

Martin Tilley, pension consultant at Dentons Pension Management, highlights the key elements for investors to consider when choosing a self-invested personal pension (SIPP) and implores investor to remember...

Not all SIPPs are the same

Since the Financial Services Authority's (FSA's) requirement that all SIPP providers be regulated, around 150 have secured such status, offering a bewildering array of choices.

With any product or service there are a number of factors that should be considered. Since, as often quoted, 'a pension can be the most valuable asset held after one's house', should the selection of the appropriate vehicle not be given the highest degree of scrutiny before signing on the dotted line?

From experience to date it would seem that, surprisingly, this would not always appear to be the case. Even industry publications focus attention on the measurable aspects only, such as

hold, or a float to cover pension payments, when a substantial cash balance could be held. Thus, the interest rate on the account might be crucial.

Some SIPP providers pass on the full interest rate from the bank deposit taker, but, some providers have received, and continue to receive, a "cut" of the interest earned on their client's deposits. Even a modest sum of £50,000 held on deposit with the provider taking a one per cent cut would yield £500 per annum to the provider!

Some providers will insist that all deposits are held in the default account for this very reason. Others will let you select your own deposit holder for large

those providers allowing access to all commercial properties, including shared ownership (both on and offshore), together with unquoted equities or unquoted funds.

For many investors, the investment flexibility available from the lower two tiers will be sufficient for their immediate needs, particularly in the growth phase prior to pension benefits being taken. Certainly, it would not be appropriate for a full SIPP at the top end of the market to be employed only for the purposes of holding a managed portfolio of unit trusts, since this could be accommodated further down the SIPP range, or even in a platform-based personal pension.

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headline charging rates, and while these should never be discounted there are potentially far more crucial factors that might initially be missed.

The good news is that SIPPs ordinarily have charges at a defined level, irrespective of the size of the fund and, as such, larger accounts do not subsidise the smaller. But we need to dig deeper at this early stage. Some of the providers include services within their quoted headline rates, but others do not. For the latter, a menu of additional fees, on either a fixed or hourly time-costed rate will apply. These may include, for example, tax reclamation on investment income, or even a certain number of investment transactions within an annual period. For those at the more expensive end of the market, are the additional features included required and do they offer value for money? At the lower end, will a provider really set up and run a SIPP for nothing? After all, income has to be derived from somewhere.

Cash questions

A feature of all SIPPs is the default bank account into which contributions or transfers must be paid and from which investments are purchased and benefits paid. While one would hope that cash would not consistently be a major proportion of a long-term investment strategy, there will be occasions such as the accumulation of funds before investment, a strategic

amounts or long-term money. This immediately makes the headline fees look less of a major factor in cost analysis.

Property charges

Another favourite is the requirement on property transactions that the client uses provider-specified solicitors, property managers and insurers. While the familiarity with the provider's requirements should allow a competitive rate, it is certainly not as clean as one would like, and the possibility of there being introductory fees, or some form of fee sharing, should not be discounted. Similarly, how transparent is the relationship between stockbrokers and SIPP providers regarding transaction costs.

Choosing the right plan

Moving on, one of the most critical decisions to make must relate to the features required by the client. SIPPs essentially fall into three categories, with those towards the bottom end offering online access to sharedealing accounts, giving access to individual equities and a number of funds on a single platform. Moving up the scale, generally where the insurance company and medium-sized SIPP providers enter the market, they will add the ability to purchase commercial property, albeit with some restrictions, as well as a wider range of investment funds and ancillary deposit takers. Only at the very top end of the market will you find

Limited availability

One should not assume, however, that all features are permitted by all SIPP providers. And, while not all of these features will be required at the outset when the SIPP is selected, they may well become factors at a later date, and establishing a second SIPP necessitating the transfer of assets from the one that fails to fulfil requirements can be a costly exercise.

Examples of features not always available are the ability to accept contributions and pay benefits in specie, or to offer a multi-phased income drawdown facility or, most topically, to offer an alternatively secured pension, the means by which the payment of income from the fund can be continued when past the age of 75.

Additionally, there are some factors that are currently difficult to measure but remain no less important in the choice of an appropriate SIPP. Since April 2006, the SIPP market has seen a boom in numbers, and many providers have not fully dealt with the changes in legislation brought about by simplification, nor have they increased their staffing numbers to cope.



With such an array of choices, be sure to choose the right SIPP for your needs