

# UKSA

UK SHAREHOLDERS' ASSOCIATION

The independent voice of the private shareholder

## UKSA's Response

To

H M Treasury's consultation document

Helping to Deliver Stakeholder Pensions:  
flexibility in pension investment

30 March 1999

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## **A. SUMMARY**

### **Improving self-select pensions (SIPPS)**

We would be strongly supportive of regulatory reforms to SIPP regulations that would increase the availability of self-select pensions by:

- reducing the fixed administrative costs;
- removing the existing requirement for financial advice to be taken;
- encouraging more low-cost stockbrokers to enter the market.

### **Q1. Is the proposed structure based on pooled investment schemes appropriate -as an option - for all pensions?**

Yes. The market in pension products should be as broad and competitive as possible. Investment trusts, unit trusts and OEICS should be able to compete on equal terms with life assurance funds to offer pension savings vehicles built around their products.

### **Q2. Should there be restrictions on the kinds of pooled schemes eligible for inclusion in the new instrument?**

**Custodians:** we cannot comment on issues of custody.

**Geographical spread of investments:** there should be as little restriction as possible on the geographical spread of investments. The major risks faced by most savers today is that they do not save enough, lose too much in charges, or are excessively cautious with their savings - not because they throw their pension savings into specialist funds.

**Regulatory regime:** the pension vehicles should be restricted to funds that operate within UK or European regulatory regimes: Offshore funds are not subject to adequate regulatory controls and should not be permitted.

**Charging structures:** There could be restrictions on charging structures, to ensure that charges are both simple and clear. The intention here is **not** to enforce low charging levels but to prevent unfair charging structures.

### **Q3. Should stakeholder pensions invested in this way be able to use alternative approved governance structures (as well as the trustee structure discussed in the pensions green paper)?**

We do not have a position on this question.

### **Q4. When should powers for the new instrument be made available? Is there a case for waiting until stakeholder pensions are available?**

The new instrument should be introduced at the earliest opportunity.

## **B. DETAILED RESPONSE**

The UK Shareholders' Association is the only democratic and independent body representing private shareholders across the UK.

The Association does not claim to represent savers in insurance funds and collective funds, with the exception of investment trusts. We are responding to this consultation because of the major implications for self-select pensions and for investment trusts, but also because we believe our role, as a body representing savers, allows us to combine focused investment knowledge with a consumer perspective.

We would like to see this opportunity taken to reform the regulation of self-select pensions, as described below.

We are also strongly supportive of the proposals being presented in the consultation document, and the last part of our response covers questions 1 to 4 from that document.

### **Improving self-select pensions (SIPPs)**

If the regulatory regime is to be reviewed in order to allow increased competition in the pensions market, we should like to see the regulation of self-select pensions (SIPPs) addressed at the same time.

At present, self-select pensions are only offered by a small number of brokers. They tend to have high start-up and running costs, with the result that they are generally only suitable for very high-net-worth individuals. We believe that this is largely due to the cumbersome regulatory procedures for SIPPs currently in force.

We understand that APCIMS<sup>1</sup> and the Treasury have identified possible changes to existing SIPP regulations that would greatly simplify the process of offering SIPPs, could lead to a significant increase in the numbers of brokers able to offer SIPPs and should significantly reduce their set-up and maintenance costs.

UKSA has consistently argued that savers who wish to make their own investment decisions should be able to do so, without sacrificing the tax benefits available to savers in collective funds: we do not believe that the government should offer tax incentives that favour the investment industry at the expense of private share ownership.

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<sup>1</sup> APCIMS: The Association of Private Client Investment Managers and Stockbrokers

We recognise that most savers do not have the time or the expertise to manage their own investments, and that professionally-managed collective funds will generally be the most suitable vehicles for these savers. These savers are also likely to need financial advice.

However, financial advice and professional fund management inevitably carry significant annual costs - costs that, incurred year after year, can have a dramatic impact on the size of a retirement fund that has been built up over decades.

There is a significant minority of savers who do have the time and expertise to make their own investment decisions: they do not need or want either professional financial advice or professional fund management, and are better off not spending a large part of their pension savings on these very expensive services.

**Self-select pensions should be primarily low-cost vehicles for savers who do not need professional financial advice or fund management. Unfortunately, the current SIPP regulations largely defeat this purpose, because they create high fixed administrative costs and require that financial advice be taken.**

**We would therefore be strongly supportive of reforms to SIPP regulations that would:**

- **reduced the fixed administrative costs;**
- **remove the existing requirement for professional financial advice to be taken;**
- **encourage more low-cost brokers to enter the market.**

**Q1. Is the proposed structure based on pooled investment schemes appropriate -as as an option - for all pensions?**

**Yes.**

**Investment trusts, unit trusts and OEICS should be able to compete with life assurance funds on equal terms for Personal Pension, Occupational Pension, Stakeholder Pension and AVC business.**

Even if we disregard the very poor reputation that the life assurance industry currently has for sharp sales practices, inflexibility, lack of portability and excessive charges (particularly where policies are discontinued at an early stage), this is a basic issue of competition: the market for pension products should be as broad as possible, to encourage a competitive market.

We recognise that life assurance funds generally provide an element of life insurance, whereas other funds do not. However, insurance is unnecessary and inappropriate for the many savers who have no dependants, and it can be offered separately, either within or outside the pension vehicle, to those who do need it.

**Q2. Should there be restrictions on the kinds of pooled schemes eligible for inclusion in the new instrument? e.g.**

- **only investment trusts using separate custodians?**
- **restrictions on eligible investment trusts' gearing?**
- **any other restrictions?**

**Q2a. Custodians**

We cannot comment on issues of custody.

**Q2b. Geographical spread of investments**

**There should be as little restriction as possible on the geographical spread of investments.**

Savers should be able to make their own investment decisions. The major risks faced by most savers today is that they do not save enough, they lose too much in charges (especially if they change providers) or because they are excessively cautious with their savings - not because they throw their savings into specialist or high-risk funds.

**Q2c. Regulatory regime**

**The pension vehicles should be restricted to funds that operate within UK or European regulatory regimes.**

Other major recognised regimes might be considered, but offshore funds are not subject to adequate regulatory controls and should not be permitted.

**Q2d. Charging structures**

**Low levels of charges can be promoted (but not enforced) by voluntary standards along the lines of CAT standards.**

**However, consideration should be given to a general prohibition on more obscure ways of reducing the return to shareholders; for example, issuing two classes of unit to savers, one of which carries higher charges or cannot be redeemed.**

Simple and clear charging structures are an essential means of protecting savers by allowing them to understand the impact of charges on their investments, and to compare different products.

Many of the charging practices currently associated with life assurance funds are not understood by most savers and allow the true costs of funds to be obscured, particularly in the early years. Meanwhile, unit trusts, investment trusts and OEICS generally have far

less complex charging structures than life assurance funds. We would not want the existing bad practices of one part of the pensions industry to spread.

It may therefore be appropriate to place simple constraints on charging structures for the new vehicle, to ensure that the real costs to savers are not obscured and to ensure portability.

The constraints should not be too restrictive: they should allow for annual charges and for charges on contributions to schemes; flat-rate charges and percentage charges should be permitted. We would expect most existing investment trusts, unit trusts and OEICS to qualify without difficulty.

The constraints would not include limits on charging levels: the intention here is not to enforce low charges but to prevent unfair charging structures.

We also recognise that early introduction of the new vehicle is a high priority. If the suggested charging controls could not be introduced within the initial time scale, we would not want the project to be delayed. Controls on unfair charging structures could be considered at a later stage, preferably across all pension products.

**Q3. Should stakeholder pensions invested in this way be able to use alternative approved governance structures (as well as the trustee structure discussed in the pensions green paper)?**

We do not have a position on this question.

**Q4. When should powers for the new instrument be made available? Is there a case for waiting until stakeholder pensions are available?**

The DSS stakeholder pensions consultation is very wide-ranging and ambitious. We understand that it will take at least two more years for the proposals to be implemented.

**The more limited measures proposed in this Treasury consultation, to greatly extend competition within the pension market, should be implemented at the earliest opportunity.**