

The Corporate SIPP – moving forward

We are beginning to see a move towards the Corporate SIPP. As always with anything new, it takes time for people to firstly understand it and then to implement it. But more and more Corporate SIPPs are being set up.

What is a Corporate SIPP (CSIPP)?

Basically, they are Personal Pensions – individual pension pots, which can be grouped together, like a GPP, for employers who want to provide their work force with a pension as part of their benefits package.

Where they differ from a GPP is that pensions can be really tailored for the workforce of a particular company, so that different categories of employee (or even individual employees) can benefit from the freedom of investment and flexibility offered by a SIPP structure

Why a CSIPP?

There has been a move (stampede?) away from conventional pension arrangements, mainly on the grounds of costs, disappointing investment returns (e.g. with profit policies) and regulatory and legislative burdens (themselves costly), which are becoming increasingly onerous with each passing year - and even more are coming along – see later in this Newsletter.

In addition, demographic changes are taking place, whereby the workforce has, of necessity, become more mobile with changing working patterns. These are already well established and will continue apace, with ever-increasing life expectancy and later and flexible retirement coming more into play.

A different type of scheme that recognises these changes is required, and that is precisely one of the things CSIPP does.

CSIPP can be a suitable alternative to:-

- a) Occupational Money Purchase Schemes
- b) Additional Voluntary Contributions
- c) Group Personal Pensions

In short CSIPP offers:-

- 1) Great flexibility
- 2) Extensive investment choice, as advised by the IFA as being suitable for that class of employee
- 3) Controllable forecastable and capped costs
- 4) Can be truly tailored to an individual employer’s needs

What are the benefits of a CSIPP?

For an employer

- a) Pension provision for an agreed fee
- b) Agreed contributions, set by the Employer
- c) No involvement with (and implied endorsement of) the selection of a particular insurance company
- d) Contributions and investment choice can vary for different classes of employee
- e) No employer involvement in choice of an individual's investments
- f) Reduced employment costs
- g) Tailored pension solution in one scheme for all from CEO to junior staff
- h) Retention of financially aware staff
- i) No Trustee liabilities
- j) Possible NI savings (converting bonus into pension contributions)

For Employees

- a) Choice of how to pay their contributions – annual or monthly
- b) Can transfer in from other arrangements
- c) Portable fund if they change jobs
- d) Has control of death benefits (no need to provide spouse's benefits if single)
- e) Simplicity of structure
- f) Benefits of economy of scale
- g) Choice of investments
- h) Drawdown option as required for selected staff.

Why the MW CSIPP?

It is based on the Acorn SIPP, which is a low cost starter SIPP, for smaller funds, which means that as a solution, it will be cost-effective. It also has a fee structure that is capped once a total fund reaches a certain level.

It allows the widest range of investments. Because we are not tied to any bank or insurance company, there is no need to use any particular fund or bank account. You can use any of them, although we have negotiated high interest banking with a number of financial institutions.

The investments can typically include:-

1. Cash
2. Insured funds
3. Quoted stocks and shares
4. Unit or Investment Trusts
5. Hedge funds
6. Property funds
7. REITs
8. Gilts
9. Trustee investment bonds

And for funds over £60,000 there is also the option for holding direct commercial property and also investing in unquoted shares.

Investment choice or contribution levels can be structured depending on the type of employee, with a wider choice or level for senior management, changing through the hierarchy, or even individually.

The CSIPP has a corporate trustee – MW SIPP Trustees Ltd - so there is no need for employers or members executing trust deeds, or holding trustee meetings. That is our responsibility. Because all investments are SELF invested, it means that the employer does not bear the responsibility of recommending a particular insurer eg. Equitable Life, as the chosen scheme provider.

It is possible to transfer in funds from other arrangements. This in turn could reduce an individual's administration costs.

The agreed level of contributions can be paid into the CSIPP bank account on the agreed date, using BACS, minimising the administration and costs.

We feel that the flexibility, simplicity and cost of our CSIPP should prove highly attractive to employers and their staff.

What does it cost?

Less than you might imagine – it is typically less than a Stakeholder! It depends how you set it up.

Fees largely depend on:-

- Number of employees
- Range of investments required
- Services required (eg. Attendance at presentations)
- Number of transfers in from other arrangements

Our workload can be greatly reduced by preparation work by the employer and their advisers regarding scheme structure including:-

- Eligibility of membership
- Categories of membership
- Investment structure
- Employer/employee contribution levels
- Assessment of members' existing funds – protected rights must be excluded
- Availability of discharge papers
- Availability of company money laundering paperwork

Fees will normally be charged for:-

- a) Installation of scheme
- b) Annual management fee (annually in advance or monthly)
- c) Transferring benefits out
- d) At commencement of a pension benefit
- e) On taking benefits

Fees can be paid by the employer or from members' funds. They are subject to VAT

Fees will be agreed in advance, once a scheme structure is finalised, and will be capped at an agreed level – the maximum fee payable once a certain fund value is achieved. (The maximum may be subject to increases in line with inflation) This means that over time the relative cost of scheme administration will actually drop.

How does an IFA earn from a CSIPP?

There are many ways that an IFA can earn from a CSIPP. For example:

- a) take commission or charge a fee on investments made
- b) charge a fee for annual meetings with the members to discuss their investment options (paid for by the employer, probably)
- c) members may need other IFA advice on personal assets
- d) a fee for advising the employer on how to set up and structure the CSIPP

We at MW Pensions are at the forefront of CSIPPs. If you have clients who may be interested in a CSIPP, please contact us for more information.

Changes to the MW SIPP from 6th April 2007

There are a number of important changes that come into effect on 6th April this year. The biggest change is that we will be regulated by the FSA for "setting up, administering and winding up personal pension schemes". As we explained last month, we received our FSA approval early in February and understand we were one of the first SIPP Providers to receive this authorisation.

As a result of this, and as permitted by new legislation, MW Pensions Ltd will become the Provider of the MW SIPP 2 and the MW Acorn SIPP from 6th April 2007. This will be in succession to Cater Allen Private Bank, the current Provider.

This does not affect anything in practice, but it simplifies the structure of our SIPP, where MW Pensions Ltd will be both the Provider and the Scheme Administrator, with MW SIPP Trustees Ltd remaining as the sole trustee of the SIPP.

New Annual and Lifetime Allowances

A reminder that from 6th April 2007 the Annual Allowance increased to £225,000 and the Lifetime Allowance goes up to £1.6M. At the other end of the spectrum, the Trivial Commutation level increased to £16,000 i.e. anyone who has **total** pension assets from all Registered Pension Schemes valued at less than £16,000 can commute them all for cash.

Gilt yield for drawdown rates

The gilt yields to use for drawdown calculations are:

November 2006	4.50%
December 2006	4.25%
January 2007	4.50%
February 2007	4.50%
March 2007	4.50%
April 2007	4.50%

More issues for final salary schemes

Whilst our Newsletters concentrate on SIPPs (as we believe they are the future of pensions), we continue to be involved with traditional company schemes, both final salary and money purchase, as we offer Independent Trustee services via Moores Williams Trustees Limited.

Some new professional guidance highlights yet more problems and issues for them, as do some recent surveys.

Mortality assumptions 1

Everyone is acutely aware of how continually improving mortality is affecting the cost of pensions. Well, the pension actuaries have another conundrum to try and resolve with trustees and sponsoring employers.

For scheme funding, the Regulations require the trustees to choose "prudent" actuarial assumptions and hence to use "prudent" mortality assumptions. Our new friend "Prudence" is not of course defined in the Regulations! Further, the Scheme Actuary's professional guidance requires them to "advise trustees about the risk that unanticipated future changes in mortality will increase the costs of the benefits".

However, for the FRS 17 (and IAS 19) calculations, the assumptions must be the actuary's "best estimate". It is therefore highly likely, if not inevitable, that the mortality assumptions used for accountancy purposes will be different (less cautious) than those used for the funding of the scheme. Not an easy circle to square for actuaries, trustees, Boards and shareholders.

The final paragraph of the professional guidance to actuaries is quite interesting: "In areas like this where there is no right answer, advice to clients needs to take into account the inherent uncertainties. Exactly how this is done is up to each actuary, but illustrations on more than one basis could be used to show the effects of possible differences." Make of that what you will! But we fear it will lead to more obfuscation and inevitably higher actuarial fees.

Mortality assumptions 2

Pricewaterhousecoopers have issued an analysis they carried out of 90 schemes with c£200bn assets. They found that life expectancy predictions varied by as much as **six years**, with no correlation to industry, pay, location or actual scheme experience. How can that be allowed? On average, males retiring at 65 were assumed to live to 83, whilst females at 65 were assumed to live to 87.

Transfer values for final salary schemes

Actuaries have lost control of transfer values. Up until now they have been determined by the trustees, acting on the advice of the actuary. Historically this led to a wide divergence in transfer values between schemes, but after the introduction of the Minimum Funding Requirement (MFR) back in 1997, most schemes paid out transfer values calculated as the MFR value. And if the scheme was funded to less than 100% on the MFR basis, transfer values were further reduced.

After various discussions, it was decided that the Government would decide on the transfer value basis. The latest Pensions Minister, James Purnell, has announced that transfer values will in future be calculated based on the expected cost to the scheme of providing the pension. This is to be effective from April 2008. It can't be introduced sooner, because the process has to be laid down in Regulations by Parliament! What it means is that schemes that are under-funded can cut back transfer values to reflect their poor funding position – the financial security of the scheme is given preference over the right to a full transfer value to an individual member.

And of course it means there will be yet further regulatory and compliance costs imposed on schemes.

The Inevitable Conclusion

These additional complications, responsibilities and costs will surely just lead to a swifter closure of final salary schemes. We therefore go full circle and suggest you discuss with your corporate clients a Corporate SIPP as the preferred way of providing future pensions.

April 2007

**MW Pensions Ltd, Oaklands Park, Hooton Road
South Wirral CH66 7NZ**

Tel: 0151 328 1777 Fax: 0151 328 0707

Website: www.mwpensions.co.uk Email: admin@mwpensions.co.uk

Authorised and Regulated by the Financial Services Authority