

SIPPs – the cheaper the better?

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If I had a pound every time I was asked “which is the cheapest SIPP (Self Invested Pension Plan)”, I wouldn’t quite be able to retire, but I’d be close!

This short question really does open a Pandora’s Box, which I will attempt to peer into and shed a little light.

The question “which are the cheapest SIPPs” leads naturally to two others, namely, “what qualifies as a SIPP” and “what is cheap?” It also presupposes that cost should be the most important factor.

Let’s take a look at each of these in turn.

Firstly, what is a SIPP?

When is a ‘SIPP’ actually a Personal Pension with a large range of funds available from different fund houses?

The dividing line between SIPPs and Personal Pensions used to be clear, however in the past few years bright sparks in the marketing departments of many pension providers have realised the ‘added cache’ that a SIPP label carries. So much so, that it now seems any pension product with a reasonable range of funds available has a SIPP label stamped on it.

The label is in fact, not relevant. The range of investments and charges you pay for the wrapper are actually of far greater importance.

The message therefore is simple; don’t get blinded by the label. Look under the bonnet, make sure the plan you select does everything you need it to, and don’t worry about whether it is called a SIPP or a Personal Pension Plan.

What is cheap?

If you’re only buying collectives or funds then charges for the actual pension wrapper, whether it is marketed as a Personal Pension Plan or a SIPP, are relatively easy to understand.

They generally take the form of a flat fee, as is the case with Skandia’s Retirement Account or a percentage of the amount invested such as with Aviva. As you can see from the table below, there are also providers who make no initial or annual charge, however these providers tend to

charge for transactions. On the whole: the cheaper the SIPP in terms of initial and annual fees, the less investment flexibility you will have available, although there are notable exceptions to this rule.

Once you also start to buy other assets, it will be necessary to look more closely at the SIPP structure, and here things get complicated. Charges can be made for setting up the SIPP, transferring in, transferring out, annual charges, different charges for protected rights and non protected rights, in specie transfer charges, benefit charges, and off panel charges. I could go on, but I’m sure you get the picture.

This myriad of complex charges can make it hard to compare the charges of different SIPP providers. However, the message is again clear, look carefully at all the fees you will have to pay; don’t just consider initial and annual charges. One of the determinants of total return is the costs you pay so it makes sense to reduce these as much as possible, however not at the expense of investment flexibility.

Should cost be the most important factor?

I believe the answer to this question is “no”. Don’t get me wrong, cost is important after all, along with performance and tax it determines the return you get.

However, I believe that having the right level of investment flexibility and service is more important. After all, investment flexibility is surely why most people invest in a SIPP in the first place.

To sum up

Avoid getting hung up on labels, SIPP or Personal Pension, it doesn’t really matter what it is called, look under the bonnet to make sure it is doing everything you need it to.

Your decision on which pension to go with should be initially driven by your investment requirements, “does the plan allow you to buy your chosen range of assets?”

After the asset choice question is resolved, then cost should be considered. By all means, be ruthless in driving down cost: search for better deals, negotiate with your provider to reduce their fees, etc. You may be surprised how flexible providers can be on charges.

Examples of SIPPs with low initial and annual charges. This table only takes into account annual and initial charges, it does not consider any other charges that the SIPP provider may make or investment charges.

Provider	Annual charge	Initial charge	Can assets other than funds be purchased?
Alliance Trust Select SIPP	£75 pa yearly in advance	None	Yes
Aviva	0.55% pa reduced depending on fund size	None	Yes
Best Invest	None if £50,000 depending	None if £50,000 or more invested	Yes
Fidelity Funds Network	£280 core investments £448 non core investments	£112 core investments, £326 non core investments	Yes
Hargreaves Lansdown	£0 if using just funds 0.5% max £200 if investing in other assets	None	Yes
James Hay E SIPP	None	None	Yes
Skandia	£52.32	None	No
SIPP Deal	None	None	Yes
TD Waterhouse	0.5% per annum, min £40, max £100 plus VAT	None	Yes

Source: Investment Sense January 2011