More to SIPPs

SIPP blog – June 2015

SIPPs Nigel but not as we know them?!

And so as the dust settles on April's seismic changes to the pensions regime what can the SIPP market expect from a new Government and new Pensions Minister. I suspect not a lot as their focus will be on other parts of the pensions landscape. This was the theme of a talk I gave recently to the AMPs conference under the same title as this blog.

In preparation for the talk I conducted my own survey of the top thirty or so SIPP providers. That produced some interesting results and a summary will be available to participants shortly. One consequence of this survey was that it led me to resize the market. I've never been totally comfortable with some of the estimates and believe a more accurate assessment is a market size of £150billion spread across just over 1 million SIPPs. Of those SIPPs over two-thirds of the assets now sit on a platform demonstrating just how dominant platforms have become in shaping the SIPP market. That dominance is set to continue.

Just over a quarter of the survey population are already in some form of drawdown – leaving around £120 billion of assets in SIPPs that are still to vest. No wonder there's growing interest in new products and investment approaches designed for this market. It's also clear just how big an opportunity exists for advisers that specialise in this market.

During the talk I suggested that if our new Pensions Minister really wanted to make an impact she might talk to the Chancellor about scrapping the Lifetime Allowance (LTA) – a subject she had broached before her appointment. There are lots of reasons why she should do this – the main one being that at a stroke it would go a long way to simplifying the pensions tax regime which gets more and more complex with each Finance Act. The LTA is also unfair as it penalises good investment performance. It's out of alignment with the annual contribution limit and of course it deludes people into thinking that with £1 million fund you can retire in luxury – whereas the reality is that today it will provide an income just about equal to National Average Earnings. It will be interesting to see whether the Government make any changes to their manifesto commitment in this regard in next month's budget. Although my survey suggested that today only around 4% of SIPP investors have funds in excess of the LTA that will increase rapidly in the years ahead – even with CPI indexation of the limit as proposed.

But my main message at the conference was the perfect storm that now exists for SIPP operators with the increasing regulatory burden including the new capital requirements, the increased operational complexity and consequential costs and the erosion for many operators

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of a substantial income stream from pooling of bank accounts as a result of the banks negotiating vastly reduced interest rates with providers. If one also overlays the downward pressure on fees and the potential for further FSCS levies on providers as a result of the growing number of SIPP claims it's easy to see why a SIPP consolidator commanded a premium price on floating last month.

The real worry however is what happens to those SIPP businesses that fail the new capital requirements because of significant non-standard assets –some of which may well be toxic. There is unlikely to be an appetite for this business from consolidators which could mean that the consequence of CP14/12 is that the FCA end up creating the very problem that they were endeavouring to solve! The other consequence which my survey confirmed was that growing numbers of providers are simply not prepared to take on non-standard assets because of the risks involved –and that certainly goes for most platforms. Hence the title to my talk!

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