



Dust Off Those Old Pensions



For those of you who have not yet retired, **the issue of whether you will have enough income in retirement** is one which will inevitably continue to grow in importance, whether you are relying mainly on the State pension, private pension arrangements, or your membership of one or more occupational pension schemes.

The Problem Is Universal

If you are **relying mainly on the State pension** we can but echo the words of Jeff Rooker (Minister of State, Department of Social Security, 29 November 1999) *'Anyone who retires solely on the Basic State Retirement Pension and makes no other provision will, as has always been the case, retire in abject poverty.'*

If you are **relying mainly on private pension arrangements** you will have noticed that the projected benefits (now subject to the 'Statutory Money Purchase Illustrations' rules) **are around half the value that there were two or three years ago**. This is because such projections now have to show you the real value of your pension, which means they not only have to be in today's prices but assume you will want an inflation linked pension and that you will want your spouse to continue receiving the pension if you die first.

If you are **relying mainly on your membership of one or more occupational pension schemes** you will have noticed the growing number of organisations and companies which have not been able to keep up with the greatly increased funding requirements to provide those promised benefits. For example, a quote from *Pensions Week* 14 June 2004 *'The £1 billion Surrey County Council pension fund has abandoned its active balanced asset management structure as it deals with a funding level that is feared to have fallen to as low as 60%.'* Put more simply that means they are **in excess of £300 million short of the funds they should have to provide their employees with their expected pensions**. Can this be resolved quickly? To quote from the same article *'Taylor (Surrey's Executive Director for Performance and Resources) recently told the annual National Association of Pension Funds conference that the scheme planned to be fully funded in 13 years.'*

What Should You Do?

You should, of course, seriously review your pension funding in the light of today's changed circumstances. Whilst such a review may be a painful experience in terms of the impact on your current lifestyle, there are other things you might be able to do that will cause no pain at all.

The purpose of this fact sheet is to encourage those of you who have one or more 'old' pension plans, whether they are personal pensions or occupational pension benefits with former employers, that **now would be a good time to 'dust them off' and carry out a review of exactly what you have got**.

You should not wait until you are about to retire before you find out whether there is much value in those old pensions. However, there are even more important reasons for taking action now. A **delay to do so could actually reduce the value of your eventual pension**, or possibly **reduce the amount of tax free cash** that you would otherwise be entitled to when you retire.

There are two types of old pension plans to particularly look at:

- A Personal Pension Plans** that you took out before April 2001
- A Occupational Pension Benefits** with former employers

Personal Pension Plans Started Before April 2001

If you have a personal pension plan which commenced before stakeholder pensions were introduced in April 2001, whether you are still contributing to it or not, it would be worth your while to talk to us about it.

When stakeholder pensions with their low charges were introduced, many major pensions providers decided to give their existing policyholders the benefit of low 'stakeholder friendly' charges. However, **there are still a number of pension providers who are charging existing policyholders at pre-stakeholder levels**. It is worth reviewing the current charges and considering switching to a new pensions provider.

Charges Have Gained a New Importance

The charges on pension funds have **gained a new importance in the light of reduced investment returns**. For example, a typical pre-stakeholder pension might charge an additional 1% pa. That might not sound much and indeed, when investment returns from equity (ie stocks and shares) linked pension funds were running in excess of 10% a year and before the Government decided to tax the dividend income to pension funds it was quite acceptable.

Now that total net investment returns from equity linked pension funds are expected to be around 6% pa over the next five years **that 1% additional charge has increased in effect by two thirds** (ie 1 of 10 = 10%, to 1 of 6 = 16.67%).

Transferring Your Personal Pension Plan Is Not For Everyone

Unfortunately some of those pension providers continuing to charge their policyholders on a pre-stakeholder basis **also apply large penalties if you wish to transfer** your pension fund to another pensions provider. In such a case a transfer would not be in your interests unless you have a long time to go before retirement.

We Use A Simple Transfer Analysis System

In order to advise you on whether it would be in your interests to move your existing pension fund to another pension provider we use a simple transfer analysis system. We firstly **obtain a quotation of projected benefits from your existing pension provider**. The transfer analysis system then compares these results with those that would be obtained from a typical stakeholder pension plan.

If there is any improvement in the projected pension fund at retirement **this could indicate that it would be in your interests to transfer your fund to a stakeholder pension plan**. We would be happy to recommend the most appropriate stakeholder pension plan provider and arrange for the transfer to be carried out. The good news is that the very nature of a stakeholder pension means that **there would be no up front charge applied by the new pension provider** and the ongoing charges would be capped at 1% pa of the fund value.

Please **contact your usual Arch adviser**, or if you are not currently aware of your Arch adviser, please contact **Sarah Bond** at our Cranleigh office on **01483 204600**, or email **direct@arch-fp.co.uk** and we will be pleased to tell you whether you are likely to benefit from transferring your existing pension fund.

Former Occupational Pension Schemes

The publication of the Finance Bill has confirmed that after 'A Day', expected to be 5 April 2006, **it will not be possible to transfer former occupational pension scheme benefits and retain an entitlement to more than 25% tax free cash**. However, at the moment it is possible to transfer such benefits to a Section 32 fund **which will then retain for you any higher entitlement to tax free cash** beyond 'A Day'.

Transferring Your Former Occupational Pension Scheme Benefits Is Not For Everyone

If the former employer with whom you have occupational pension scheme benefits is the Government or a local authority, the NHS, police, fire brigade or similar type of employer then **it would not be in your interests to consider transferring your benefits out of the scheme**.

However, there are **many thousands of occupational pensions schemes which could successfully be transferred** and retain for their members the rights to large amounts of tax free cash before 'A Day'.

We Use A Transfer Analysis System

Taking a transfer of benefits from the occupational pension scheme of a former employer is **a lot more complicated** than switching a pension fund between a personal pension plan and a stakeholder pension plan.

We would ask you to complete our **Attitude Questionnaire for Pension Transfer Services**. As a result of considering your responses to the questions in this, we would make an assessment as to whether a pension transfer might be suitable for you if the figures stack up. Our eventual advice would be based on a detailed Transfer Analysis System which would identify the level of 'critical yield' (ie the future growth required on the new pension arrangement to at least equal the benefits you would be giving up).

All such pension transfer advice is **individually overseen and approved by Arthur Childs**, our Managing Director, who is registered with the Financial Services Authority as **our Pension Transfer Specialist**.

Arthur's professional qualifications put him in the top 1% of all financial advisers in the UK. He is a Chartered Insurance Practitioner; a Fellow of the Chartered Insurance Institute; a Fellow of the Society of Financial Advisers; an Associate of the Pensions Management Institute; has passed the special pensions examination (G60) at advanced level as required by the FSA, and was the overall National Winner of the 1994 Pension Transfer Competition arranged by *Money Marketing*, the weekly newspaper for independent financial advisers.

Please **contact your usual Arch adviser in the first instance**, or if you are not currently aware of your Arch adviser, please contact **Sarah Bond** at our Cranleigh office on **01483 204600**, or email **direct@arch-fp.co.uk** and we will be pleased to tell you whether you are likely to benefit from a review of your former occupational pension scheme.

Risk Factors

These notes are intended as a guide only and do not replace the full product details that accompany each pension recommendation. An investment into a Stakeholder Pension or other Personal Pension Plan is intended as a long-term investment. Where past performance is mentioned please note that the past is not necessarily a guide to future performance. For example, the treatment of pension funds has changed with the removal of tax credit on UK equity investment. The value of units may go down as well as up and your pension fund may be less than the amount you have invested. Tax relief depends on individual circumstances and tax rates and laws may change in the future.

Where a pension transfer from an occupational pension scheme to a Stakeholder Pension, Personal Pension Plan or Section 32 Buy Out Plan is recommended you need to understand the benefits of your previous employer's scheme that you are giving up; the fact that your former employer promises to pay the benefits at their present levels and that those benefits will grow by an inflation factor. The benefits from the Stakeholder Pension, Personal Pension Plan or Section 32 Buy Out Plan are not guaranteed, instead, they depend on the charges made by the product provider, the investment performance achieved on the underlying funds and the level of annuity rates available at the time you decide to take the benefits.