



Mis-sold Pensions (SIPPs)

Background:

In the UK many financial advisers, whether tied or independent, will not charge a flat fee to give financial advice. The reason for this is that the vast majority of people will shudder at the thought of paying in excess of £1000 (and often more than £3000) for financial advice and would rather do nothing than pay a fee (even though ignorance most often costs a lot more in the long run).

As a result of this reluctance, financial advice is often commission based, where the cost of advice is taken from the financial product under consideration.

What this means for the consumer is that the adviser will be looking to identify what they can sell you: If they don't sell you a new plan/product then they will not get paid.

In some cases this payment structure leads to a commission hungry salesperson (and there are plenty of them in the UK) to give poor advice, as their motivation is less about offering you a service but rather about generating money for themselves.

One of the adviser's recent areas of opportunity has been pension transfers (also known as pension switching), where an adviser identifies an existing pension plan and examines it to see how good it is, with a view to recommending a transfer and generating a fee/commission.

Is this so bad?

Many personal pensions were taken out with Life Assurance companies and Banks in the 1980s and 1990s, and are fairly basic yet have high charges with little flexibility or investment choice.

Many of the life companies are no longer looking to attract new business and so invest little in the way of researching investments (so they do not perform well), upgrading their service or product features (an example of this is Phoenix/Resolution, which has bought up many closed life assurance companies and simply live off the charges on the money which is lying virtually dormant (i.e. not being actively managed to encourage new investors).

These pension plans often have significant amounts saved in them, so an adviser can take a high up front commission/fee/charge by transferring from the existing provider to a new one.

This is not necessarily a problem because many of these old plans ARE poor quality and poor value, whereas the pensions market has progressed significantly over the past 5-10 years. There are now several companies offering low cost, yet very flexible plans with a wide range of investments, including some specialist funds that offer very good prospects for growth to boost your retirement fund.

There are also stakeholder pension plans available, which are low cost (though often limited in their functionality and investment choice).

There is now an excellent opportunity for people to move from poor plans to new revitalised pension plans and, if done properly, an Independent Financial Adviser can add significant value and offer a regular service to help people engage with their financial future, often at a similar cost to that which they already pay (through investment deductions by the life offices, to which most pension investors are oblivious to – do you know how much you lose in charges each year by way of deductions by your pension provider? If not, we can help you find out).

Pension Mis-selling?

The trouble arises when some advisers recommend that people transfer to MUCH MORE expensive SIPPs (Self Invested Personal Pensions), without providing any real good reason for choosing such an expensive plan, as opposed to a much better value Personal Pension.

This means that many people are paying high costs for functionality or benefits that they either do not need, do not understand, or are not receiving any real benefit from.

In such cases there is a strong case of pension mis-selling, though not on the same scale as the pension review of the 1990s, when occupational pensions were often overlooked, or transferred out to start new personal pensions to the detriment of the pension plan holder.

Some of the tricks advisers use to justify their advice to transfer to a SIPP:

1) "**Invest in commercial property**" – unless you own your business, it is unlikely this will be relevant to you. Even if it is, the purchase will need to be done fairly soon after transfer to justify the move. If it was just a pipedream then you were probably better off staying where you were or moving to a much cheaper, yet functional pension plan.

2) "Use a **Discretionary Investment Manager**" – this is en vogue at the moment and allows the adviser to avoid regulations restricting advice to move to a normal personal pension (see FSA RU64). In reality a *Discretionary Investment Manager* is only really of benefit (to outweigh the higher costs) to people who have fairly sophisticated needs, or who have large pension funds (say, over £100,000- £150,000) to justify the range of investments used.

Furthermore, such investment managers are often used by advisers who do not have the necessary knowledge of investments, so you may question why you are paying the adviser for advice in the first place (as this amounts to duplication of cost compared to some advisers who can competently advise on both the pension solution and the underlying investments).

3) "**Pension consolidation**" – It is often an attractive idea to have all your pension money administered by one company, rather than spread across several plan providers (this often arises as a result of various employments, or various new plans taken out over the years). This reduces the paperwork and confusion that can arise from many statements and documents issued each year by each provider.

However, it is possible to consolidate into a low cost personal pension rather than the more expensive SIPP, so there is a contention that less than best advice has been provided in these cases.

4) "**Flexible income**" – income drawdown, or phased retirement, is often used as a reason for transferring, but this can also be achieved through low cost personal pensions.

So, if you have been advised to transfer to a new pension plan without the costs being fully explained (could you tell me what the costs were?) then you may have a valid **pension-miss-selling** claim and be entitled to **financial compensation**.

As mentioned above, many pension transfers, or switches, amount to excellent advice, however, it is essential that the costs and plan functionality amount to value for money, rather than just a way for an adviser to sell a new plan to generate the commission/fee he/she would otherwise not be able to generate.

We can fully assess the financial advice you received and make a claim for compensation if applicable.

If you would like your pension plan reviewed by a highly professional Independent Adviser, then please let us know and we'll ask one of our consultants to contact you (he is also an FSA authorised IFA).

If you have not transferred your personal pension and have an old plan/policy (often with life offices such as Phoenix, Resolution, Windsor Life, Abbey Life, or banks such as Abbey National, HSBC, Barclays, Natwest etc) then you could significantly benefit from a pension review.

The adviser that we recommend has extensive pensions experience and only recommends low cost solutions from the whole of market UNLESS you have more sophisticated needs, in which case a more expensive option may be suitable. The adviser also provides us with his expertise on mis-selling claims, so we know he has the highest level of integrity and knows how to give the most suitable advice that is right for you.

Source: www.lower-cost-complaints.co.uk