

Top intro - Pensions provision is an issue for every business, (regardless of size), which has been hugely confounded by bad press over the current and growing pensions deficit. Whilst the government, albeit unsuccessfully at present, tries to limit the damage that has already been done, the private sector is starting to focus on investment opportunities through self invested pensions or syndicates, which will help ease the worry of underfunding and ensure a healthier retirement income in future years.

#### Title – Opportunity Knocks Pensions Simplification

Middle intro - In the latest BEM roundtable debate, we brought together a number of pensions specialist to discuss the new legislation known as pension simplification, the options open to individuals and the current situation facing business and the private investor in the lead up to A-Day in April 2006.

Setting the scene, Graham Pitcher, managing director of GP Noble Trustees Ltd, who act as trustees for final salary pension schemes and self invested pensions, explained the current climate for UK-pension provision, in anticipation of the new legislation which takes effect April 06

“I have to say we’re at a very exciting stage, not so much in where we are now, but where we’ll be in 12 months time.

“I think it’s worthwhile looking back to see how we’ve arrived at this situation.

“When I first became involved in the industry in the 1970s, I joined a large insurance company, where we had ‘new code’ on the statute books. In reality, this legislation is now 35 years old.

“The concept to simplify the tax regime is brilliant, and much needed. Over 35 years the Inland Revenue and various governments have continually tinkered with the rule book and tax legislation, to bring about eight regimes under ‘new code’. Some of the major reasons for introducing simplification include;

- Firstly to put the eight regimes into one and ensure we all have a level playing field with one set of rules for all.

- To deregulate investment, and allow greater investment freedom because we’ve had investments become too tightly regulated by the inland revenue.

- To help eliminate the threat of further scandals, of which we’ve experienced a number over this period, notably Maxwell, the mis-selling review and the equitable life debacle, all of which have dented consumer confidence.

- Demographics - In twenty years time people will need to be making more provision for themselves and not relying on the state to provide a decent retirement pension

“A-Day will sweep limitation away, giving people, subject to their earnings, a lot more flexibility to invest. As a result we’ll see a lot more people looking for bespoke investment portfolios, rather than packaged investments. The days of going to the likes of

x,y, z insurance company are over, as the opportunities for self investment are a lot more exciting; to tailor make an investment package that fits with an individual's retirement aspirations and risk profile..

Jason Britton, a fund manager at T Bailey added: "I agree, there will be much more choice than ever before. From an investors point of view the whole market will open up and pension savers will be able to access an entire range of products, which is really quite exciting. Certainly, over the last five years in the investment world a number of boutiques have been established, to cater for property, equity, bonds or cash management, and for the first time investors are going to be able to access these products with a self invested pension.

Richard Martin, CEO and fund manager at T Bailey, suggested that the growth of Self Invested Pensions will mean investors will take much more interest in investments and keeping them up to date.

This sentiment was echoed by Neil Gray, partner at PKF and national head of property and construction.

He said: "Certainly from our client's point of view, SIPPS have re-energised pensions. Since their introduction, clients have started looking at pensions again as part their tax planning and have taken much more interest in their investments. SIPPS and pensions are very much back on the agenda."

Philip Rogers, a tax partner at Cooper Parry argued meanwhile that fund managers needed to address the current perceived imbalance in SIPPs, which had seen a heavy focus on the property sector.

Hugh Colville, a director of Evolve Fund Services, which is responsible for investment in property for high-net worth individuals and syndicates, added: "Our expectations are still very high, in relation to returns on investment in property. However, the idea about investing in buy to let, "using your SIPP, doesn't make sense, as capital growth and income return is not great" within this sector of the property market.

Mike Horseman, managing director of independent financial advisers Cockburn Lucas who specialise in SIPPs continued: "From an advisory point of view if we concentrate on the issue of what do the changes coming into effect actually mean to the private investor or company, then I think the end user will gain a greater degree of confidence by the transparency of these changes and I'm very excited that we now have an opportunity to get some confidence back in pensions and funding levels."

Andrew Czajka, head of commercial property at Roythornes, returning to the comments made by Colville, added that he had similar reservations about the merits of investing in the residential property market, due to management issues and costs.

Gray added that he had witnessed a huge demand for commercial property from people who wanted to top up their SIPPs and were taking advantage of the current 75 percent

borrowing rate on the value of property. However, he suggested that the average man in the street would not necessarily be able to invest so heavily in their pension fund.

Pitcher continued: "I think you have to look at the rationale of what has been done. The Inland Revenue argue they reacted to demand, the deregulation of investments and restrictive gearing. However, I still think there will be lobbying for further change. It was a reaction by parliament to pressure to allow people to invest in residential property. It was bought in almost as a compromise. The Inland Revenue has undergone a sea-change, by allowing people to build investments to secure retirement funds, however, the only sanction will be a tax consequence, imposed through self-assessment, not through the depreciation of a pension fund. Not all the regulations have been put in place, so a lot of SIPP providers are still waiting to see. Like a lot of things; the concept is brilliant, but the devil's in the detail."

Horseman confirmed: "A lot comes down to the advisory process. I think there's got to be a responsible way to approach any investment decision. I don't believe advisers should restrict choice; if a client wants to invest in a certain area, be it wines or cars or residential property, let them do it. As long as they understand the consequence and the investment risks; liquidity issues, custodianship and legal issues." What is true is that the reduction in borrowing levels in the new rules needs to be considered immediately especially if you are thinking about buying commercial property within the next few years.

Carlton-Ashton agreed: "It's interesting to hear Hugh talk about third party investments and hear Graham comment on the changes to contribution limits. As a bank we're not seeing too many people talk about the actual ability to get more funds into their SIPP in the first place. As a bank, generally, we're waiting to see what happens with regards to commercial property, and specific rules post A-Day."

"I find this type of conversation fascinating," said Ken Warburton of Broadcast Media Service, who by his own admission is a modest investor

"I equate with the ordinary bloke in the street, who got really fed up with giving somebody else a lot of money to lose. As a result, my fellow director and I chose to go wholehearted into a SIPP.

"I must admit I was toying with the idea of investing in property domestically and overseas, but I've gone off the idea. I can already see that SIPPs have opened up much better opportunities, particularly for my business, which is relatively small, largely fee paid, and cash rich, with two owners of a similar age. We now want to park as much as is feasible into a fund that will give us a reasonable return. SIPPS looks to me to be an exceedingly good way forward."

Gray argued that he was concerned that SIPPs were so skewed towards the higher-end of the market, that they would do little to address the £58bn savings gap for the man on the street.

He added: "It's a fabulous opportunity for some, yet the cynic in me questions whether we'll find ourselves in three years time addressing 50 percent funding, because Joe Public, who has a £60,000 pension fund, will not be able to borrow that much. At the same time, we'll see higher rate tax relief on contributions up to £215,000, which itself is a real risk. Also it's possible we'll move on to compulsory employer contributions, as the SIPP and post A-Day regime is heavily abused by wealthy individuals."

"I think it's a very good point," said Pitcher, "however, whether it's right or not, the changes have got more people thinking about their pension and investments."

Horseman continued: "Employers will be looking at how they provide for employees. There will be opportunities, as a result of the closure of final salary schemes, to encourage employees to go and do something different. Group SIPPs may become very attractive to employers, and it might actually encourage employers to put more money in."

Marayln Thomas, a pensions specialist at Harvey Ingram LLP added: "People do not review their investments regularly enough. The worry I have about putting foreign property into SIPPs, is that other EU countries do not recognise the concept of a trust. So the property on the investors death could well go in line with the succession laws of that country."

Gray agreed suggesting that it will become increasingly difficult to communicate, for lower paid employees, what the raft of changes will actually mean and how these changes will work for them.

Czajka asked whether any of the attendees had noticed an increase in the number of employers approaching them for advice.

In response Horseman said that the more paternalistic companies were becoming aware of the legislative changes and were putting measures in place to deal with A-Day. He warned others who had so far failed to communicate the changes to their employees to take advice asap.

"Potentially, we could get to April 2006 and people start knocking on doors, by then it's too late as the opportunities are now," confirmed Pitcher.

Czajka added there were still a number of grey areas, where guidance was needed.

"There is a guidance manual that has been available for a couple of weeks, the first chapter is out now and available from the Inland Revenue," said Thomas.

Czajka continued: "We've had to live with the introduction of stamp duty land tax, which was horrific, and seemed to have just arrived one day. It's hard to keep up with all the changes, so I'd be interested to hear when we'll be getting some clearer guidance."

“Undoubtedly, some of the issues need to be cleared up, including the responsibilities of trustees, otherwise there will be an unwillingness to sign off on investments,” said Horseman.

“As a general question to the table, when clients are talking to you, are they focusing on commercial property, residential property, a boat or fine art, or is the conversation turning to what has to happen to those assets to provide an income in retirement,” asked Carlton Ashton.

In reply Britton said that the focus in the press on property, was in danger of leading to some very unstable portfolios.

“We’ve got to get the basics right. The equities market is where the core of any portfolio should be; you’ve got fixed interest and cash. Property, fine art, racing cars all very well, but we’re only talking about ten percent of the portfolio, where all the interesting headlines are.”

Colville disagreed, he argued that for investors looking to maximise and preserve wealth, whilst also generating an income stream, commercial property represented an ideal direction.

“I’m not saying 100 percent of an investors portfolio should be property, but looking at it over the medium term, the income return of commercial property, is the greatest hedge against inflation, with a return on investment within 10 to 15 years.”

“The issue is not what assets people should be investing in, the issue is getting client’s expectations right,” added Horseman.

“Choice is a great thing, but end users must be very careful about what they get involved in. There is the potential for less scrupulous advisers to be pushy for the wrong type of products. We need to be very careful in the way we lead our clients and ensure we act responsibly when deciding which asset class to purchase.”

Martin agreed: “I think that’s exactly right. There will be a lot of media led investors approaching advisers and wanting to invest in property. The smart money is increasingly moving out of property, which is something to make note of. Property has had a great time; interest rates and inflation have come down. We see it as a great mixer but essentially it should not form a major part of anybody’s portfolio unless they are well aware of the risks from underperformance.”

“I think this is a very good point, said Pitcher. “People need to view their pension as they would any other business, complete with an exit strategy. It’s important not to put all the eggs in one basket, concentrate rather on developing a portfolio with a range of products.”

Britton agreed: “I think more money will go into property than it should do. I think that it’s not a good time for these relaxation rules. Just as investors felt a hangover from

equity falls a few years ago, we may see a similar thing in a few years time in relation to property.”

Gray said: “The key word post A-Day will be advice. Clearly there will be an awful lot of demand for people to buy their holiday homes, as they will see this as a good tax break. But at the end of the day, as advisers, we should be saying to investors not to put all their pension pot into property. If we’re all agreed around the table on this issue, and the man on the street comes to us for advice then he is not going to invest solely in property.”

Horseman confirmed: “We need to concentrate the mind on choice of assets and delivering the right advice. However, you’ve got to accept that some advisers will be more aggressive, there will be some direct product selling, which again I would say for anyone looking at setting up a SIPP, do so with the right advice, legal, administration and trustees etc.”

Gray added: “There’s a huge responsibility on employers as to how to motivate the market place. No disrespect but we are aware of the issues, whereas, others, particularly small business owners may not. Employers need to be talking to their employees, about planning for retirement and maybe employers need to start thinking about remuneration packages that don’t just consist of salary and a company car, but also a defined pension contribution as a must have. £2,000 a year out of your existing salary after tax is not a great deal of money on a monthly basis, but it will make a huge difference to a pension fund in 25 years time.”

“The problem is how many final salary schemes that are in deficit, said Fraser. “It’s fine saying they could go into a group SIPP, but you still have to deal with the deficit. My concern really is buying into this whole area of SIPPS, where the focus is on property. We could be sitting on the brink of some sort of hard landing, which bothers me a lot.”

“We should not underestimate the lethargy of the UK private investor, argued Britton. “Stakeholder has not seen the result that was expected, of the child trust fund vouchers issued, over half have still yet to be cashed. Typically, UK males are more likely to get divorced than they are to change their bank.” So pensions are not high on the agenda and we need to get people thinking early.

“If we look at the way the market for pension fund management is changing,” continued Horseman. “There’s much more interest in investment boutiques working on a flexible mandate aiming to deliver a return of cash plus 2% to 4%. Without saying life companies names, most have got in a rut, they haven’t delivered a consistent product, there’s a very complicated charging structure that no-one understands, unless you’ve got a degree in quantum physics and rocket science, which is not what the average investor wants to see. Therefore, self investment is going to play an important part in countering this lethargy, particularly if its managed and delivered correctly. When the returns from investments start to be realised this will promote confidence and help concentrate the mind on pension investment.

On the issue of who the best person to turn to get advice on SIPPs, Horseman suggested that a IFA would be a natural place to start. However, Gray questioned whether the average man on the street would go to an IFA, particularly if they had been dealing with an accountant or legal professional as part of their day-to-day business operations. Carlton-Ashton confirmed that most of the individuals that had approached the bank had come from referrals by accountant, because they see in and around the business, its performance and tax structure. Horseman added that it was now, more so than ever before, a time for advisers to work together more closely. The whole concept of sipp is that it's a service not a product.

Gray agreed saying that it was now the responsibility of everyone to liaise better.

Wrapping up the debate, Britton confirmed that a huge opportunity now existed as a result of the new legislation for individuals to take control of their pensions.

"It's not going to be easy, so get some good advice and make the most of your pension pot," he said.

Pitcher meanwhile suggested that pension simplification would not be the utopia that some people think. He added that a number of interesting products were likely to materialise and despite a potential property slowdown there would still be investor interest in the sector.

An issue that Fraser also touched upon when he warned any further downward trend in the property sector, at present and post A-Day, could lead to potential problems for property investors in the UK.

Gray meanwhile felt saddened by the current property-driven focus within pensions simplification, he added that the sooner that wider investment choice was promoted the better the market place would perform.

Carlton Ashton agreed: "As a bank that lends to high-net worth individuals only, we'll want to continue to lend prudently. Our preference will be to lend into SIPP schemes that have diversification of assets."

Thomas was more upbeat; she said that a huge amount of activity in the next 21 months would result from the work of high net worth individuals and their advisers. She added that there also remained a huge untapped market at the lower end of the spectrum, "It's very much a case of making hay when the sun shines and making the most of the opportunities over the next few years," added Rogers.

Concluding Warburton said: "I've taken great comfort from what I've heard. Reflecting on where my assets are, there is a good mix. I just wonder whether we are being over concerned by media-led investment – there's no way in the world that fine wines, or motor cars would make a sustainable source of investment for my retirement. Aeroplanes maybe!"

Horseman advised "start planning now and take advice and remember if it looks too good to be true then it probably is.

Ends