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Pension Switching And Consolidation Fact Sheet

(Money Purchase to Money Purchase)

INTRODUCTION

It is not unusual for someone to accumulate a number of different pension arrangements during their working life, including those to which no further contributions are being paid, commonly described as 'paid-up' plans. These could be schemes run by former employers or ones owned personally by the investor.

- Whilst some existing plans may provide excellent value for money, others may not.
- Keeping track of the benefits available from each scheme can sometimes be difficult to achieve, depending on the company providing the on-going administration of the arrangement.
- Ensuring the plans complement each other in terms of the overall risk profile of the underlying investments can be even harder to determine.

TYPES OF SCHEMES

There are 2 main types of pension arrangements:

- A **Defined Benefit** (pension) also known as a **final salary** arrangement whereby the pension receivable is determined amongst other things by the scheme rules, your length of service and your final salary, and
- A **Money Purchase** arrangement to which we are referring in the rest of this document. Put simply, the pension you receive in retirement is determined not by your final salary but mainly by the value of your pension funds, your age and interest rates at the time you take your benefits. Money Purchase arrangements can take the form of either:
    - Group Personal Pension Plan (GPP)
    - Group Stakeholder Plan
    - Individual Personal Pension Plan (PPP)
    - Individual Stakeholder Plan
    - Retirement Annuity Contract (RAC)
    - Employer sponsored group occupation scheme (CIMP)
    - Free Standing Additional Voluntary Contribution Plan (FSAVC)
    - Section 32 Buy-Out Plan
    - Executive Pension Plan (EPP)

WHY CONSIDER SWITCHING?

The key objectives for considering whether to switch and/or consolidate some or all of your current and paid-up plans are ideally to achieve a combination of:

1. A wider investment choice and control
2. A more appropriate investment risk profile
3. Potentially improved investment returns and retirement benefits
4. Potentially improved death benefits
5. Reduced administration and paperwork for you
6. Lower costs
7. Improved access to information
8. Greater retirement planning opportunities
9. Additional product facilities

The decision to switch or consolidate is rarely 'black and white' since there are so many variables to take into account and it is rarely possible to achieve all of the above objectives. You need to consider all aspects of an existing plan versus those of a new product to which a switch could be made, in order to weigh up the advantages and disadvantages of switching:

- In some situations it may be in your best interest not to switch.
- In others it might be more advantageous to retain one of your existing pension arrangements as the host into which the other plans can be switched.
- For those other situations, a switch to a new product and provider is likely to be more appropriate or desirable.

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Our advice and decision process is described in more detail in our ***Pension Advice Process Document.*** The key issues we consider and analyse in relation to switches and consolidation are:

- ***Your Objectives***
  Understanding what you are seeking to achieve from your pension investments and whether these are likely to meet with your objectives.

- ***Your attitude to investment risk***
  This might be different now to when the existing plans were originally set up.

- ***The fund options available***
  A limited fund choice often restricts the ability to diversify investment risk between different asset types and fund managers making it difficult to match your risk profile now and over the years to retirement. It can be important to have access to a wider range of funds and not be locked into a restricted list of poor performing fund managers.

- ***Fund performance***
  Whilst past performance is not necessarily a guide to future returns, it can be useful to analyse the consistency of results of the existing funds against that of their peers and compare this against a new portfolio selected using our thorough research process (as described in our ***Fund Research and Selection Process Document***). The prospect of improved investment performance can make substantial improvements to retirement benefits, provided these are not out-weighed by high charges.

- ***Pension Commencement Lump Sum (formally known as Tax-Fee Cash entitlement)***
  Prior to April 2006 your pension scheme may have registered to provide a protected amount of PCLS which is greater than the normal 25% of fund value. This protection is lost on switch in most situations.

- ***Death benefits entitlement***
  This can vary between nil, a return of contributions (with or without interest) or the value of the fund at the date of death. Switching to a new provider can sometimes result in improved benefits.

- ***Transfer / switching penalties***
  Some existing schemes may impose a penalty for switching funds. This might take the form of a product or fund related exit charge. The most common fund-based exit charge is a Market Value Adjuster (MVA) imposed by some With Profit Fund providers, depending on the financial health of the fund at that time.

- ***The potential loss of any guaranteed benefits or special product features***
  Some schemes have contractual benefits which could be lost on switching. Typically, these take the form of a guaranteed annuity rate which was set many years ago when prevailing rates were significantly higher than now.

- ***Product and fund charges***
  Charges vary considerably between different schemes and providers. They have a direct impact on future returns and retirement benefits. It is important to evaluate their influence. Modern products offering a wide range of funds may have higher charges than the existing plans. Therefore, the potential of improved investment performance needs to be balanced against this cost.

- ***The term to your selected retirement age***
  The remaining term to retirement may be too short to justify switching if there is insufficient time for the impact of the associated costs to be outweighed by potentially improved investment returns.

Financial advice from an appropriately qualified adviser is therefore essential to ensure you are fully informed of both the benefits and the risks associated with a pension switch. All advisers at Clairville York Ltd hold the necessary qualifications to carry out this work on your behalf.

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No responsibility can be accepted for the accuracy of the information in this facts sheet and no action should be taken in reliance on it without advice.
Please remember that past performance is not necessarily a guide to future returns.
The value of units and the income from them may fall, as well as rise. Investors may not get back the amount originally invested

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