FAQ
7IM SIPP UNINVESTED CASH

FEBRUARY 2024

New pension regulation: significant long-term uninvested cash

FAQs for financial advisers

What is the new regulation on uninvested cash?

From 1 December 2023, new regulation from the FCA requires pension providers such as 7IM to contact affected clients to inform them about the danger of their savings being eroded by inflation.

Who does this regulation affect?

These rules affect clients who meet the following criteria:

- Are under 50 (and therefore in the accumulation phase)
- Hold more than 25% of their pension (and at least £1,000) in cash, or cash-like, investments, for six months or more

What are considered cash-like investments?

The FCA has defined cash-like investments as cash or near cash units in a regulated money market fund, or units in a fund authorised as a money market fund.

What information is included in the cash warning?

The policy statement released by the FCA requires the communication to include the following:

- An illustration of how inflation can erode the value of the capital over time
- A reminder of the benefits of investing
- A nudge to consider whether the uninvested cash will meet their objectives
- Confirmation that the cash warning is not investment advice.

How do I know when 7IM will contact any of my clients?

We will let you know before we contact any of your clients. Although the FCA does not require pension providers to contact advisers, we understand the importance of maintaining your client relationships and will therefore notify you three months before a cash warning would be due.

This should allow you time to forewarn your client, invest the cash if appropriate, or discuss the situation with us if the client might be exempt.

Can I see the content of the letter?

A sample of the letter can be found at the at the end of the document. We might make some changes to the sample letter to reflect latest market developments.

Please scroll down

Where can I find more information about the new regulation?

You can find more about the new regulation by reading the full background, reasoning and guidance from the FCA in its PS22/15 Policy Statement by clicking on **this link** (pages 21-30).

The new rules are set out in Code of Business Sourcebook 19 (COBS 19) of the FCA, a chapter in which the regulator outlines specific provisions that apply in respect of FCA-regulated pensions.

Who can I contact if I have any other questions?

As always, if you need any help with anything client related, please contact our **Platform Service Team** or visit our website for guidance. Please also remember to refer to the online content in our **Platform Help Centre** and **Literature Centre** and our **Investment Accounts** page which might help answer any questions about how to use our platform.

Please see next page for a sample of the cash warning communication.

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XX/XX/XXXX

Subject: Uninvested cash held in your 7IM SIPP account

Dear

You are receiving this letter because our records indicate that you have held more than 25% of your 7IM Self Invested Personal Pension (SIPP) account in cash or cash-like investments for at least six months. We wanted to inform you of the potential negative effect that long-term inflation can have on uninvested cash and the detrimental impact it can have on your long-term savings goal.

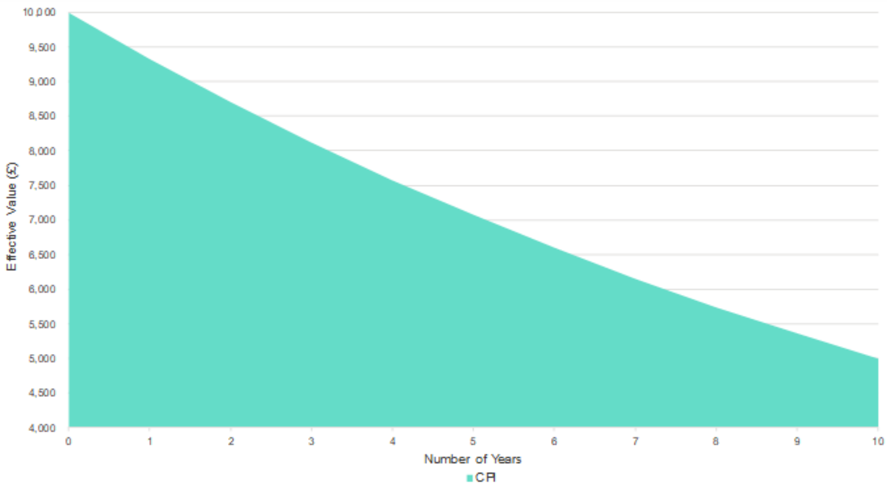
What this means to you

Your SIPP is a long-term savings vehicle that enables the invested savings within it to grow in a tax-efficient manner. It is not an investment in its own right. Contributions should be routinely invested to make the most of the benefits of being inside the SIPP environment. The value of your SIPP account is affected by many factors, including interest rates, investment decisions, asset allocation fees applied throughout the duration of the SIPP account, and inflation.

Outside of ensuring you have implemented the correct investment strategy for your circumstances, one of the factors that can have the biggest impact on the overall 'real value' of your SIPP is inflation. Inflation is a term used to measure the value of cash against the cost of items over time. In short, inflation is a measure of 'spending power', or a comparison between what you can afford now and what you want to be able to afford in the future. As at 30 September 2023, the Consumer Prices Index (CPI) was 6.7%

Inflation levels significantly impact the 'spending power' of cash over the longer term. A high inflationary environment can accelerate the erosion of cash, meaning that your retirement savings may buy you significantly less than you hoped for.

For example, uninvested cash in your £10,000 SIPP account could decrease in real value to £9,330 in the first year at an inflation rate of 6.7% (excluding any fees or charges). If the same amount of cash was left uninvested, and inflation remained at the same rate, the spending power of the cash would be reduced to £4,998.23 after 10 years. That's a real-term reduction of around 60% in 'spending power'.



Year	Value Minus CPI
0	10,000.00
1	9,330.00
2	8,704.89
3	8,121.66
4	7,577.51
5	7,069.82
6	6,596.14
7	6,154.20
8	5,741.87
9	5,357.16
10	4,998.23

Chart 1: How an uninvested £10,000 cash pot could erode over time at an annual inflation rate of 6.7% over 10 years. Source: 7IM.

In sum, for a £10,000 cash pot uninvested in your SIPP account:

- At a CPI rate of 6.7%, your pot decreases in value by £670, to £9,330 in its first year
- After 10 years, the amount left in your SIPP account is £4,998.23
- These values exclude fees, which when applied, would bring down the value of your pot.

In this example, we have assumed no interest has been paid on the cash you are holding in your SIPP account.

As at 30 September 2023, the rate of inflation in the UK was 6.7%, but this value can go up as well as down. Lower levels could still erode your cash pot, albeit at a slower pace; the higher the value of inflation, the quicker the uninvested cash in your SIPP could erode.

Potential benefits of investment

One way to help cash maintain its 'spending power' over the longer term is to invest. You could benefit from investing by increasing the overall value of your savings, but there is the risk that the value of your investments could go down. Some higher-risk strategies may appear to return attractive growth numbers, but they may be volatile and prone to sudden losses. Your financial adviser will be able to discuss with you the range of investment returns that different investment approaches could generate, and what could be most suited to your specific needs.

Assuming an investment strategy deployed targeting a 5% annual return on the same £10,000 with no subsequent contributions, the value of this pot could increase to £16,288 after 10 years. This is a real-terms increase of £6,288, in the value of your savings over the decade (excluding fees and charges). In this case, the investment helped the cash mitigate the eroding effects of inflation, with a 63% increase in 'spending power'. Please note this example is an illustration and not a projection.

Impact of fees on returns

When assessing the appropriate strategy for your SIPP, we also encourage you to be mindful of the impact that product fees and charges can have on investment returns. Think of it in the same terms as a salary: an individual may earn £35,000 per annum (pa), but after income tax and national insurance, that is reduced to £22,430 pa as 'take-home pay'.

In simple terms, if your portfolio returns 6% growth pa, but the product fees are 1% pa and the advice fees 1% pa, the actual growth of the portfolio is only 4% after fees and charges. Any investment goals should be based on returns after fees, and charges are deducted to give the investor an idea of their 'take-home pay' equivalent.

What to do next

The purpose of our communication is to notify you that you have held more than 25% of your 7IM SIPP account in cash or cash-like investments for at least six months. It is also to encourage you to seek guidance on the cash that has not been invested and to consider whether your current investment strategy will enable your savings to grow at the rate that will help ensure your future financial stability.

If you are unsure as to whether you are making the most from your savings, please contact your financial adviser to review your current investment approach. To determine the impact that inflation erosion can have on cash in your SIPP, we suggest you and your adviser assess your investment goals, establish a plan to regularly review your SIPP, monitor return levels closely, and ensure you are happy with the level of impact that any product or advice fee associated with your SIPP account are having on your returns.

Please note that the content of this letter does not constitute financial advice. The value of investments can go down as well as up and you may get back less than you originally invested.

If you have any questions about the contents of this communication, please contact your financial adviser.

Yours sincerely,

Dave Rafferty

For Seven Investment Management