

Different types of SIPP



Nigel Bennett discusses the current options available for clients in the SIPP market

The first SIPPs came to the market in 1990. Since then there has been so much innovation that the market has split into several types.

The options include full SIPPs, SIPP Lites, platform-based SIPPs and insured SIPPs. They can be established on an individual, group or family basis.

Some view them as sophisticated products and others would say they are truly mass market. Platform-based and insured SIPPs can offer a very wide range of investments, but will typically not allow access to things like commercial property.

We also meet advisers who say they would not see the point of a SIPP for most of their customers, which is probably more about their definition of a SIPP rather than having the view that their clients don't use or need pension plans.

Although 'self-invested', the actual range of investments available to a particular customer is determined by the SIPP Operator and the SIPP trustees. These differences have provided different solutions, with only a very few offering the widest range of investments.

Is maximum choice best?

Based on our experience of the market, we can offer a very wide range of investment options but we avoid those which in our view are unlikely to be suitable for most investors, or which would attract tax penalties.

Unlisted shares are a very good example of something which, although allowed by HMRC, we have seen countless examples which fail or are illiquid when it comes to disposal.

These investments are not regulated, and are unlikely to have any protection afforded to them in the event of their failure.

They are often requested as either investments in the customer's own business (which will often be caught by the taxable property rules) or are highly speculative in nature if the customer has no link to the business.

These investments are therefore unlikely to be suitable as pension scheme investments

and we have seen a significant decline in enquiries for these transactions in recent years.

How far should investments be limited?
This is a commercial decision for the SIPP Operator.

Sadly, we have seen many examples of firms choosing to allow almost anything to attract new business, only to find they are full of inappropriate investments which has ultimately led to their downfall.

There is of course a balance here, but when the FCA introduced its range of standard investments this pointed towards a sufficiently wide and reasonable choice for most people.

"SIPP Lite plans can be upgraded to a Minerva SIPP in the future when additional investment options are required."

What is a full SIPP?

In our own case, we allow the full range of FCA standard assets, plus some non-standard Fixed Term Deposits.

We specialise in transactions involving UK-based commercial property and land, which would normally be a standard asset.

Fees start at £400 +VAT annually, with additional fees depending on whether property is being held or benefits taken. Group discounts are available.

Why would I use a SIPP Lite plan?

SIPP Lite plans tend to offer a lower choice

of investments initially, which may be all the customer requires, and fees tend to be much lower.

Our own SIPP Lite fees are very competitive, starting at £95 +VAT set-up fee and annual £195 +VAT.

As these fees are not percentage based, they can be extremely good value for larger funds.

SIPP Lite can invest in a single investment account, which is typically a platform account (e.g. a share dealing account) or a portfolio provided by a Discretionary Fund Manager (DFM).

Many DFMs do not have their own SIPP, which means you need to select one which is able to accept that investment manager. Those DFMs with a SIPP are often provided by non-specialists with fairly rudimentary features and options.

Other than providing the pension wrapper, SIPP Lite plans also have a number of features:

- Availability of all pension freedom options, for retirement and death benefits.
- A facility to take up to three pots of £10,000 under the small pension lump sum rules.
- The ability to borrow for any purpose, such as to increase liquidity, maximise the amount invested, or to pay benefits.
- SIPP Lite plans can be upgraded to a Minerva SIPP in the future when additional investment options are required. An upgrade is not classed as a switch or transfer, and so does not create any 'out of market' timing risk.
- Service is provided by our award-winning team, which won Best Pension Service at the ILP Moneyfacts Awards for the past two years.

Change the investments, not the SIPP

Advisers often recommend a SIPP so that the investments can be changed without the need to change the SIPP, with the option to upgrade to the Minerva SIPP and downgrade to SIPP Lite in future, ensuring that the customer only pays for the features and options they require at the time.

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