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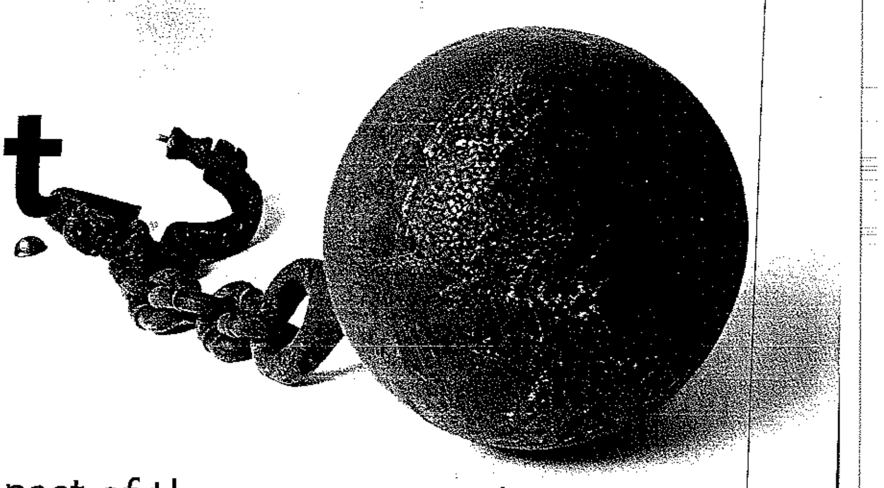
The great escape



Martin Tilley outlines the impact of the new protected rights rules on SIPPs and considers the importance of service levels

You might not have realised it but on 1 January 2009 the much loved and relied upon old age pension reached 100 years old. The 1908 Old Age Pensions Act provided a means tested pension of up to 25p per week for those aged 70 and over subject to a test on good character, which would be paid from January 1909. Isn't it ironic that in 1909 the average life expectancy was only 50!

Thankfully times have changed and we are living longer and healthier lives but sadly the state pension alone is not going to be enough to sustain a comfortable lifestyle in retirement for the majority of people. The average life expectancy for both men and women continues to rise, and now more than ever there is a real need for proper financial advice, and regular retirement reviews.

Stock market volatility, the credit crunch and tumbling interest rates might well make clients wonder if saving in a pension fund is really any better than stashing your life savings under the bed. Unfortunately the pain of loss is greater than the pleasure of winning, so it's these very headlines people remember and the advantages of pensions quickly become overlooked.

A whole new world

Pensions have never been a one size fits all industry. Providers are continually developing their product ranges to offer more tailored solutions and complex arrangements even for the smallest of pension pots. Now the doors are opened to a whole world of investment opportunities in light of the recent changes to the legislation surrounding self invested personal pensions (SIPPs) and protected rights.

These changes to legislation do not need to be an administrative nightmare, but instead may prove to be a welcome opportunity for many advisers. Indeed, analysts believe that around six million people have contracted out of the second state pension (previously known as SERPS) since 1988 through personal or stakeholder pension plans and many more through their employer schemes.

Contracting out means giving up entitlement to the second state pension and using personal arrangements instead. National Insurance rebates and some income tax relief are then credited to these arrangements to become protected rights. However, investment restrictions meant that these were usually kept separate from main pension arrangements and as a result, are often overlooked or forgotten about. Many have languished, un-reviewed in poorly performing funds.

Greater freedom

Changes to legislation from October 2008 mean that the investment restrictions on these funds have now been lifted. This opens the door to greater investment choice, control and flexibility for many clients.

Not only can clients now invest in a wide range of insured funds, OEICs and deposit accounts, they can now also look at equities in a new light by exploring even those that are unlisted in the UK and abroad. The changes now also pave the way to investment in commercial property both in the UK and abroad and in certain instances residential property through collective investment schemes or overseas property ownership via a SIPP.

It's important to point out that the legislation allows investment of protected rights within the SIPP, but until 2012 the need to segregate protected and non protected rights still remains, which can be a complex process.

Selecting the best provider

Recent headlines and banking problems mean that more and more clients may be less tempted to speak to the man at the local bank, so the relationships that some IFAs may previously have lost could now be returning.

Choosing a provider for your clients is therefore a massive decision, especially when you've invested time to build and nurture a relationship. You need to know that the provider will also respect and value that relationship too. However, it can be a bit of a minefield as very few comparison tables have a tick box for that. Providers need to consider the additional administrative complexities and incorporate these into their back office systems to ensure their service to introducers and clients is not compromised.

Customer service is vitally important to both clients and adviser. I don't know anyone who particularly enjoys selecting countless options on their telephone keypad or understands why it might take five days for someone to send you a fax, yet still this is not an unfamiliar story. The financial services industry is changing and the emphasis is undoubtedly on treating customers fairly. This will no longer just constitute a service promise; we will also need some service action.

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