Your guide to personal pensions

Is your pension stuck in the past?

As with all products that have been around for a while, pensions have been developed and experimented with. Different providers and governments have looked to increase their efficiency, reduce their costs, and make them even safer.

Over the years, some innovations have been fantastic, while others have had unintended consequences. Pensions can also come with different features and penalties. While some of these are transparent, many are hidden from view.

So, the biggest pension challenge most people face is understanding exactly what they have and whether or not it could be better. This is where a regulated financial adviser, such as Pension Access, can help, cutting through the jargon and complexity to reveal exactly what you could do with your pension and then helping you to achieve it.

People who use a financial adviser have, on average, £30,991 more in pension wealth[1].

We are authorised and regulated by The Financial Conduct Authority.

[1] *What it's worth*, published by ILC UK (November 2019)

Personal vs company pensions

The first thing to stress is that whether your pension was first set up by yourself or your new employer, it is well worth checking to see if it can now be improved.

Company pensions

Company or workplace pensions are, as the name suggests, set up by your employer who may also contribute to the scheme.

The company pensions that grab all the headlines are final salary schemes. These are also known in the trade as Defined Benefit schemes. So called because the benefits you receive at retirement are already defined.

With these types of schemes, in theory, you don't have to worry about how the investments are managed as you have been promised a certain level of income regardless. **See page 9 for more information on final salary schemes.**

Personal pensions

Personal pensions come in all shapes and sizes. The things they have in common are that: they will involve a personal contract between you and your pension provider; they will be money purchase schemes, and their aim will be to provide you with an income in retirement.

Can you have a personal company pension?

Yes, you can. Many company pensions are also personal pensions where the contract is between you and the pension provider. They can include added benefits such as your employer making additional contributions. They can also have restrictions. In particular, where and how your money is invested and what charges you are paying. These types of schemes are also known as defined contribution pensions. The benefit you ultimately receive will depend on the contributions made, the costs involved and the performance of the scheme.

Types of personal pension
(and how they work)

A personal pension is a specific tool for saving for your retirement. The government provides various tax benefits to encourage you to use a pension to save enough for your future needs.

There are lots of different types of personal pension. We will cover the most common here.

Money purchase

We're cheating a bit as all personal pensions are money purchase schemes by their nature. We just think it deserves a section on its own to explain it, as the term is not obvious.

Firstly, why the name? Back when the default option was to buy an annuity on your retirement date, you would effectively cash in your entire pension pot and use this money to purchase an annuity. The annuity then provided your income for life. These days an annuity is just one of the options open to you, but the name has stuck.

Money purchase schemes are also known as defined contribution schemes because the bit you can be sure about is how much you have contributed. What your pension will ultimately be worth is dependent on a number of things, in particular:

- How much you have contributed
- How long you have saved for
- How well your investments have performed
- The impact of scheme charges

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Stakeholder

Before the auto-enrolment legislation was introduced, all but the smallest companies were obliged to offer their staff access to at least a stakeholder pension. There is specific legislation for a stakeholder pension, including a cap on charges, low minimum contributions and the flexibility to stop and start contributions. Normally, the company would choose a limited range of investments for you.

Only introduced in 2001, it didn’t take long before the stakeholder legislation was rendered obsolete by developments elsewhere in the pension world. These days there are platforms that offer charges way below the stakeholder cap, the same flexibility on contributions and a much wider range of investments.

SIPPs

SIPP stands for Self Invested Personal Pension. They were first introduced over 25 years ago to let people make their own investment decisions rather than being restricted to a few funds from a single company.

Nowadays they are very much mainstream products offering a huge range of investment options and great flexibility. Digital evolution has seen SIPPs migrate to online platforms, bringing charges down even further.

Group personal schemes

A group personal pension is one of the schemes that can be offered by your employer. They will choose the provider, and hence the charges and investment choice on offer. The contract is still between you personally and the pension provider, and you are free to transfer to another scheme if you wish to.

Like other company schemes, your employer may or may not make additional contributions to the scheme. If they do, these contributions are effectively free money, which is good for you.

With profits

The idea behind these schemes is sensible enough: to try and smooth out the ups and downs of the investment markets for savers. They do this by managing the bonuses they declare each year, with these bonuses making up the growth of your pension.

The problem is: the size of the bonuses is at the sole discretion of the provider, who also wants to make as much money as they can from your investments.

In practice, different with profits schemes may or may not be paying annual bonuses, may or may not have guarantees, may or may not have exit fees, may or may not be growing in real terms. Let's just say these are not the most transparent pensions out there, and if you have one you should definitely get it checked out.

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Other

We have covered the most common pension types, but this list is far from exhaustive.

Many other types exist (often with a specific situation in mind) with intriguing names such as Section 32, SSAS and QROPS.

Don't worry if you don't recognise the exact pension you have in this guide. We know them all and we can advise you on the pros and cons of your scheme.

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Currently saving for a better future?

We make improving your pension dead easy by doing all the hard work and boring bits for you. And just so there are no excuses, we don't even charge you to get our full advice first.

Why might a transfer be recommended?

Too much risk

All investments involve a degree of risk, hence the very real warnings that you could get back less than you put in. Some people are happier than others to take a higher degree of risk in return for a higher potential investment performance.

If your current scheme looks to be exposing you to a higher risk than you would be comfortable taking then we may recommend a pension that is invested more in line with your attitude to risk.

Too conservative

If your pension is invested too conservatively, then you could be missing out on potential growth that could make a huge difference to your retirement. If we believe this is the case, then, again, we may recommend a pension that is invested more in line with your attitude to risk.

High charges

High charges are as straightforward as they come. The more you are being charged by your provider the more the growth of your pension suffers. Unless the higher charges come with significant benefits, such as a guaranteed income, they are really hard to justify.

Fund underperformance

This is one everyone assumes advisers use straight away. But, of course, you cannot predict the future, so would a new fund perform any better going forwards?

Well, there are still some certainties you can look for, in particular, how the funds have performed against your provider's benchmark. If their growth is lower than the benchmark, this suggests a general underperformance of the funds.

Limited range of funds

Many schemes, in particular group and stakeholder pensions, only offer a very limited range of funds to invest in. Yet there are thousands of individual funds available in the UK alone. So, you have to ask yourself what the chances are of the small selection of funds in your scheme being among the best performing overall year after year.

Contributions are not possible

A surprising number of schemes will no longer allow you to make further contributions to them. This may not be a big issue for you right now, but at some point it may become important. For example, if you suddenly come into some money and want to invest it for your retirement.

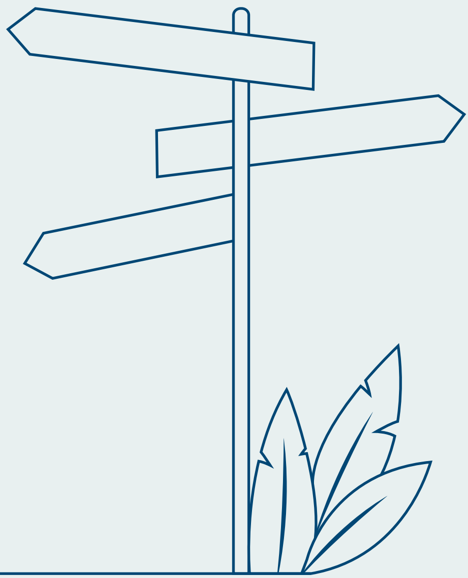
We also have to consider any additional benefits that your current scheme may provide, such as guarantees or additional death benefits.

How do your views affect things?

Your views matter enormously. What you would want to achieve from a transfer is the starting point, swiftly followed by why you would want that.

This is, in effect, what we are advising you about. Would it be a good idea or not?

And if it is a good idea? We will explain why and tell you the best option open to you in our recommendation.



What about final salary pensions?

Towards the beginning of this guide we briefly mention final salary pensions. Let's have a closer look at these types of schemes and why we cannot check these for our clients.

What is a final salary pension?

Typically, a final salary scheme is a pension set up by an employer for their employees. Usually, both the employer and employee pay into the scheme.

Rather than building up a pot of money for your retirement, you receive a promise from your employer to pay you a set income for life from a set age, usually early to mid-60s. The size of this income, generally paid monthly or annually, depends on how long you worked for the company and your salary.

Why are final salary pensions so valuable?

There is a commitment from your employer to pay you a guaranteed income for life. It doesn't matter if the investments made with your contributions have performed poorly or if markets crash just before you retire, the pension income you receive is set in stone and guaranteed.

You simply do not get this certainty with defined contribution schemes. All the risk lies with your employer rather than you. On top of this, for many final salary schemes, the income you receive will go up in line with inflation.

Our stance when it comes to transferring final salary pensions

If you are looking to transfer out of a final salary scheme to invest the funds in a defined contribution scheme, we cannot help you. Our view, like most regulated financial advisers is:

If you have a final salary pension, leave it well alone because it promises a degree of certainty that is almost impossible to beat.

Why should I get financial advice?

What do advisers do?

A good adviser, as well as being highly qualified, needs to be an expert in all the financial products that are available to meet your needs, the rules and restrictions around them, and the value they give you.

They should be adept at understanding your circumstances and drivers, your future goals and your current needs.

Our job is to gather all this information together, make a recommendation that is in your best interests, explain everything clearly to you, and then make it happen if you agree to it. When we consider your best interests, we have to take into account the effect of any fees being charged, including our own, before making our decision. We also have to believe it is the right thing for you to do.

What are the advantages?

Pensions are complex products that, by their nature, tend to involve a range of investments, each of which will also be complex. We have enough knowledge to make a properly considered and educated recommendation for you.

You will find that certain products are only available through advice. And with more widely-available products we can often negotiate preferential rates simply due to our size.

Through us you will have access to redress through the Financial Ombudsman Service should our advice be unsuitable for you. The ombudsman can, for example, insist that advisers pay suitable compensation should something be wrong with the advice given. This alone is a major plus over doing it yourself.

What you can expect from Pension Access

- Friendly staff who are happy to hear from you
- The highest level of pension qualifications
- A no obligation pension check
- Impartial advice in your best interests
- An evidence-based investment philosophy
- Ongoing advice and management of your pension
- We make the process easy for you

A different way of doing things

Our team of experienced and expert financial advisers are helping thousands of clients each year to unlock the potential in their pensions. We currently manage over £½ billion of our clients' savings for them.

For more information please call:

0800 304 7288

pensionaccess.co.uk

- We adopt a frank approach and love plain English, so you always know exactly where you stand and how your pension is performing
- Our service approach means we can take on more clients, putting us in a much stronger position to negotiate discounts
- Our evidence-based approach to investing means we can target market-beating performance through discipline, structure and diversification rather than speculation

What our clients say

Our clients trust us to look after more than £½ billion of their pension savings. Here is what they say about us:

"I received very good advice. It's very refreshing to get good, honest advice without having to pay a fee upfront."
Caroline, Ipswich

"When I tried to combine my pensions myself, I was told it couldn't be done. Asking for their help was the best thing I could have done. Now my pensions are combined."
Tony, Hampshire

"You did exactly what you promised. I'm over the moon! Thank you so much for sorting my pension."
Mark, Tipton

"The support given by them during the transfer of my pension made the whole process easy and worry free."
Michael, Edinburgh

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