Original Article

Employee benefits of corporate self-invested pension plans

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ABSTRACT This paper is a high-level guide to corporate self-invested pension plans (CSIPPs) and looks at the key issues you need to consider in deciding whether they are right for your organisation. It covers design, communication, implementation and administration factors, and takes into account recent market and product developments. Topics covered include the following: (i) Changing world of work and attitudes to wealth creation; (ii) What is a CSIPP, and what are its advantages and disadvantages? (iii) Integrating CSIPPs into existing benefit structures; (iv) Developing a high-level CSIPP strategy to suit pensions objectives; (v) Investment strategy, advice and management considerations; (vi) Designing a new CSIPP to enhance and support developed strategies; (vii) Developing a communication plan that engages employees; (viii) Good CSIPP administration platforms, systems and other considerations when installing a CSIPP; (ix) Ten tops tips for choosing the right CSIPP partner.

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INTRODUCTION

In the increasingly competitive world of work, today's employer is under greater pressure to ensure that the benefits they provide contribute directly to influencing employee behaviour, generate a maximum return on investment and help win the war for talent.

Employees are becoming more sophisticated in terms of their benefit expectations, and are looking

for increased choice and value, in particular wealth creation. Increasing diversity, especially age and lifestyle, are helping to fuel a change in the provision of pensions in the United Kingdom.

CHANGING ATTITUDES TOWARDS WEALTH CREATION

Flexible wealth creation is the act of creating growth in the value of your investments in such a way that they can be changed to respond to different circumstances.

The challenge for employers is balancing their key drivers with those of their employees'

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Figure 1: Attitudes towards wealth creation.

changes in attitudes. Most organisations manage this by segmenting their workforce into defined ‘attitude’ groups. Figure 1 shows three distinct groups of employees and their different attitudes towards wealth creation. This is matched by the implications of each group, which in turn are used to determine pension strategy.

Traditionally, each group would have its own separate pension provision (expensive and with a large administrative burden), but an increasing number of companies are now looking at corporate self-invested pension plans (CSIPPs) as a more flexible and effective addition or, in some cases, an alternative to their existing defined benefit (DB), defined contribution (DC) or additional voluntary contribution (AVC) pension schemes.

WHAT IS A CSIPP AND WHAT ARE ITS ADVANTAGES?

An SIPP, a self-invested personal pension, is a special type of wealth creation vehicle based on a personal pension that can be established by any individual of any age, even if not actually employed or resident in the United Kingdom.

A CSIPP is an SIPP made available to employees by their employers. Not only does this afford preferential pricing because of ‘bulk buying’, but the economies of scale also enable better communication and more efficient administration.

The more advanced SIPPs are the most open pension frameworks that exist today and offer the

Figure 2: Using CSIPPs to create wealth.

most flexibility of any pension product in the marketplace.

Figure 2 illustrates some of the investments that can be put into a CSIPP to create wealth. Since 6 April 2006, the HM Revenue & Customs (HMRC) rules have not generally restricted the types of investments an SIPP can invest in, and there is no longer a detailed list of permitted investments. There are, however, certain assets that obviously do not qualify, such as tangible moveable property (residential property, fine wines and so on).

Employees can have as much or as little involvement in the control and decisions regarding their investment strategies within the scheme as they wish. The same is true for decisions regarding the design, development, communication, installation and administration of the scheme.

Advantages of CSIPPs

One of the main advantages of CSIPPs is their investment flexibility. This makes them more attractive to employees who want more flexibility and control over where their money is invested.

This is important, as it is common knowledge that improving the attractiveness of a benefit helps to combat apathy, increase employee engagement and, as a result, contributes to improved contribution from employees.

This investment flexibility also makes CSIPPs ideal for employers looking to actively manage default or lifestyle investment funds within the same scheme: for instance, creating a range of age-related investment pots as an alternative to a DB scheme.

Although they do not completely replicate a DB scheme, the CSIPP structure proves a closer alternative than traditional and hybrid DC schemes because it gives the employer (and employee) greater control over the final value of money available on retirement, without the balance sheet issues currently plaguing many DB schemes today.

According to the latest CIPD Reward Survey, CSIPPs are now becoming more popular than hybrid pensions schemes as replacements for DB pensions.

The combination of the above factors makes CSIPPs an ideal and cost-effective vehicle for harmonising legacy schemes and/or consolidating pre-existing plans/transfers. The flexible construction of CSIPPs allows employers to use them as a common denominator for equalising both contributions and benefits.

Another advantage of CSIPPs is the tax advantages of in specie transfers such as transfer-maturing shares. Not only does this increase the actual value of the benefit but also allows employees who are asset rich but cash poor to contribute to their pension.

With a growing interest in commercial property investment as an alternative method of creating wealth, CSIPPs also offer a tax efficient vehicle linked to pension provision.

As with any pension, the benefits of CSIPPs can be enhanced through salary and bonus sacrifice, if appropriate to the circumstances of individual employees. Employee NI savings can be used to 'boost' the contributions to the SIPP. Company NI savings can be used to offset any costs associated with the setup and running of the CSIPP.

THE MARKET FOR CSIPPS

The current market falls naturally into the independent CSIPP (with full open architecture for all asset classes), the insured CSIPP (with a requirement to invest in those insurance company funds with access to external fund managers), the IFA SIPP (where an adviser company also has a SIPP) and the low-cost SIPPs (which are generally restricted to platforms or stock-broking services).

This diversity and choice is further confused by an unusually high level of marketing and promotion, which, inevitably, is putting further spin on what is a complex offering.

Against this background there is a growing concern over mis-selling, which has been with us for many years and, unfortunately, will always be a risk regardless of the type of pension involved. It is vital, therefore, to ensure complete suitability in order to avoid some element of setting up CSIPPs for those that do not actually benefit from them.

As has always been the case with any workplace pensions, there is a need to balance what is best for the long-term needs of the employer with the individual: for instance, affordability. A CSIPP is not necessarily suitable for all but it is not necessarily being mis-sold just because all the flexibility is not being used immediately. As long as the employer and their adviser follows treating customers fairly rules, then the dangers of mis-selling any product is minimised.

There is also a danger of mis-selling when advisers transfer from an insurance company personal pension to their SIPP without any changes in their approach to the funds they are invested in. This is particularly prevalent where commissions have been paid for these transfers.

Although a major advantage of CSIPPs, more choice and flexibility coupled with an increasing 'consumerism' approach to internal marketing will create the need for more education, advice and monitoring for individuals, employers and their advisors.

The CSIPP market is only just beginning to grow. At present, there are a number of providers of CSIPPs, but not all offer a full proposition or know how best to install and run them. There are 10 top tips for choosing the right CSIPP partner at the end of this paper.

INTEGRATING CSIPPS INTO EXISTING BENEFIT STRUCTURES

CSIPPs, by their very structure, are not just a wealth creation and pension product. If designed and delivered properly, they can be a powerful vehicle for delivering change: for instance, harmonising several existing schemes into one.

Figure 3: CSIPP integration.

As such, the integration of a CSIPP into an existing benefits structure should be a top-down project, starting with the strategy and underpinned by a robust and efficient administration process.

Figure 3 shows the main elements you need to install and run a CSIPP and who, typically, is involved at each stage. These are covered in more detail below.

As most employers already have existing advisers, benefit communication and administration systems, a modular solution, based on a core SIPP wrapper, is easier to integrate than a stand-alone product.

DEVELOPING A HIGH-LEVEL CSIPP STRATEGY

As with similar strategic HR initiatives, it is important to understand what it is you are trying to achieve with your new CSIPP at the outset.

To ensure this, it is customary for the CSIPP specialist to consult with the employer's adviser to enable him/her to integrate the CSIPP advantages into a high-level benefits and pension strategy.

The first step is to set the context for the new initiative by establishing a clear link to your business objectives and the return on investment you are looking for. This link then needs to be referenced to existing benefits, employee preferences and your competitive position.

Tax, compliance and employment law are the three main elements that shape any benefit and therefore it is important to understand current legislation and future changes.

A high-level view on employee engagement, communication, selection mix, administration and IT are key, and are covered in the later sections.

ENSURING THAT CSIPPS WILL SUIT PENSION OBJECTIVES

The key to the successful choice and implementation of a CSIPP scheme is to establish whether a CSIPP is the right solution and if so, to develop a clear strategy linked to your pension strategy and objectives; for instance, using a CSIPP as a top-up for a restructured DB scheme.

An effective way of doing this is to carry out a feasibility study. This looks at all the investment required and how it measures up to the advantages delivered; for instance, the cost savings associated with using a CSIPP to replace several existing legacy schemes.

The study should also establish the practicalities of delivering the CSIPP by looking at tax and employment law implications, communication, administration, outsourcing, IT and infrastructure issues.

INVESTMENT STRATEGY, ADVICE AND MANAGEMENT CONSIDERATIONS

From a CSIPP perspective, there are four basic scenarios that will dictate what investment advice and strategy will be required.

Self direct – This is where employees are empowered to choose investments themselves.

Grouped portfolios – This is where the employer provides a selection of investment pots based on fixed criteria: for instance, age bands, lifestyle preferences and so on.

Default option – This is where the employer provides just one fund choice.

In specie transfers – These include share incentive plan (SIP) to SIPP share transfers, commercial property, legacy pensions and so on.

Some employers prefer an open framework that gives employees total freedom to choose, whereas others prefer an element of control. The balance is between flexibility and responsibility (for making an informed decision).

Each type of CSIPP provider has its own unique charging structures and therefore there is a need to ensure the right balance between the investment strategy and associated costs. For example, some insured CSIPPs may be cheaper than full open architecture but may not offer facilities such as SIP to SIPP, commercial property and so on.

In terms of integrating investment management into the day-to-day administration of the CSIPP, the key requirements are as follows:

- Management of individual employees investments
- Valuations across entire portfolio
- Transaction tracking and history
- Appropriate correspondence

ENSURING THE DESIGN OF A NEW CSIPP ENHANCES AND SUPPORTS DEVELOPED STRATEGIES

The design of any pension, in particular CSIPPs, should be based on quantifiable data and not individual desires. There should be a robust link between contributions, investments and benefits.

Figure 4 outlines the four key areas of CSIPP design and gives examples of the types of issues to be considered for each.

The design structure defines issues such as who will be eligible to join the scheme and how much flexibility there will be. For instance, will employees be allowed to transfer in their own legacy pensions?

Contributions and transfers looks at the rules and framework governing what employees can put into their CSIPP. For example, will employees be allowed to invest their bonuses in the scheme?

Investments, based on the comments in the last paragraph, define the structure and options available.

CSIPP pricing sets the rules for how the scheme costs are met. For example, if the employee wishes to put the scheme in on a 'cost neutral' basis, they may offer the CSIPP as a voluntary (employee paid) benefit. They may also

Design Structure <ul style="list-style-type: none"> ✦ Positioning ✦ Flexibility ✦ Restrictions ✦ Eligibility ✦ Scheme year and rules 	Investments <ul style="list-style-type: none"> ✦ Self direct options ✦ Open framework ✦ Grouped portfolios ✦ Default option ✦ Passive vs. active management
Contributions / transfers <ul style="list-style-type: none"> ✦ Core ✦ Voluntary ✦ Bonuses ✦ New hires 	CSIPP pricing <ul style="list-style-type: none"> ✦ Cost-neutrality ✦ Sharing costs ✦ Provider fees / commission ✦ Tax and National Insurance

Figure 4: CSIPP design issues.

choose to operate the scheme as salary sacrifice and use their NI savings to offset scheme costs.

Whichever option is chosen, it is vital to ensure that the administration, IT and internal structure can support your design to guarantee the correct strategy can be communicated effectively.

DEVELOPING A COMMUNICATION PLAN THAT ENGAGES EMPLOYEES

Education is the vital component of communicating a CSIPP scheme. Employees should understand the options available to them and the consequences of their discussions, as they will ultimately be responsible for them.

As communication is such a complex yet vital part of the successful introduction of a CSIPP scheme, employers may consider creating a launch project team to manage this part of the process.

Figure 5 (adult learning model) is an example of an effective communication strategy, and the key messages designed ensure that the new CSIPP scheme supports and enhances the employer's objectives. It is based on a broad range of communications to make sure that employees receive the message and both support and buy into it.

The communication plan should ensure that communications are both understandable to employees and successfully convey the required message. To support this plan, there are practical requirements such as developing the appropriate communication material for the benefit platform, employee handbook, user guide to the website and commonly asked questions and answers.

Figure 5: Developing a communication plan.

As an SIPP is a personal pension, there is a requirement for basic documentation and communication support, including the following:

- Employers agreement
- Illustrations
- Pre-populated member application forms
- Contribution schedule template
- Member schedules and welcome letters
- Annual valuation report

THE BEST ADVISER AND EMPLOYEE ACCESS SYSTEM AND PLATFORM TO USE

In a world driven by technology, it is important to remember that the message is far more important than the media. When deciding on systems and platforms, preference should always be given to supporting a chosen strategy, and not the other way round.

Figure 6 maps out the various options for employee access and choice for CSIPPs designed to offer the three portfolios (described in investment choices above).

Only the top portfolio will require a full CSIPP. The other two will simply require employees to choose which type of 'pot' they would like. The systems and platform required to support this arrangement need to be flexible enough to offer full choice at one level and simplicity of choice at the others.

There are a variety of systems and platforms available today and their modular nature means that it is difficult to provide a definitive guide. For the sake of illustration, however, the examples below give two different types of approaches.

On-line/self-service

Most existing employee benefits self-service/on-line administration platforms can accommodate the front-end communications and administration required for a CSIPP. These are provided either by advisers or by the employer themselves.

The main functions required, for CSIPPs, for this type of platform include the following:

- Online web-based access
- Employee self-service
- Employer administration access
- Choice of portfolio, contribution and distribution of investment
- Optional investment platform for self-select

View-only 'portals'

For those employers and/or advisers who do not want online and/or self-service, usually because they want their employees to take proper advice before choosing options, a 'view-only' portal is better suited.

The main functions required, for CSIPPs, for this type of platform include the following:

- View individual records
- View all records (limited access)

Figure 6: CSIPP employee options.

- Provide individual illustrations
- View account summaries
- View bank account values
- Regular technical bulletins

EFFECTIVE ADMINISTRATION PLATFORMS, SYSTEMS AND OTHER CONSIDERATIONS WHEN INSTALLING A CSIPP

The flexible and tailored nature of CSIPPs is best served by bespoke administration systems that provide an efficient and accurate service.

The leaders in the market have developed platforms that allow them to incorporate individual, partnership, group, corporate and property syndicate SIPPs within one system.

The core SIPP ‘wrapper’ is the engine of a good CSIPP and provides ‘cradle to grave’ administration. It should also be properly managed (as a project) all the way from initial concept through to installation, employee enrolment, contributions (including transfers) and investments.

It should also manage reports (including HMRC, payroll and so on) and tax reclamation, along with all the other requirements for administration of assets within the scheme.

Finally, the core SIPP wrapper should ensure the production of annual statements, as a minimum.

Offering a modular and flexible foundation for SIPP management allows other facilities to be included:

- Contribution management
- Tax claims

- Bank account and scheme asset management
- Property and loan management
- Earmarked and proportional ownership of assets
- Automated price feed
- Annual valuation
- Fee invoicing
- Income drawdown and pension payments
- Total control over administration processes via built-in workflow system

Service is key to any form of administration, and CSIPPs are no exception. Good providers have an administration team solely dedicated to CSIPPs, who focus on the needs of corporate advisers and clients.

These specialist administration teams provide the full range of services for company pension schemes, dealing with the receipt and investment of the payroll contributions. The teams ensure that the employer is provided with a dedicated service for their particular scheme.

A true CSIPP provider has processes in place that coordinate all aspects of scheme administration processes once the scheme is established. These ensure that the scheme runs within rules and regulations, dealing with contributions, investment instructions, valuations, drawdown of pension benefits and death claims – in fact everything to establish the smooth running of the retirement plan from cradle to grave. The processes will guarantee that work is carried out to meet the required standards and within agreed service levels.

CONSIDERATIONS WHEN INSTALLING A CSIPP

Because of the complexity and timescales involved, it is important to create a project management team. This team will include key personnel from the employer's company, their advisers and the CSIPP provider. There must be a structured framework for implementation and it is advisable to deal with infrastructure issues as soon as possible. Best results are achieved when the CSIPP is introduced at an even pace, with clearly defined measures of success.

CONCLUSION

In an ever-changing and demanding corporate environment, companies are increasingly looking to CSIPPs as a future-proof vehicle for providing flexible and effective wealth creation and pensions for their employees.

The CSIPP market is only just beginning to grow. At present, there are a number of providers of CSIPPs, but not all offer a full proposition or know how best to install and run them.

TEN TIPS FOR CHOOSING THE RIGHT CSIPP PARTNER

1. Make sure the provider has been involved with CSIPPs for some years and has not just entered into the market in order to be fashionable.
2. Ensure that the CSIPP is registered as a pension scheme as defined under Part 4 of the Finance Act 2004.
3. To be a true CSIPP, the schemes should include all HMRC-allowable investment choices, including quoted and unquoted shares as well as commercial property.
4. Watch out for restricted investment choices. Some providers use CSIPPs as a means for promoting only their own investments. A good CSIPP provider will be open and willing to advise on all investment options, including using your own preferred advisers.
5. Communication is key, so make sure that your prospective provider has the expertise and experience to work with you in all communications (from presentations and handbooks to newsletters and platforms) and that these are tailored to your needs and brand.
6. Ask the provider to demonstrate their systems and procedures and show that they can accommodate your pension, payroll and HR requirements. A good test is to find out if they can deal with one single payment per month to be applied across all employees.
7. In order to integrate the CSIPP into your reward and benefits strategy, make sure that the CSIPP provider has the necessary consulting expertise and technical team to cover all aspects of advice, from pension strategy to HMRC legislation.
8. It is easy to hide charges in a scheme such as CSIPP, so make sure the provider has a transparent charging structure.
9. Employee experience is important, as is flow of information. A good CSIPP should have a full range of illustrations available, preferably online.
10. CSIPPs by their nature are both powerful and complex. These types of benefits need to be managed in a structured and proactive manner. Ask who your dedicated client account manager is going to be.

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