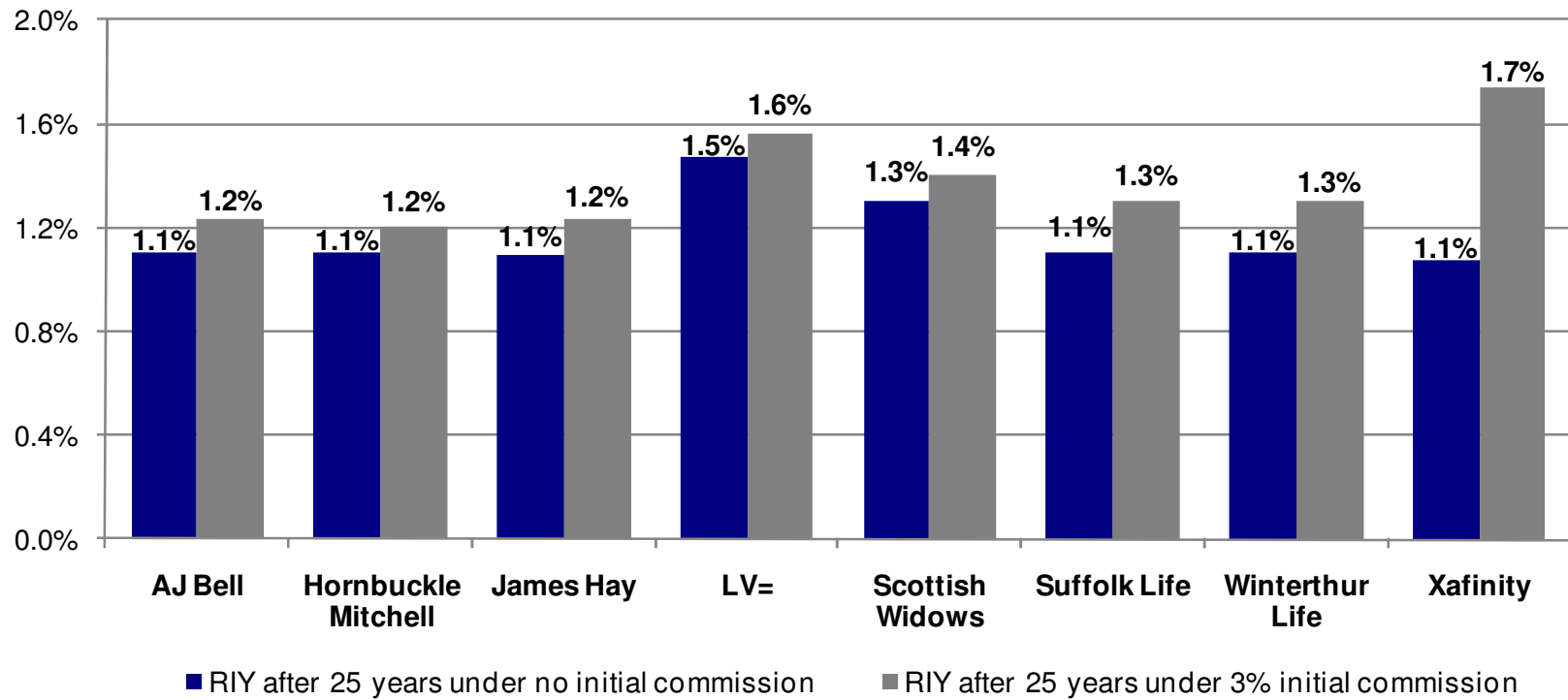
Scenario 2 - £500k with a DFM



Scenario 2 - £500k with DFM RIY figures



Scenario 2 - £500k with DFM RIY results





Scenario 2 - Comments

- James Hay, then AJ Bell's Sippcentre, followed by Winterthur Life (AXA) The One, have the lowest SIPP wrapper charges.
- James Hay, AJ Bell and Hornbuckle Mitchell have virtually identical RIYs, with Suffolk Life and Winterthur Life very similar to them.
- Six providers have an RIY figure of 1.1% over a 25 year term (no initial commission). Overall, RIY figures are in line with the maximum stakeholder costs over a 25 year period, due to the lower fund AMC of 1% charged by the DFM in this scenario.
- However, there is no trail paid to the IFA in this scenario (any natural trail is assumed to go to the DFM). Ongoing IFA remuneration may need to be factored in, although over 25 years, 3% initial commission again has a relatively small impact compared to annual costs.
- There is growing tendency for IFAs to outsource investment management, particularly for clients with larger pension pots. A DFM can provide investment expertise and help tailor a portfolio to meet an individual's risk and return preferences.
- The SIPP wrapper costs can vary considerably. Two insurance company SIPPs, the LV= Flexible Transitions Account and the Scottish Widows Retirement Account have much higher SIPP charges, due to high annual admin costs for this scenario.
- Several SIPP providers maintain a panel of discretionary fund managers to cater for this scenario. In some cases, if the DFM uses a nominee account, it is considered a single investment within the SIPP, so a SIPP with lower charges may be used, for example as with Hornbuckle Mitchell; its single investment SIPP is used here.

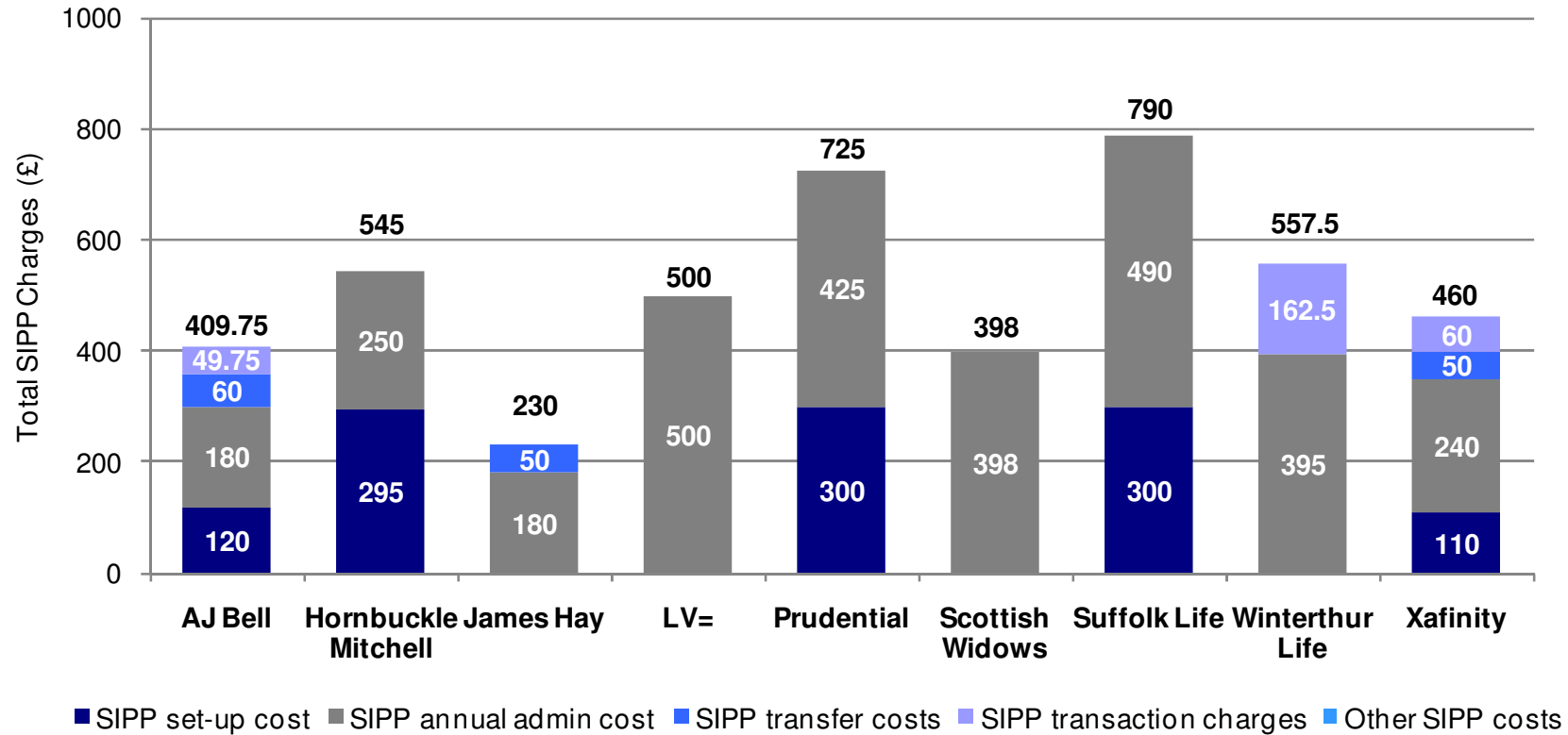


Scenario 3 – £100,000 invested in low-cost investments

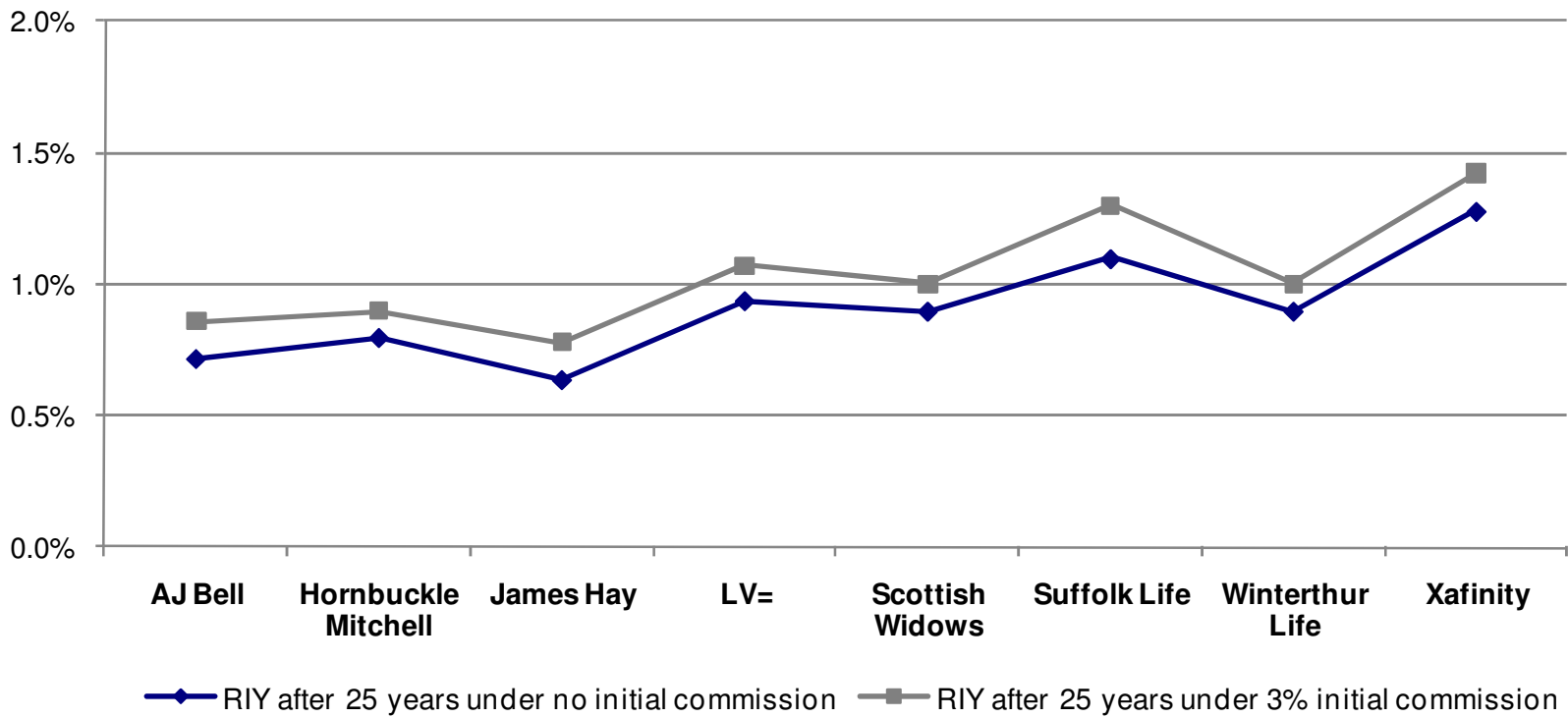
This is intended to show the SIPP costs when used for low-cost investments by an IFA. A SIPP is set up with £100,000 in cash transferred from another pension provider. The assets are held in equal amounts in five different index-tracking ETFs (ie £20,000 in each ETF) covering the global investment markets. There is no switching of funds in the year in question. The average TER from the ETFs is 50 basis points.

As no natural trail commission is payable on the ETFs, the costs of setting up the SIPP are shown in the following situation: 1. Assuming no initial or trail commission is taken and; 2. Assuming the IFA takes initial commission of 3% payable out of the SIPP assets.

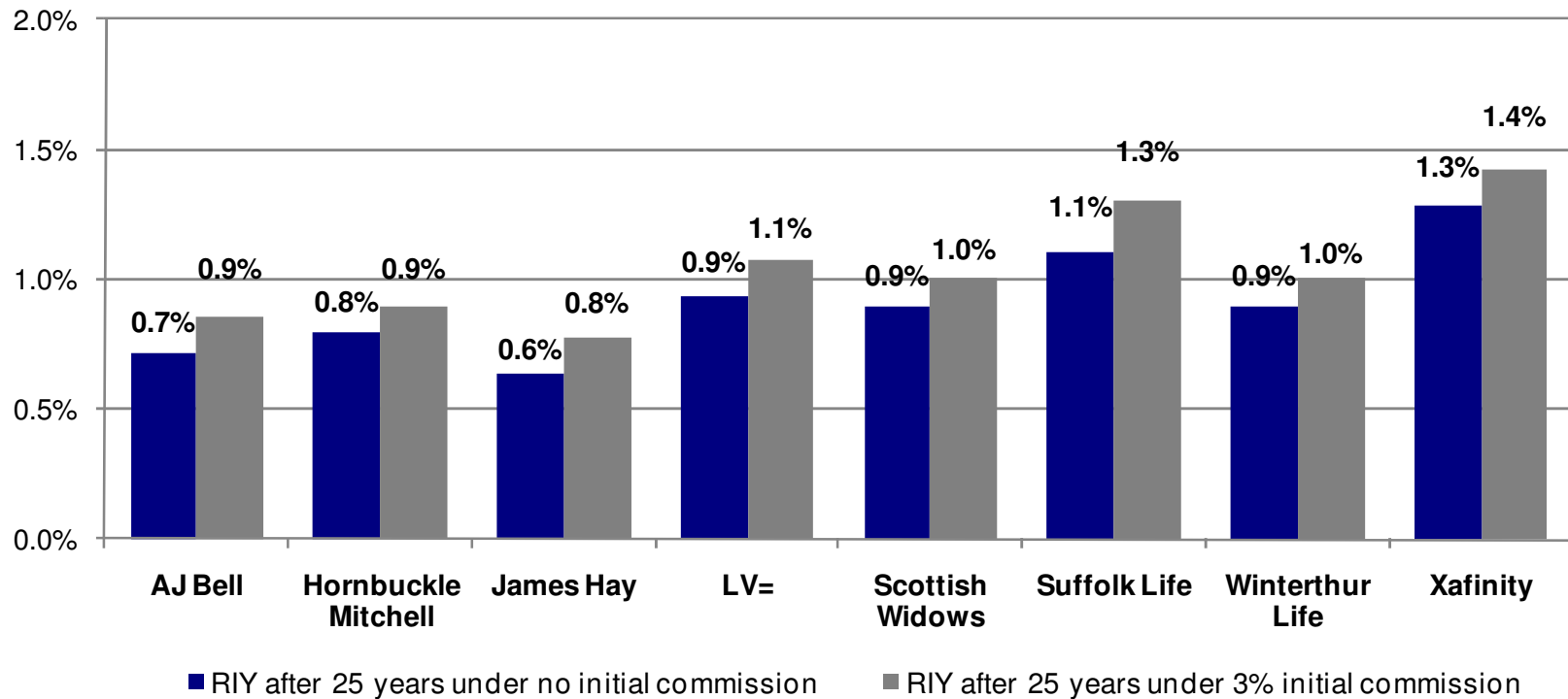
Scenario 3 - £100,000 in low-cost funds (ETFs)



Scenario 3 - £100k in low-cost funds RIY



Scenario 3 - £100k in low-cost funds RIY



Scenario 3 - comments



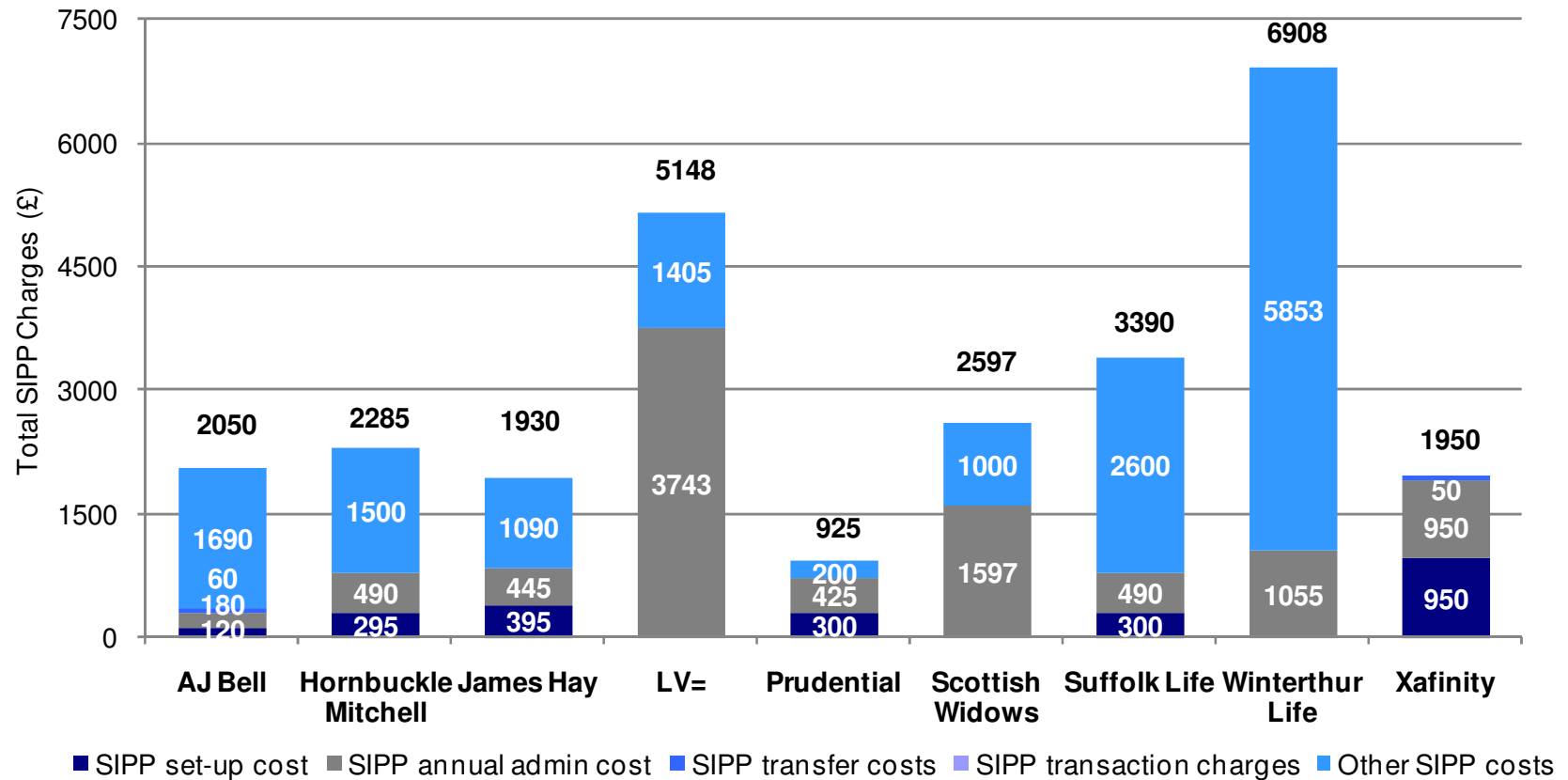
- James Hay's iSIPP followed by AJ Bell's Sippcentre and Scottish Widows Retirement Account have the lowest overall SIPP wrapper costs.
- Hornbuckle Mitchell is competitive on the RIY basis, due to its low annual SIPP charges.
- The RIY figures are much lower under this scenario, due to the lower fund AMC of 0.5%, based on the use of ETFs (passively managed collective funds may also offer similar fee levels).
- Given the growing interest in ETFs, it is possible that this scenario could be a future trend for SIPP use, with an IFA or investment manager providing asset allocation for the SIPP.
- As with the DFM scenario, the lack of ongoing adviser remuneration may be an issue. This could be covered by a separately agreed annual fee, as envisaged under the RDR.
- In this scenario, it is obviously important for advisers to use a SIPP with low charges, particularly annual fees, to complement the use of low-cost investments. Where SIPP charges are higher, this can raise the RIY significantly.

Scenario 4 – Commercial property purchase with a SIPP



- This intended to show the SIPP costs when used for a property purchase on a fee basis. A SIPP is set up with £780,000 with cash as a result of a transfer out from another pension provider. Another £250,000 is borrowed from a commercial mortgage lender and the SIPP purchases a single property for £1m. An annual rent £100,000 is paid into the SIPP's bank account in quarterly instalments, starting three months after the SIPP is set up.
- It is assumed that the initial purchase takes 20 hours of time for the SIPP provider's staff and another 10 hours are spent on dealing with the property by the SIPP provider's staff over the rest of the year.
- The IFA acting for the client wishes to use his own choice of solicitor, lender, surveyor etc and the SIPP provider allows this, subject to any additional charges it may apply for this.
- The SIPP provider completes the standard reports and paperwork as required by the client and IFA within the time spent by SIPP staff, as shown above. For simplicity, the following costs which may apply in practice have been ignored: VAT registration and returns, stamp duty land tax, Land Registry fees and any other external costs associated with property purchase in a SIPP.

Scenario 4 – Property purchase with a SIPP



Scenario 4 - comments



- There is a very wide range of SIPP wrapper costs under this scenario, from £925 with Prudential to £6,908 with Winterthur Life. The latter includes £5,000 plus VAT for solicitor costs, as own solicitors are not allowed. Prudential stated that other property fees will depend on costs incurred and time spent on the transaction.
- SIPP providers have detailed schedules of extra charges for property transactions and some of these costs have been applied. Providers may apply both fixed costs and costs calculated on a time basis.
- As a real property purchase will have its own characteristics and additional external costs such as stamp duty and land registry fees, it was not considered particularly relevant to show the RIY figures for this scenario. In a real-life case, advisers are more likely to look at the expertise of a provider in handling property transactions and their administration skills and their property charges.
- However, RIYs were provided by providers and some were extremely low, around 0.1%. This is due to the lack of an annual fund management charge, no initial commission assumed (fees used instead) and the fact that the property costs are low in relation to the overall value of the SIPP. This reinforces the fact that the fixed costs of a SIPP in this situation makes it extremely cost-effective compared to pension using ad valorem (percentage) fees.
- A more detailed breakdown of SIPP property costs is given in appendix 2, based on information provided by SIPP providers.

Provider comments



Providers were given the opportunity to comment on the scenarios and the overall results. The following comments are taken from their responses.

James Hay

- Typical SIPP cases may have 2 cash transfers and an in-specie transfer, rather than the single cash transfer used.
- The asset mix could include cash, share dealing and property for a 'proper' SIPP.
- Trading levels are assumed to be low. A turnover (switching rate) of 20% a year might be more realistic.

Hornbuckle Mitchell

- Scenarios 1 and 2 are quite common, scenario 3 is less common but feasible. Property is a very common SIPP transaction, but it is difficult to give a typical transaction.
- In-specie contributions of an asset like property or shares is becoming more common.

Scottish Widows

- The most common scenario is investment in insured funds, which have lower charges than the fund supermarket. Otherwise scenario 1 with 3% initial and 0.5% trail commission.
- We would expect funds of £50,000 plus before self-investment is considered.



Scottish Widows cont'd

- Advisers should look closely at bank account interest rates. There are relatively low differentials at present, but if they rise again there could be significant differences between interest rates paid as they have been in the past.
- Service, technology and adviser support are all relevant to the choice and we are keen that providers provide illustrations to a sensible comparison can be made to other products.
- Fund AMC is very important, particularly when insured funds are available at a lower AMC. Advisers need to decide if the extra cost of supermarket investment is justified for their clients.
- While it's not perfect, RIY is the most effective tool for comparing the effect of charges. We would like to see RIYs quoted as standard by providers.

Suffolk Life

- RIY will never show the value the adviser and client are getting from one provider compared to another. Two providers might charge £500 pa for administration, but only one might offer quarterly reconciliation of SIPP investment, audited annual statements, online access and dealing.
- Scenarios 1 and 2 are quite typical of what might be expected. Scenario 3 is representative of the relatively early accumulation phase but how realistic is it for a SIPP to be used?
- The scenarios are focussed on collectives. Commercial property is a staple of many bespoke provider's books and new business.



Xafinity

- The property purchase SIPP is closest to our typical SIPP.
- Recent surveys show our average SIPP value is around £250k. Most SIPPs have an IFA and most IFAs take at least some trail and initial remuneration.
- IFAs have a very difficult job when choosing a SIPP provider as there are so many things to consider, including fees, services, bank interest rates, systems and online tools, and third party costs, especially for property purchase.
- IFAs do compare RIYs when comparing or reviewing SIPP providers. However, some IFAs don't pay too much attention to pre-sales illustrations as they don't always take into account all costs. It is often very difficult to compare like with like.
- In some scenarios SIPPs may have a lower RIY than stakeholder or personal pensions, but in light of the FSA review of SIPP sales, IFAs are a little nervous about recommending SIPPs over stakeholder/PPs unless there is an excellent reason for doing so. Usually this is that the SIPP is the only product for the client that can accept certain types of investment.



Appendices

Appendix 1 – permitted investments



- The following SIPPs were used for the scenarios:
- AJ Bell Sippcentre: Advisory - up to 1850 unit trusts and Oeics; Platform - Cofunds or Skandia as investment supermarkets; DFM - a panel of 17 discretionary fund managers; Execution only via Selftrade. For the property scenario, off panel charges apply.
- Hornbuckle Mitchell Single Investment SIPP: Used for scenario 1 as the collective investment funds are all available on a common fund platform. Used for scenario 2 as the DFM portfolio is the sole investment vehicle within the SIPP. Used for scenario 3 as it is assumed the ETFs are accessed via a nominee account with an appropriate broker and is the sole investment within the SIPP. For scenario 4, the Full SIPP is used. Any suitable investment is permitted unless there are tax or legal liabilities arising.
- James Hay iSIPP: Online SIPP offering 1800 collective funds (unit trusts and Oeics) via the Investment Centre platform, investments via Selftrade trader terminal, a panel of 5 discretionary fund managers and a panel of 3 cash providers offering term deposits.
- LV= Flexible Transitions Account: Minimum investment of £3,000 into insured funds (LV= Pension Funds) which are managed by specialist fund managers; Fund supermarket - Fidelity Funds Network with over 1,000 funds from around 60 managers; Discretionary fund managers - one or more from a carefully selected panel, the minimum investment is typically above £125,000; Self invest directly in quoted securities, unit trusts and commercial property, usually via an investment manager.
- The Prudential Flexible Retirement Plan has two SIPP options, the Fund SIPP, and this can invest in a maximum of 20 funds from the Cofunds fund supermarket range of over 1,100 funds. The Prudential Full SIPP can invest in commercial property, stocks, shares and collective investment funds and it was used for scenarios 2, 3 and 4.

Appendix 1 – permitted investments



- Scottish Widows: Insured funds; Fund supermarket (Fidelity Funds Network); Discretionary fund managers - a panel of 5; Commercial property.
- Suffolk Life MasterSIPP: Stocks and shares (but not unlisted company shares, fixed interest securities or loan notes); Collective Investment Schemes (including unit trusts, Oeics, ETFs and hedge funds, Insurance company funds; Warrants, futures, options and other derivatives (excluding where unlisted or where liability could exceed the amount invested under the contract); Deposit accounts; UK direct commercial property. NB Allowable investments may be restricted for protected rights benefits.
- Winterthur Life The One: AXA Family Fund range - funds from AXA Investment Managers, AXA Framlington, AXA Rosenberg, Architas's multi-manager and multi-asset passive funds, Winterthur Elite Fund of Funds range; Tailored Selection - a wide range of carefully selected funds from external fund managers covering a variety of asset classes, geographical regions and styles.
- Xafinity: Any type of cash deposit, high interest account; Oeics and unit trusts, all insurance company products (TIPs, bonds, personal pensions, executive pension plans; commercial property, freehold and leasehold; quoted shares UK and overseas, unquoted shares - UK only; stockbroker accounts and investment platforms, structured products; alternative investment products, eg student accommodation funds, life settlement funds, approved on an individual basis; futures, options, traded endowments, ETFs, VCTs, hedge funds, CFDs. Any unusual investments are carefully checked.

Appendix 2 – Property costs



- The following costs were applied by providers in the property purchase scenario:
- AJ Bell Property costs: Property purchase £550, Borrowing £350, Lease £250, off panel charge £120 (4 x £30pq), property admin £300 (4 x £75pq), Loan admin £120 (4 x £30pq).
- Hornbuckle Mitchell Property costs: property purchase fee £800, annual property admin fee £200, borrowing fee £250, environmental report £250.
- James Hay property costs: Initial set-up charge £395 (£495 after 14.8.2011), annual fee £445, annual mortgage fee £150, property purchase panel fee £600 (non panel £800), property annual fee member-directed service £240 (full CBRE service £600), mortgage set-up fee £250.
- LV=: SIPP annual admin cost is a tiered fee on the value of the property, other SIPP costs are other annual costs.
- Prudential property costs: property facility fee £100 pa, borrowing facility fee £100pm, other property fees will depend on costs incurred and time spent on the transaction.
- Suffolk Life property estimates used. Average hourly charge for property is £150. No VAT payable on property charges unless shown otherwise. Solicitor's, valuer's and lender's fees are payable in addition. Property acquisition fee £1,800 est. time cost, property facility fee £100pa, property management fee £700 est. time cost.
- Scottish Widows property costs: Scottish Widows make a monthly charge for properties held, as a percentage of property value which varies with property size and in this case is 0.1%. No VAT is payable.
- Winterthur Life property costs: £415 on instruction, £305 on completion, £133 for mortgage, £5000 plus VAT for solicitors (own solicitors not allowed), £165 per quarter admin charge.

Appendix 2 – Property costs



- Xafinity property costs: £735 property purchase fee, £215 borrowing set-up fee, £505 member administration fee, £445 property administration fee, £50 transfer-in fee.



CORE DATA

e-polling & research



Market Research
Stakeholder Consultation
Opinion Polling
Indices

