



Employers may be reticent to change their pension scheme, but the group Sipp can offer something for everyone, **says Jonathan Watts-Lay**

WHAT'S IN A NAME?

Many UK companies are considering setting up a group self-invested personal pension (Sipp). With protected rights transfers tipping the £300m mark, are Sipp the default pension option of the future? Looking at the figures from this year's PricewaterhouseCoopers pension survey, it certainly seems that many employers aren't entirely happy with their current pension provision, but they are also worried that changing it may negatively affect employee relations.

- 83% don't believe they are getting value for money;
- 79% are concerned their pension schemes do not fit with the overall reward strategy;
- 90% are concerned about the impact of pension provision on employee relations.

If we refocus and get back to basics, the objective of A-day was to simplify pensions. With the demise of defined benefit schemes and the transfer of liability from employer to employee, a more flexible savings vehicle was required as it became obvious that the current, often inflexible, occupational defined contribution (DC) schemes would not produce the types of income employees had come to expect upon retirement.

Pension managers should not be concerned about affecting employee relations if they replace their trust-based DC with a group Sipp as long as they communicate and engage with their employees effectively. In a recent *Pensions Management* roundtable Kevin O'Boyle, head of pensions at BT, put it well when he said: "If you have decided you want to have a DC scheme and you want to have a contract-based scheme rather than an occupational trust, the choices are stakeholder policies, group personal pensions and Sipp. I cannot see why one would want to necessarily go for the less flexible, old-fashioned products that have been around not very successfully for years when there is now a new one on the shelf that you can take off and tweak it how you want."

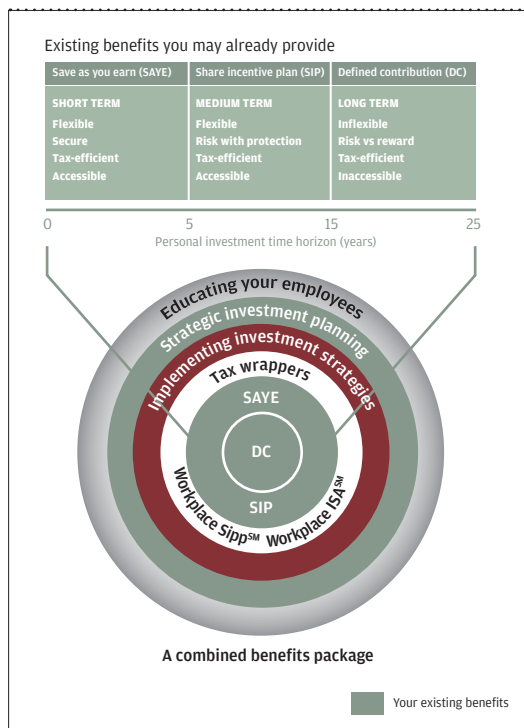
The ultimate in flexibility

While performance and risk are key factors in any pension, increasingly, both employers and employees just need more flexibility than their current scheme can provide. This is of particular relevance when share scheme benefits are involved. A pension must be able to accept in specie transfers of company stock to enable employees to make the most of the tax breaks available to them (in specie so that shares get transferred into the pension in their current form, without selling and rebuying the stock, which would involve transaction fees and possible capital gains tax liability).

It's about saving for retirement

Some may say that first we should define a Sipp. There has been so much debate over what does and does not constitute a Sipp, from the original 'accept everything' to hybrids and 'Sipp lites'. There are those who are disparaging towards Sipp with limited investment options and those that see the growth of platform Sipp as worrying. Whether these views are pedalled by traditional pension companies or top-end bespoke providers, I

COMBINED EMPLOYEE BENEFITS



can't help but think they have missed the point.

It's about saving for retirement. We in the UK need to create a savings culture; the current economic environment has certainly helped raise awareness of the value of savings and 2012 should aid those who don't currently save, but there is a lot to be done (see box for some top-line figures). Group Sipp's are a way to start large groups of people (employees) saving for their retirement in a more active manner. I am less worried about defining Sipp. It is about providing a flexible vehicle for placing your retirement savings into and then getting them out again at retirement. However, as the statistics in the box show, there is a lot of education to be done first.

Engage your audience

Engaging employees on the benefits of saving is a prerequisite to education. How?

- Tackle the reasons why individuals don't save one-by-one in a dynamic manner;
- Stop relying on brochures to communicate pension schemes, as 76% of companies do;
- Work with your HR counterparts and leverage the huge employee benefit of consolidating group Sipp, ISA and share schemes in one place (see 'Integrated workplace savings').

Integrated workplace savings

The latter point is about introducing the type of savings vehicle called for back in 2004 by the *Employer Taskforce on Pensions'* report to the secretary of state for work and pensions. A-day made it possible and it is now up to pension managers and employee benefits professionals to make these ideas a reality. The tax benefits and flexibility provided (in terms of providing short, medium and long-term saving vehicles) by integrating the wealth components of the

SAVINGS STATS

- Total UK personal debt at the end of March 2009: £1,459bn
- >40% of child-free 20-30 year-olds are without a savings account
- Over half of those planning to buy their first house within two years, but are not saving for a deposit
- >13m people (half the working population) are either not saving in a pension at all, or are not saving enough
- Pensions are ranked as the eighth most valued benefits in the first five years of work. Just 7% of graduates value them

And for those that do save in a pension...

- 75% of people are unaware that tax relief applies to their pension contributions
- >80% of members leave their money in the scheme's default fund
- 44% have never reviewed where their pension is invested

employee benefits package are so huge that engagement should no longer be an issue, provided that it is communicated in the right way. It's about increasing the tangibility of an employees' workplace-generated wealth, making it easy for them to recognise that their employer is rewarding them.

Concentration risk?

This is all well and good, but how do employers promote share schemes following the massive losses realised by the likes of the Royal Bank of Scotland (RBS) and HBOS employees whose wealth was tied up in their employers stock when their shares became worthless? There is an interesting dynamic in encouraging long-term investment in a company through share scheme take-up vs. not exposing employees to concentration risk where a sharp fall could see their wealth wiped out over night as in the cases of RBS and others.

The continual cycle

There is a tremendous disincentive, to the point of a conflict of interest in some cases, for employers to tell employees to sell their company shares and put them somewhere else, but they should do if they take their employees' perspective. The answer is to promote a continuous cycle of investment and diversification through the company group Sipp. Most companies who run all-employee share schemes do so year in, year out. They are quite happy for a portfolio to be diversified at the point of maturity as long as that same employee invests in the next scheme, making it possible to get alignment between employer and employee interests.

In answer to the question I posed in the opening paragraph: "Are Sipp's the default pension option of the future?" I would have to answer yes - a Sipp really can be all things to everybody.

The penny is now dropping with employers that they have all the basics in place and the platforms are pulling it all together in a far more efficient way. Group Sipp's work in a workplace environment because they tie the employee benefits together and allow employees to execute.

Jonathan Watts-Lay is a director of Wealth at Work

COMPANY PROFILE

Wealth at Work is a leading provider of financial education and employee wealth management services in the workplace with a reputation for delivering real results for its clients.

Wealth at Work provides a service that allows employees to maximise the value of their benefits by providing financial education tailored to the needs of individual companies and of different employee groups within those companies. This is then supported by a flexible savings platform and wealth advice service which allows, for example, the linking of company share schemes to pensions and ISAs, retirement income planning for retirees and specialist advice for senior executives.