FSCS Podcast – Episode 11 Do you speak SIPP?

0:02 – Caroline Rainbird (jingle)
Welcome to protect your money with FSCS the podcast from the Financial Services Compensation Scheme. I'm Caroline Rainbird FSCS Chief Executive. And in this series the fantastic FSCS team will help you understand how we can help to protect your money, so you can feel confident your money is safe. Hope you enjoy the podcast!

0:30 – Jess Spiers
Welcome to the FSCS podcast. I'm your host Jess Spiers, and I'm Senior Content Manager at FSCS. So FSCS, which is the Financial Services Compensation Scheme exists to protect customers of authorised financial services firms that have gone bust by paying eligible people compensation. Now, we protect lots of financial products, but not all of them. So, this podcast is designed to help you understand our protection and why it's so important. And in today's episode, we're asking do you speak SIPP? Now do not worry if you don't know what SIPP is, a lot of people don't. It stands for Self-Invested Personal Pension. We'll be explaining what they are and how FSCS protection works. To help me explain it all is returning guest Emma Barrow, who's been on a couple of times before and we also have Tim McKeegan with us today, who is our operational data expert. Welcome, guys!

1:22 – Emma Barrow
Thanks, Jess. It is good to be back talking about pensions, which we all know is my favourite subject.

1:28 – Tim McKeegan
Thanks, Jess. Excited to be on my first podcast.

1:31 – Jess Spiers
Great. Thanks, guys. And just a very quick teaser of the question, we're going to be asking Tim, at the end of the episode… we're all about keeping your money safe, but what was the toy that got him breaking open his piggy bank as a child?

1:42 – Jess Spiers
Okay, so we have talked about FSCS protection for various financial products in previous episodes, including pensions, insurance or financial advice. And this episode, as we said, focuses on SIPPs. So, Emma, could you kick us off by explaining exactly what the SIPP is?

2:11 – Emma Barrow
So that's a really good question, Jess. And actually, a consumer survey we ran back in December 2021, showed that actually, less than half of people around 44% knew what SIPP stands for. And a SIPP is a self-invested personal pension, as you mentioned, and it really is a case of it does what it says on the tin. So, it is a personal pension, so not one that you would get from your employer. And typically, you must make your own choices on how you invest the money held within it. And that's the self-invested part. Although,

you can pay for an advisor, a regulated financial advisor to help manage those investments as well.

2:49 – Jess Spiers
And I think that's the main thing that sets it apart from other kinds of pensions, isn't it that they basically require a lot more work on the SIPP holders' part to manage?

2:58 – Emma Barrow
Yeah, absolutely. That is the self-invested part is the key part. And that is the big difference, really, between a SIPP and other types of pension. So, contributions to a SIPP come with tax benefits, just like other pensions do. A SIPP is another type of pension wrapper, which you might have heard us talk about in the pension's episode of the podcast. So, you will still get tax rebates on your contributions. And the deal is you can't access your money until retirement.

So, a SIPP is similar to other pensions in that way, you can't invest in a SIPP and then take your money whenever you like, you are still expected to invest that and keep it in there until you retire. SIPPs became really popular after pension freedoms in 2015. So again, if you listen to our previous episode, we talked quite a bit about that. But the first SIPP was actually opened way back in the early 90s. So, they've been around a very long time, the Financial Services Authority, which was the predecessor to the Financial Conduct Authority, they started regulating SIPPs in 2007. So, they've actually been a regulated product for quite a long time as well. As I said, SIPPs are similar to other types of pension, they've got similarities or differences, providers will charge fees.

And I know, I think Tim's going to talk a little bit later about fees, so there are similar things like that to other pensions. And again, another similarity when you actually get to retirement, the money or the kind of assets that you've got, in your SIPP, you have the same sort of choice to make with what you do with those when you actually get to retire and whether you want to exchange those for an annuity. And whether you want to start drawing down income by selling new investments bit by bit and taking a lump sum. So, you've got the same options at the end, the differences during the kind of accumulation period, as they call it, as you're saving up, you've got to make a lot more choice yourself than you would with the other types of pension.

4:48 – Jess Spiers
Okay, so Emma, you mentioned there, the types of investments you can have within the wrap of your SIPP. Tim, I was wondering if you could tell us what type of investments SIPPs can contain?

4:59 – Tim McKeegan
Of course, one of the main benefits of SIPP is the fact that you've got a wide variety of products and vehicles that you can put your money in. What we tend to find is that different providers will offer different options or only certain products within those wrappers. But that's primarily where some of the risk comes in, in terms of evidence wide prep. So, when you manage your own SIPP, without any advice, technically, you

can put all of your eggs into one basket, which we tend to see would increase the risk as opposed to a normal sort of employers’ pension scheme, which is invested quite widely and subsequently reduces the risk.

5:36 – Jess Spiers
Okay, so could you give us some examples of the kind of investments you can have in a SIPP?

5:41 – Tim McKeegan
Of course, so the main ones that we sort of tend to see are sort of investment trusts or things that sort of listed within the stock exchange. Similar line to that is company shares. What one of the main ones we tend to see here are ones that involve property and land, this normally isn't residential, it's more like commercial property, or real estate overseas. We also see things like collective investments, or commercial property, sometimes a lot of the sort of new developments and buildings that have been built is the opportunity for a SIPP to invest in there.

And growing that we're seeing more and more of are offshore funds. And given the ability to be invest your SIPP overseas. It's important to note that some investments won't qualify for the tax exemption and could result in tax penalties for the for the SIPP owner, which is always something to bear in mind when you're looking at the products and options available to you. But the SIPP providers should make sure that all of the investments are HMRC permitted.

6:41 – Jess Spiers
Yeah, absolutely. So, Emma, are SIPPs a popular choice for people?

6:46 – Emma Barrow
So, despite our survey, showing that kind of less than half of people knew what a SIPP stood for, there were actually quite a lot of people who had invested in a SIPP. So somewhere between a quarter and a third of the people that completed our survey had done so. And interestingly, they're far more popular amongst men than women in that group of people that we surveyed, about 40% of men had said, they'd invested in one and around 17% of women. And they were also far more popular amongst younger people. So just under a half, 47% of those aged 18 to 34, had said that they'd invested in a SIPP, and only 13% of those 55 to 64.

Now, we don't know why that is. But you know, younger people do tend to nowadays move jobs more frequently, they might have periods of self-employment, or be in the gig economy and things like that. So that may be part of why younger people choose to take SIPPs. So yeah, we know a lot of people are taking them out. And in 2020, Which? estimated that UK servers had around 180 billion in SIPPs. So obviously, that's a huge number. But it's still, when you look at the size of the overall pensions market it's still, you know, it's still not the biggest proportion, but it is a big number. And the most common reasons you see for people choosing a SIPP are flexibility. So, Tim mentioned lots of different investments that you can, you can go for. Tax efficiency with your savings. So, if you do have a workplace pension already, or you have other pension arrangements, but you've got surplus money, some people will open a SIPP so that they can save in a tax efficient way for the future.

There is an assumption of higher investment returns. So you'll see a lot of chatter online, people will talk about how potentially because you're doing the investment management yourself, you will save money and you've got more freedom to choose higher risk options, and it's not as kind of the people who are fans of SIPPs will look at other pensions and be like, Okay, that's possibly safer, but the return isn't, you know, isn't going to be as great or whatever. So, there is an assumption that they will among some people, that they will perform better.

We've also seen some headlines in the news about certain investments in SIPPs going badly wrong. I kind of want to mention that we don't want to demonise SIPPs or make them out like they're some awful thing. Often these issues are where the investment has failed. And investments aren't a no risk game. There is always risk involved in these investments, and failure can happen. But typically, that's what, when you see it in the headlines, that's what you're looking at is where a particular investment opportunity has gone wrong, rather than the whole SIPP as a whole has gone wrong. And you know, so that's the risk you take when you're choosing your own investments, right. Sometimes things might not go to plan.

9:35 – Jess Spiers
Yeah, exactly. And I think our survey revealed some quite interesting reasons why people chose it, didn't it?

9:42 – Emma Barrow
Yeah. So, as I just mentioned, kind of people talk about flexibility and that being a reason to use that mechanism as a SIPP, but actually, when you look at why people made the start and kind of took out their first SIPP, around a quarter said that they'd chosen a SIPP because of something they just read online or the recommendation of a friend. So, it does seem that kind of word of mouth really kind of encourages people to look at this option.

You'll see them discuss a lot online, especially when people are like self-employed or working on short contracts. And they're asking other peers and people around what should I do for pension, a lot of people will suggest a SIPP because they're very flexible in terms of what you pay in and how much so that if you are self-employed, and you're taking breaks, and you're not earning all the time, or your incomes flexible, it is very easy in a SIPP to change the amount you contribute. Obviously, all the products are different. But it's easier than kind of a standard scheme where you're paying a certain percentage every month, all of the time. You'll often see people recommending them to each other if people are looking at guidance on consolidating pensions. So, if they've got a number of small pots already held somewhere else, perhaps in old workplace pensions, where they might have only worked for an employer for a small amount of time, and people will often suggest basically bunging them all in a SIPP. So, taking all those small pots that you might have and putting them in a SIPP.

Another factor that sometimes influences people's decisions is retirement age. So, some products, especially if you've had a product for a while, might have a protected retirement age, and you might be able to access that product at 55. Whereas the age of you being able to access your pension is increasing to 57, I think it is in 2028. And then who knows after that, but likely to go higher in my lifetime, at least.

11:33 – Jess Spiers
Yeah, thanks Em. So, if we start to think about how FSCS can help regarding SIPPs. Tim, could you tell us a little bit more about where FSCS comes in regarding SIPPs and how we can help if someone comes to us with a claim for a SIPP. Now, I think I'm right in saying that we can broadly split our claims into two categories. So that's claims against SIPP providers and claims against SIPP advisors.

11:58 – Tim McKeegan
That's right, Jess, yeah. But broadly, that's sort of how we would split the two types of claims. I think it's important to say you know, our claims are currently capped at a maximum of 85,000 bound in compensation. So that's per firms where they've failed after April 2019. If it was before, then it's capped at £50,000. But I think on those two categories, let's start with the SIPP advisor claims. So, when we talk about SIPP advisors here, what we're sort of talking about is regulated independent financial advisors, or IFAs. And these are people that will have given you advice about the SIPP.

But some examples of when we can pay compensation would include, basically, when you weren't made aware of the risks that were involved in the investment product that you would go it intends to be what we would see there so I think on the example that Emma gave, there are lots of options available, and you are well within your right to invest your money in a high risk investment. But we want to make sure that you are fully aware of that, at the time. Claims against that failed regulator advisor would ultimately tend to lead to that negligent advice that was given to invest in that particular SIPP.

I just wanted to give a fairly common example of a customer who I'll call Miss Smith. Now she worked as a Transport Manager earning about £25,000 a year and paid into a private pension fund, which was valued at £27,500. Now Miss Smith at the time was in her mid-40s, who was beginning to think about her retirement and had the intention of retiring at the age of 65. What we tend to see here is that Miss Smith was approached by an IFA in 2016. And it was recommended to her that she transferred her private pension to invest in an investment called the Resort Group Bonds that to do that within a SIPP wrapper. Now this investment was a group that held commercial property. I think the key bit was it was development property. It hadn't been built at the time, but their main business was holding hotels on the island of Cape Verde. So this is what we would sort of classify as a non-standard investment. The actual investment that Miss Smith purchased was sort of four-part ownership properties in Cape Verde and was promised as sort of Emma alluded to earlier, very high rates of returns.

The one thing we note is these non-standard investments, whilst available to everyone, are unlikely to be suitable for the majority of retail customers, given the high risks that are involved, particularly if you're transferring sort of your sole pension pot. In this case, when we assessed this claim in 2021, these four-part ownership properties were deemed to have no value and due to the investment not being suitable to the customer, we deemed the advice was unsuitable and upheld the claim and we were able to compensate the customer to put them back in the position that they would have been. We can also pay claims against advisers when people have been given negligent advice to transfer investments within a SIPP to a new SIPP provider.

15:03 – Jess Spiers
Great. Thanks, Tim. So that's sort of in a nutshell how we can pay claims against SIPP advisors. So, what about claims against failed SIPP providers? How are they different?

15:16 – Tim McKeegan
FSCS may be able to pay compensation for a claim against the failed SIPP provider for a failure in their due diligence. An example would be if a SIPP provider carried out due diligence on the non-standard investments who accepted into the SIPP but failed to tell the customer about any risks that their due diligence uncovered. And subsequently, the customer wouldn't have gone ahead and made the investment if the SIPP provider had told them about the risks that they'd become aware of. In many of the SIPP related claims, we see, the investments held within the SIPP aren't regulated. So, on a standalone basis, there are investments which wouldn't qualify for FSCS protection, because we can only help with regulated investments. In these scenarios, we are able to look at them because of the SIPP wrapper that the investments themselves sit within.

16:05 – Jess Spiers
Absolutely. And all of the information that you need is on our website, if you want to go and have a read of that in your own time. That's just www.fscs.org.uk.

16:24 – Jess Spiers
So, if we're talking all about SIPPs. Of course, I'd be interested to hear if either of you have SIPPs? Emma, do you want to go first?

16:31 – Emma Barrow
Yeah, no worries, Jess. So, I actually have three pensions at the moment, none are SIPPs. So I've got an old workplace pension, which I've kept. It's from a previous employer, because it has a protected retirement age of 55. And as much as I bang on about this, I want to retire 50-55, something like that. So, I'm really happy to keep that because of that protected retirement age. My second pension is my current workplace pension.

So, the one that FSCS opened for me when I joined the scheme a few years ago. And both of those are DC, defined contribution schemes, you know, I contributed in my old employer, and I'm not making contributions to that one anymore. It's just kind of keeping growing with the market. And I still obviously contribute to my FSCS one. I do have a third pension. And it is a personal pension is just not a SIPP. So, I opened that when I had a period of self-employment. And I actually still contribute to that most months. So, when I get to the end of the month, I've got any savings, you know, any money left that I want to save, I often will put that in my personal pension. And I do like that, although it's not a SIPP, it is still flexible in terms of contributions. I don't have to contribute every month. But I'm getting that tax benefit, I'm getting that savings benefit, which is important to me.

The reason I've not chose a SIPP is not because, I don't, I'm not against SIPPs. I don't think inherently they're a bad product. But I just don't feel like I have the time needed to research the investments properly myself. And I don't want to pay for financial advice. That's just a choice for me, it's not something that now at the moment, at the age that I am, I'm still in my 30s I don't feel like I need it right now. So, I'm more comfortable having that personal pension, where it is personal, I can be flexible on my contributions. But there is a fund manager there in the background managing that, for me, very similar to my workplace pension. So, I just don't feel like I personally have the time and energy to be worrying about the investments myself.

18:29 – Jess Spiers
That's really interesting. So, you don't have a SIPP, but it's like a conscious choice you've chosen, you know, you feel like your other pensions are enough. And you don't feel like a SIPP is for you.

18:37 – Emma Barrow
Yeah, I did definitely consciously choose. So, I did, I did look at a SIPP and say I'm not against them, by any means. It just wasn't right for me. And that was the key thing.

18:46 – Jess Spiers
Yep. Totally. Fair enough. Tim, what about you?

18:48 – Tim McKeegan
Snap on the three pensions Emma. Mine are split slightly differently. So similarly I've got two current and previous workplace pension schemes, which I would say is where the majority of my future savings are probably about 90%. Unlike Emma though, I do have about probably 10% in a SIPP. Probably because I'm more of a risk taker than Emma but I think what I would call out is there's a lot, a lot of research that went in when I was first taking it out.

And I would say that they are all investments in area that I've got a general interest in, and therefore read and a bit of knowledge. I'd like to think maybe. I understand the risk, which is why I've only put 10% in and not 90%. And some years it has been high returns and other years it hasn't. But ultimately, that is the risks of investments. But I think yeah, for me, it was something that I had an interest in and therefore it gives me the flexibility and it's quite nice to have that power. But it also comes with its risks.

19:51 – Jess Spiers
Yeah, definitely. And I'm quite interested, Tim, do you find you have to spend quite a lot of time managing that SIPP. How does that all feel for you?

19:59 – Tim McKeegan
This is terrible. Given that I work for the Financial Services Compensation Scheme, I probably don't spend as much time as I should. So, I think when I was setting it up, I spent a lot of time and I'd probably just check in monthly now. But I think, for me, it's a long-term investment of what type of approach is probably about 20 years before I retire. So I don't feel I need to watch it as avidly, but I probably should.

20:25 – Jess Spiers
Yeah, just something for anyone listening to bear in mind there. No, thanks, Tim. It's really, really interesting to sort of hear both sides of it there from you guys. And so, you know, we always say we don't give advice at FSCS, because it is outside our remit to do that. But Emma, it would be really useful to talk a bit about what people should consider if they're looking to invest in SIPPs themselves.

20:46 – Emma Barrow
Yeah, definitely Jess because there are things that I think everyone should consider with any pension arrangement. In fact, with any savings arrangement, the first thing for you to think about is your goals and your vision for what you want, you know, no one can decide for you what your retirement should look like and what you want out of that. So whether you know, do you want to go on foreign holidays? Do you want to have a new car every few years? Do you want to treat your grandchildren and your children, you know, all of those things are really personal to you. And for some people retiring early, in a more frugal way is more important, or retiring later in a more lavish way, or, you know, there are literally millions of combinations of things that you can do, but only you can answer that question.

And once you know what you want, and it might change over time, right. But once you know what you want, that can then help you decide what products and what sort of mechanism is going to help you achieve that goal. And as I mentioned a couple of times one of our previous podcasts, I think it was episode three, talks about the different types of products you can get once you get to retirement, that will then help you with an income. But going back to what Tim and I have just both said about our own pension arrangements, it's really important to have that honest conversation with yourself about your experience and investing. Are you experienced? Have you done it before? Are you really comfortable managing it yourself? Or is that just something that's kind of a, it sounds good at the time, but the practicalities of it are you not something you comfortable with? Or could you do it but with a bit of advice, because as I say you can with a lot of SIPPs, I don't think it's all of them.

But with many SIPPs, you can appoint an advisor to act on your behalf. So you don't have to completely go it alone. But that, having that honest conversation with yourself about your abilities, and the amount of time you've got to invest is really important, I think.

22:32 – Tim McKeegan
So totally agree Emma. But I think one thing I just like to add on to that really is sort of fees and the charges, which can vary quite a lot across these various products. So I think it's worth mentioning that there are some very, very low cost options available with SIPPs, which tend to be sort of completely DIY, you're on your own. And I think sort of as Emma alluded to there, there's some higher cost options, which are sort of semi managed. Or of course, you could use some of the very, very good IFAs out there to support you in there.

One thing I'd sort of focus on which we've seen sometimes here is around how the fees change throughout the SIPPs. So sometimes there's a differing fee between whether you're actively contributing to the to the scheme or whether you're not contributing. And then again, whether you're just drawing on that SIPP. So just make sure you really understand the details around what's going on there. And sometimes those costs are just one off. And that might be great and perfect for you at this point. The difficulty with all of this is it's individual, it's up to you. I think, make sure you are getting what you want.

23:34 – Emma Barrow
Yeah, it's so important. The fees and charges is so important. Because I know, I don't work with claims every day. But I see claims that customers bring to us and they can like massively erode your savings. But if you're not careful, and you don't know what you signed up for. So yeah, super important. And I think for me, we'll obviously always bring it back to FSCS. But it is really important to know what protection you're going to have in those products.

So if you've got a SIPP, would you be eligible for FSCS protection if the provider went bust? How much would you be eligible for? Are you able to complain to the ombudsman about that SIPP provider, about that arrangement? And to Tim's point earlier, are the investments in it regulated? Are they not regulated? It really is important to understand all of that stuff and really know if something really did go wrong. You know, are you going to be able to recover, recover the money you've invested, because, again, we talked about this on the previous episode, but that £85,000 limit, it goes quite a long way when you're my age. It doesn't go as long a way when you are close to retirement. So if you're in your 50s and 60s, and you've been lucky enough to build up a big pension pot, that £85,000 is not going to go very far.

So it's really important to understand that and know how much you might be exposed to losing if something did go wrong. And as we said, you know, we've repeated it a few times, but just do your research. You can use independent financial advisors, as Tim said there are there are many fantastic ones out there, but you can use other places have kind of trusted guidance to help there's Money Helper, which is the new name for the Money and Pension Service, who are there to provide government kind of backed, free guidance on things. They're not going to be able to provide you super personalised advice.

And we talked about that on a previous episode as well with one of our colleagues from Money Helper, but they will be able to provide you really good guidance on the options or options available to you. And there are other kinds of consumer bodies like Which?, Money Saving Expert that we all kind of know about. And they have great guides to SIPPs and Which? as well have some really good reviews of SIPP providers from previous customers, which is quite handy to be able to see. So that whole point of doing your research and spending the time. Most people listening to this will have 10s of years away from retirement. So you can't tell me that you can't find a few hours to do your research into what you're going to do with your pension.

25:53 – Jess Spiers
Brilliant. Thanks, guys. So I think we're pretty much ready to wrap up the episode now. I feel like we've said the word SIPP about a million times but hopefully we have kind of demystified SIPPs and yeah, just sort of given you a few stories to help you decide if a SIPP is actually for you or not. So Tim, you know, I'm going to ask you the question, when you were a child, what was the toy that would have got you breaking open your piggy bank?

26:18 – Tim McKeegan
Really tough question, because I was always an avid saver as a child. And as I got older, it tended to involve engines. But I think the first thing I can really remember was little mini engine and saving up for Scalextric set with Silverstone, which was Formula One cars, and I think probably about six months' worth of savings to finally get it. And then it took over the living room for about nine months and never came out again.

26:45 – Jess Spiers
Oh, Tim were you really a saver from such a young age?

26:48 – Tim McKeegan
Yeah, I think probably because I want big things. Yeah.

26:53 – Jess Spiers
Fair enough. Well, thank you so much, Emma, and Tim. We hope that everyone listening has enjoyed the podcasts. You can find all our podcasts on our website, which is www.fscs.org.uk and the usual places you find your other podcasts. We would love to hear what you think. So please do rate and review us and you can also let us know on our social channels. Just search for @FSCS. Thank you for listening!

Jingle