

A SIPP for all seasons

JONATHAN WATTS-LAY of **WEALTH at work** answers questions on Group SIPPs

Why would an employer want to implement a Group SIPP arrangement for staff rather than a group personal pension?

JONATHAN WATTS-LAY: The Group SIPP provides employers with the opportunity to implement a single pension arrangement that is more likely to meet the requirements of all employees, removing the need to operate a number of different arrangements.

There will be an element of segmentation. So for many staff the Group SIPP will mirror the virtues of a group personal pension in terms of core fund choices and pricing, while more senior employees may have access to wider investment choices.

The Group SIPP can also help staff maximise the value of existing share related benefits where an in-specie transfer of shares is permitted from save-as-you-earn and share incentive plan schemes.

Are there extra considerations employers need to put in place once deciding on a Group SIPP arrangement? Considering the increased investment flexibility that goes with a SIPP arrangement, should employers take steps to ensure employees have access to financial advice?

JONATHAN WATTS-LAY: As with any new staff benefit, success will depend upon securing employee engagement, ensuring staff are aware of the new benefit and its value. Effective communication and financial education will be essential. However, unlike the generic communication and financial education often supporting more traditional pension arrangements, the

Group SIPP requires more specialist support, reflecting the segmentation of the workforce and the investment opportunities available.

Specialist advice may also be required for those with more complex financial circumstances. For example, an executive transferring cash and share based awards into the Group SIPP or those choosing to enter drawdown products on retirement.

What impact do you think auto-enrolment will have on the group SIPP market?

JONATHAN WATTS-LAY: Auto-enrolment will have only limited impact on the Group SIPP market itself. Group SIPPs will continue to support those employers seeking greater contribution, investment and income flexibility for staff. In some cases where NEST acts to provide basic pension provision, the Group SIPP may also be made available to serve more senior staff.

Where employers are introducing workplace pension provision for the first time, the Group SIPP will be one of the options available to them. The low cost and flexible nature of Group SIPP will appeal to many employers, particularly where there is a genuine desire to promote employee savings and not simply comply with auto-enrolment.

How will group SIPP arrangements enable employees to take full advantage of the relaxation of the age-75 rule?

JONATHAN WATTS-LAY: The Group SIPP provides a pension arrangement that not only provides flexibility

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WEALTH at work having been dedicated to its development since inception.

Watts-Lay has a sales and marketing background and holds both a MBA and chartered membership of the Institute of Marketing. He began his career at Nationwide Building Society where he progressed to product manager for mortgages and life assurance.

Watts-Lay then spent more than five years working for SHL Group PLC, a leading HR consultancy.

in the accumulation phase but also at the time employees begin to take their pension benefits.

The Group SIPP arrangement will support both the capped and flexible drawdown options proposed by the government while also serving the needs of the many who will simply buy an annuity.

The drawdown options may mean that individuals remain invested for longer and in doing so, the Group SIPP will support on-going objectives providing greater investment choices.

However, specialist support is required when taking pension benefits so that Group SIPP members are not exposed to a greater degree of risk.

Support will increase understanding of annuities, encourage the take-up of the open market option and reduce the likelihood of individuals entering drawdown products without an appreciation of potential risks.

DC RISK

Poor understanding of DC issues is a key problem for members. **CHIRAG GHELANI** of **SACKERS** looks at trustees' obligations to help, and what they can do to support informed decisions

What more can trustees do?

Traditional economics works on the assumption that we all make rational decisions to optimise our financial welfare by logically assessing the information available to us. However, as the Turner report noted back in 2004, factors such as procrastination, inertia and/or more pressing financial demands often prevent people from prioritising pension planning.

The defined contribution model of pension provision is straightforward enough: the member (usually together with the employer) makes contributions to build up a pot of money that will be invested throughout the member's working life to ensure an adequate pension provision for retirement. The risk is that poor member understanding of, and engagement with, the issues may lead to poor decisions – the consequences of which in a DC context will be fully borne by the members themselves. The Pensions Regulator has identified lack of member understanding as one of the key issues in relation to DC schemes.

Trustee role

In a trust-based DC scheme (as opposed to a contract-based scheme, in which the member has a direct relationship with the scheme provider), trustees may contemplate doing more to facilitate member engagement with their pensions, particularly in terms of target benefits and investment options.

Trustees' legal obligations are quite limited: to provide the investment and administrative framework, as well as communicating the benefits and any changes. In general, the onus is on members to find out about their rights and options. The only exception is where the member cannot in all the circumstances reasonably be expected to be aware of the right, unless it is drawn to his attention.

Investment issues

The employer designs the DC offering in terms of the contributions paid by both employer and member. The trustees' role, on the other hand, is to set up appropriate investment options to receive those contributions and to communicate the contribution and investment options to members clearly and regularly. Trustees must be very careful not to give financial advice, as they are not normally authorised by the Financial Services Authority to do so.

Trustees also have an obligation to ensure the contributions are administered efficiently, to review the investment options from time to time, as well as monitor the investment managers.

Communication

The statutory requirements to communicate with members are more limited than most would expect.

Perhaps the most significant ongoing obligation (after the initial joining information) is the requirement for trustees to issue an annual statutory money purchase illustration (or SMPI), which gives an indication to a member of what their current pension pot will buy in real terms. The trustees are also, of course, obliged to manage communication with members about retirement options, including the open market option for purchasing an annuity.

The regulator has emphasised that the trust model enables trustees to "add value" to members, both in terms of ongoing communications and ensuring effective retirement processes are in place. This can be achieved by maximising the effectiveness of their communications – ensuring communications have:

- **Impact** – to get members' attention;
- **Clarity** – so members can understand it;
- **Accuracy** – so members receive full and reliable information.

Member choice

While trustees may naturally feel inclined to try to persuade their members to better engage with fund choices and contribution levels, it is important to remember their legal obligations only extend as far as facilitating improved understanding. This can be achieved by ensuring DC members are informed clearly and regularly of the options available to them so they can make an informed decision. The trustees cannot make their decisions for them.

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