More to SIPPs

SIPP blog – March 2014

14th March 1989 is a date I'll never forget. It was a day that probably changed my life – and certainly influenced the lives of many others. It was the date that Nigel Lawson – now Lord Lawson – announced in his budget speech that "I propose to make it easier for people in personal pension schemes to manage their own investments". With that simple statement SIPPs were conceived. We had to wait another seven months to discover the details which eventually emerged in the shape of the legendary Joint Office Memorandum 101. Just over three pages long that document was essentially the only regulatory guidance to exist for SIPPs until the new millennium.

How things have changed! Now I'd struggle to estimate the amount of pensions and FCA regulation that providers and advisers have to contend with if they wish to compete in this "simplified" SIPP world. It's certainly a bigger world – but is it a better world? Advances in technology have had a dramatic impact in the same way as they have in other walks of life – and there is greater transparency for the customer – although not as much as the regulators – and apparently Lord Lawson – would wish. The introduction of drawdown nearly twenty years ago also undoubtedly helped improve outcomes for investors. Now a SIPP truly is for life!

But a SIPP for life can have its downsides too – as several operators have and are finding out. Walking away from operating SIPPs isn't straightforward – especially if those SIPPs contain toxic assets. I believe this issue will grow in importance in the coming months particularly if the much forecast consolidation of SIPP operators materialises as a result of regulatory changes to capital requirements. It may reduce the ease with which businesses are sold and certainly could have an adverse effect on the value of SIPP businesses.

I've been a critic of the way SIPPs have been regulated ever since the new regulatory regime was introduced in 2007 on the back of pensions simplification. I still doubt that the current regulatory structure helps rather than hinders this market. From talking to operators it's clear that the FCA are intent on getting a better understanding of the way the market operates through their latest thematic review and other related activity. That's to be welcomed but the direct cost of this activity – for both the regulator and operators - is significant and is likely ultimately to be passed on to investors. The indirect consequences of the increased regulatory scrutiny are also beginning to emerge with some operators now rejecting what in the past were standard investments – and through growth in the SSAS market where the regulatory overhead currently is perceived as less onerous.

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My fear is that Nigel Lawson's objective of twenty five years ago will be lost in the drive for regulatory compliance. Some may justifiably argue that his objective has never really been met in that only a minority of SIPPs are truly "self-invested". But I believe that argument overlooks the many SIPPs that operate in the middle ground where the investor takes some advice but still controls his or her own pension. That element of control has always been a vital ingredient in the appeal of SIPPs and it will be a shame if it is lost.

Another consequence of the increased regulatory scrutiny could also be that there will be greater use of collective investments at the expense of some of the wider range investments – not the outcome that was envisaged back in 1989. However there is growing evidence that the costs of direct investment via equities and similar vehicles may compare favourably with collective funds so maybe the outcome isn't quite so clear.

Despite the immediate doom & gloom I remain optimistic about the prospects for this market. After all apart from workplace pensions SIPPs look certain to remain the pensions vehicle of choice for the majority – unless there is a fundamental reform of the pensions tax regime. A SIPP remains the ideal consolidation vehicle for past pension entitlements and also for when an investor is looking to use drawdown. I believe it is the decumulation phase where the real opportunities lie for providers and advisers and there is huge scope for technological development.

I recently estimated that there is around £30bn of accumulated SIPP assets set to vest in the next 5 years - a big prize for those providers that have an attractive decumulation proposition. The average lifetime of a SIPP prior to vesting is probably around ten years. Securing the decumulation phase could add on average at least another 15 to 20 years of income for the SIPP provider – which will have a huge impact on the value of SIPP businesses. The same is true of adviser businesses. I expect to see a lot of innovation in this area as competition for these valuable income streams intensifies. We've come a long way from the bland personal pension and annuity landscape that was the backdrop to Nigel Lawson's 1989 budget announcement – but the journey is far from over.

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