July 2023 Issue 321

Investment Life & Pensions Moneyfacts®

Rollercoasters and regulators

Sustainable investments maintain momentum

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Researching the market for you

Fighting against the trend in increasing prices

Nigel Bennett of InvestAcc looks at the issue of SIPP costs and charges, following announcements made by other firms

Firstly, let me say that every regulated firm providing a product or service will have to make charges to meet the demands of its customers, the regulator and its shareholders. Each firm needs to decide what it believes is fair and reasonable, for the relevant market, while meeting the FCA Consumer Duty obligations.

There are many costs involved in running a SIPP business, including staff, property, IT equipment and systems, regulatory and compliance costs, legal costs, insurance, business rates, telecoms and other utilities.

There is also the cost of keeping up to date and investing in the future, to make sure the firm can deliver the very best products and services for the years ahead. This is, after all, a business with long-term obligations.

There is a cost to acquire new customers. Firms which have incurred debt to acquire other businesses may have high finance costs. Many will find that operating SIPPs set up by other firms has its own challenges which require additional resource, all increasing costs.

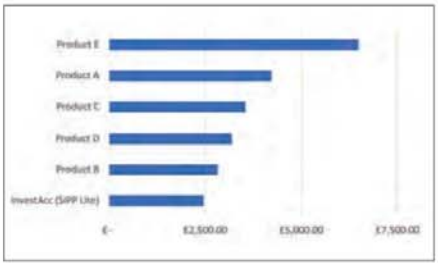
Finally, there are capital adequacy considerations, which mean that substantial amounts of cash need to be retained within the business, to support an orderly transition should the worst happen. Some firms will carry higher capital adequacy requirements if they have previously accepted a lot of non-standard investments. Although this does also catch investments such as some NS&I products, notice accounts and fixed term deposits.

Competitor charges

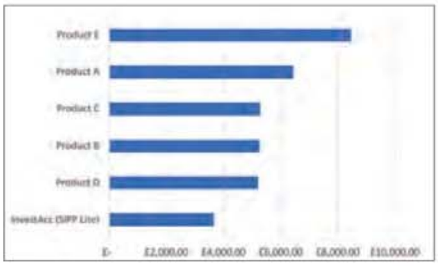
We monitor our competitors to make sure that what we do remains good for consumers and provides good outcomes. Over the past couple of years there have been substantial price hikes from a number of firms, some of which has only become clear when reviewing value under Consumer Duty.

In this article we share some of the results of a comparison we undertook with five key competitors who are active in our market. This work has considered some of the more complex fee structures we have encountered and, naturally, had to make a number of assumptions. We decided it would be best to anonymise the results. We looked at four scenarios over 10 years, making the assumption that there would be no change in the level of fees being charged in the future. We assumed that money was fully invested and looked only at the provider charges, not the underlying costs of the investments.

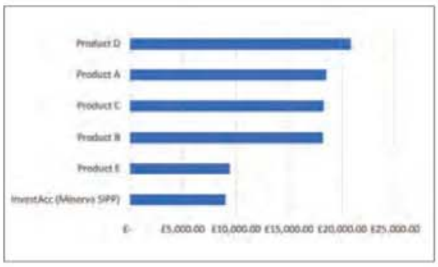
Scenario 1 – SIPP established to appoint a DFM. No income. Three transfers, total value £300,000.



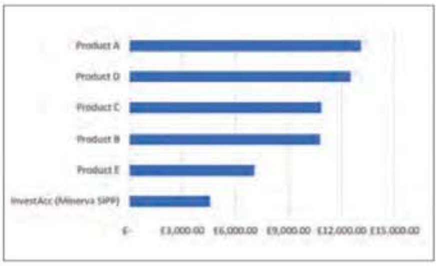
Scenario 2 – SIPP established to appoint a DFM. Flexi-Access Drawdown income paid each year. Three transfers, total value £300,000.



Scenario 3 – One SIPP established to purchase one commercial property. Assumed provider will handle rental invoicing, VAT registration and VAT returns.



Scenario 4 – Five SIPPs established to jointly purchase one commercial property. Assumed provider will handle rental invoicing, VAT registration and VAT returns. Figures shown are one member's share of the provider's SIPP fees.



As can be seen, even among the six products being compared, there can be some significant differences, particularly over 10 years.

Are expensive products better?

Readers may get the impression that we aim to be the cheapest, but that's not actually our intent. Some firms will make the case that by charging more, you get a better product or service.

In our experience, people often switch to us from more expensive providers, where they have received worse service and/or more limited product features. Only an adviser will be able to know whether a switch is going to be worthwhile.

Is it possible for charges to be too low?

The short answer is, of course, yes!
We have been approached many times over the years, with requests to offer special terms or provide services below our manufacturing cost. We have always declined as we believe in charging fees at a level which allows us to provide a high quality service, on a basis which is fair to all.

This is for advisers to decide, and it all depends on whether the products and services are comparable, but we have often seen customers transfer to us to lower their costs by 50% or more. That can be a substantial saving and could be crucial for anyone in decumulation looking to ensure the longevity of their pension fund.

Nigel Bennett is Sales & Marketing Director at InvestAcc