How To Review Your Existing Pension

Premier Financial Planning Ltd **01722 717427**

There have been many changes in pensions over the years caused by regulation as well as innovation from pension providers. This means that there are numerous types of pensions owned by people, each with different charges, investment options, availability to tax free lump sums and guarantees. Because of this it can make it hard to understand exactly how your pension works and if it is working properly for you. The aim of this guide is to help you to understand pensions better and also know what are the main points to look for with your own pensions so that you can see if you are getting a good deal.

The Myth About Pensions

Firstly let's dispel a few myths about pensions.

Pensions have had a bit of a hard time over the year in the press and although some of that is warranted. The blame of poor performance, etc should be put at the right door and not just what the press says.

A pension is simply a tax vehicle, where by you get tax relief on your contributions and lock away the money to a minimum of age 55 before being able to take the benefits in the form of releasing some of it as a tax free lump sum and the remainder as retirement income. This tax relief can be very advantageous as your contribution is 'grossed up' by 20% for basic rate and non rate tax payers and higher rate tax payers have a further grossed up 20% that reduces their tax for that tax year.

Eg. If you contribute £1,000 to a pension then the contribution is grossed up to £1250 (so £250 added by the government). For higher rate tax payers their tax bill would be reduced by a further £250. That is the equivalent of 25% or even 50% of your contribution on the very first day!

Within this pension you are selecting where to invest your contributions with the aim of growing that pension. This can be in fixed interest securities, equities, or even a combination of different assets. The point is that it is not the pension that is dictating the risk level or the falls or rises in value, it is the underlying investment. It is there that we should lie the blame of falls in value or poor performance.

It is therefore vitally important that this investment mix is advised upon to ensure that it fits with your own personal risk profile and objectives, also that it is reviewed and changed as your circumstances change.

Another problem said about pensions is that you have to buy an annuity on retirement and if the rate is poor then this impacts on your income. This is no longer the case as you now also have the option of using income drawdown which allows you to take income from your pension without locking into an annuity.

The Pensions Acid Test

When advising on pensions there are 6 points we always look at to see if the pension is good value, or if in fact it is better to move that pension to a different provider. Those 6 points are:

- ✓ Charges
- ✓ Investment performance
- ✓ Current asset mix and range of available funds
- ✓ Investment overlay
- ✓ Financial stability of the provider
- ✓ Existing guarantees

Let's look at each of these in turn:

Charges

Nothing in life is free and therefore you are paying the provider to run the pension for you and also invest the money on your behalf to grow the pension. Here are the various potential charges:

Annual Management Charge

This is the main charge on most pensions and it is a percentage charge taken to invest your money. You are paying for a fund manager to make decisions on investing your money in order to grow the pension over the longer term.

This charge can vary from provider to provider, however the typical fees range between 1% - 2% and are taken from the fund on an ongoing basis. You will never see this charge as the statements you receive are always net of this charge.

Policy/Administration Fee

Some older pensions also have a monthly/quarterly policy fee for the pension. This will be a set £ amount and is taken to administer the pension. Many new types of pensions do not have this fee.

Bid/Offer Spread

Some older pensions have this charge and it is a charge on money going into the pension. This is for the new purchase of assets and shares and a typical bid/offer spread is 5% of any new contributions. Most new types of pensions do not have this fee.

Transfer Charge

This is a charge to transfer the pension from your existing provider and move it to a new provider. This should always be looked at when considering moving your pensions. The way to understand how much this is, is to get a fund value (what your pension is worth now) and a transfer value (what your pension is worth if you move your pension). If there is a negative difference between these two figures then that must be considered.

Investment Performance

Now we must state at outset that past performance is no indication of future performance and all investments can go down as well as up.

When looking at past performance we are looking at the consistency of performance and also to see how the fund has performed against its benchmarks. This helps us have an idea if the fund manager is performing better than its equivalent market or not. We also look to see if the fund manager is taking more or less risk than the market in order to achieve this growth (this is called alpha and beta in investment terms).

Current Asset Mix & Range Of Funds

We look at your current asset mix within the pension as this will tell us what risk you are taking with your pension. Also by analysing your current risk profile we can see what changes (if any) need to be made to ensure that your current asset mix fits with your risk profile.

We look at what range of funds the existing provider has. If this range is limited then this could mean that there are not enough suitable funds to fit your risk profile. We also consider the performance of those funds and the (alpha & beta) of those funds to see if there are suitable funds for you that are consistent.

Investment Overlay

As we know markets do go up and down and the economy changes both here in the UK and also globally. Therefore there are certain overlays that you may wish to consider with your pension to help manage the risk.

Rebalancing

Rebalancing helps ensure that on a daily basis your risk profile is kept the same and also you are protected from what are called ‘speculative bubbles’.

This works by ensuring that the percentage you hold in a specific area does not go out of kilter to much (usually a tolerance of 2%). So for example if you held 15% of your money in European shares, if they grew substantially the grow would be redistributed to the other assets that you held so that the European shares kept around the 15%. The advantage of this is if European shares then fell the growth that you have made would be protected.

Governance

As stated before the economic position changes all the time and certain markets will fall, whilst overs rise. If we take that European market as an example again, there will be certain times that the whole of the European market falls and not just one country due to the economic position. If you have a governance overlay on your pension then this means there is an overall manager on your pension that can make decisions (still within your risk profile) to reduce the percentage you hold in Europe and reallocate that money to a different market (such as UK shares). By adding this throughout the year you have extra protection against economic risk with the aim to provide a more consistent performance.

Yearly Reviews

Is the funds and the objectives of the pension being reviewed every year by an adviser? The purpose of this is to ensure that the existing funds are meeting with their benchmarks, that the risk profile is in line with your current risk profile, that your objectives are being met and to make changes where needed.

Financial Stability

You are going to hold you pension for a number of years, therefore the financial stability of the pension company is very important. We always look at the financial stability of a pension company and their relevance in the pensions market.

Existing Guarantees

With some pensions there are certain guarantees that you have within the pension and these should be identified if you are considering moving your pension as they could be lost in the event you transfer away.

Guaranteed Annuity Rates

Some older pensions have guaranteed annuity rates attached to them. This means that at certain dates (say age 60) and at certain terms (say a single life annuity) then the annuity rate you are entitled to is guaranteed to be at least a minimum level. Many of these were set when annuity rates were higher and therefore are substantially better than current annuity rates.

One important note. With any guaranteed annuity rates if you want different options (say an annuity with a spouses pension) or to take it at a different age then the guarantees will not apply. Therefore if you do have guaranteed annuity rates you should always look at the terms of those rates to see how viable they are against your position.

Enhanced Tax Free Lump Sum

This in the main applies to executive personal pensions and you could potentially be entitled to a higher tax free lump sum than the normal 25%. You should always check if there is the potential for additional tax free lump sum and if so there are forms to complete that will calculate what it will be.

The Free Existing Pension Analysis

We will provide the full analysis of your existing pensions for Free.

The benefits to you are that:

- ✓ We will do all the hard work for you
- ✓ It is fully independent
- ✓ There is no obligation to use our services
- ✓ You will receive a report in plain English detailing each of the various points
- ✓ We will outline any ways to reduce cost and get maximum value from your pension

To get started just contact us by:

- ✓ Emailing us on gavin@pfp-ltd.com
- ✓ Complete the simple online form at http://www.premier-advice.co.uk/pensions.php
- ✓ Call us on 01722 717427

Important Information

The information in this guide is for information purposes and does not constitute advice, if you don't understand any of its contents we recommend you seek Independent Financial Advice.

Past performance is not a guide to future performance. All investments should be held for the long term as their value can fall as well as rise, therefore you may get back less than you invested.

Premier Financial Planning Ltd is authorised and regulated by the Financial Services Authority. The guidance and information contained in this booklet is subject to UK regulatory regime and is therefore restricted to consumers based in the UK.

Contact Information

Premier Financial Planning Ltd
Unit 5
Manor Farm
Chilmark
Wiltshire
SP3 5AF
Phone: 01722 717 427
Visit: www.premier-advice.co.uk