

## PENSION REVIEW REPORT FOR MS A SAMPLE

(Ms A Sample is 37, she has moved job several times and collected a number of personal pensions as well as a retained benefit in a final salary scheme in the process) (See footnote)

We have summarised the main characteristics of your individual policies in the appendix to this report. The key statistics are:

Value of your pension funds:	£44,381
No of policies:	4
Investment risk of portfolio	3.7
Your preferred investment risk:	6
Investment return over last 5 years of pension portfolio	8.20%

### General Comments:

Your pension fund is spread across 4 policies, plus one retained benefit with an ex-employer. Even if you had the time and expertise to manage these policies it would be difficult. It also creates unnecessary paperwork. The situation is likely to get even less manageable as you change jobs in the future and probably accumulate more policies.

Your current policies have links with 13 different funds. I believe these have not been altered since the policies were established. These 13 funds appear to be fairly random. They include the worst performing Balanced Managed fund over the past 5 years (Provider 6) and one of the best performing UK Equity funds – Fidelity Special Situations. The returns from these funds over the last 5 years ranges from + 90% to –14%. It illustrates the fact that the most significant factor affecting the eventual size of your pension (apart from how much you save) is the investment return. Compared to this a difference in contract costs of 1% per annum is insignificant.

There is a very strong case for consolidation to facilitate future management and thereby make the most of your pension savings.

### KEY ISSUES FOR THE FUTURE MANAGEMENT OF YOUR PENSION.

#### *1. Potential for improving the Investment return from existing contracts.*

There is theoretically potential for improving the investment return of your pension with some of your existing contracts. The contracts with Provider 4 and 5 provide access to a limited number of external specialist funds and have some reasonable internal funds. However we don't believe this is a practical proposition. It is probably beyond your expertise, the funds available are limited and it does nothing to simplify and consolidate your arrangements.

#### *2. Future protection of your current pension savings.*

After investment return protecting the savings as you approach retirement is the most significant factor affecting the eventual size of your fund. The last thing you want is 30% of its value wiped out because of a Stock Market down turn just as you need it for income.

About half of the current portfolio is in with-profit funds (see footnote) and so has built-in protection against a stock-market downturn as you approach retirement. Provider 6 has funds that have built in protection into which you could switch. They also have a with profit fund, as does Provider 7.

### 3. Investment risk preference compared to your pension portfolio,

The amount of investment risk to which your portfolio is exposed appears to be out of line with your preference. Based on your answers to the psychometric questionnaire you have completed your risk preference is “6” on a scale 1 very low to 9 very high. Your existing portfolio is “3.7” on the same scale.

## SUMMARY RECOMMENDATIONS

**Whilst there are options within your existing contracts we think that your interests would be best served by consolidating into a new contract to:**

- **Gain access to a wide variety of funds**
- **Adjust the mix of assets so that it is more inline with your attitude to investment risk**
- **Make it possible to more effectively manage the fund for the future**
- **Provide a “good home” for the new schemes you are likely to acquire in future job moves.**

## PROPOSED NEW CONTRACT

We recommend a new contract with Provider X. We recommend that the funds be invested in our portfolio "6" so as to be consistent with your “attitude to investment risk”. The RIY (see footnote) on a new contract linked to portfolio “6” would be approximately 2.2% per annum. Your existing contract has a RIY of 1.23%. So to break even the new contract would have give at least 0.97% per annum fund growth more than the current contracts. (A formal illustration with the exact RIY and all other details of the contract would be provided if you wish to proceed).

The RIY of the new contract includes an annual fee to ourselves so that we can provide you with an annual review. This includes reviewing the investment performance of the portfolio of funds in which your pension is invested, recommending adjustments to rebalance the portfolio and reduce the investment risk when retirement approaches.

We stress that there is no guarantee that the investment return on the new contract will make up for the difference in costs and provide additional return on top. All that can be said is that it is reasonable to expect that the access your pension will have to the funds of specialist investment managers and the regular reviews carried out by ourselves should produce enhanced returns.

### Footnotes:

**Client Details:** *The personal details of the client have been adjusted to preserve anonymity. The details of the contract and our advice are exactly as our report to them.*

**Reduction in Yield (RIY):** *This is the easiest way of summarising the charges on a pension contract. It summarises all the different elements of charges on a pension contract and expresses them as an effective annual charge. If the fund value at 60 is projected at an assumed gross growth rate of 5% and the reduction in yield figure is 1.1%, it means that the actual return of the fund after all charges would be 3.9%.*

**With profit fund:** *A With Profit fund is the traditional insurance company saving fund. The asset mix is relatively low risk although it varies between companies. The more aggressively managed may have as much as 60% in equities and the rest in property and fixed interest. More conservative with profit funds can have the vast majority of the fund –80% plus – in fixed interest funds. On our risk grading with profit funds vary from “1” to “3” depending on the asset mix. The relative proportions held in the different asset classes largely determines the potential investment return. The proportions held in the different asset classes are kept under review and adjusted from time to time. Their main attraction, apart from managing the asset allocation, is that they provide a “smoothed” return, eliminating much of the volatility associated with investment in equities. The return is given in the form of bonuses. An annual bonus is given each year dependent on the fund investment performance. Once given this bonus is guaranteed and then at retirement a terminal bonus may be*

*payable to reflect the overall return since the policy started. This removes the possibility that the value of your pension fund will take a tumble just before you retire. It is “**the put it away and forget about it option**”*

Company	Pol No	Type of Contract <sup>1</sup>	Current Value	Gmteed annuity <sup>2</sup>	In Trust? <sup>3</sup>	Contract RIY	Transfer charge <sup>4</sup>	Current Savings	Investment Funds	Amount in Fund	Risk <sup>5</sup> Rating	5 Year return <sup>6</sup>	Sector rank <sup>7</sup>
Provider 4	AA123	AA123	£30,573		MT	0.97%	0.00%	CO Rebates	With Profit Fund	£21,068	3	25.1%	NA
									International Equity	£9,505	8	-18.5%	31/80
Provider 5	BB123	BB123	£3,602		MT	1.81%	2.44%		Fidelity Special Situations	£500	8	79.7%	2/211
									Gartmore Euro Sel opps	£553	8	-4.4%	23/66
									Newton managed	£865	7	5.7%	13/35
									With profits	£1,684	3	NA	NA
Provider 6	CC123	CC123	£5,568		MT	2.42%	27.04%		Mixed L	£5,568	5	-17.9%	103/103
Provider 7	DD123	DD123	£4,638		MT	1.05%	0.00%		With profits	1,090	3	11.7%	NA
									Newton Managed	737	7	5.7%	12/35
									UK Smaller Cos	489	9	-7.3%	10/17
									Property	1,155	3	49.1%	28/28
									Pacific	488	8	19.6%	17/31
									North American	677	8	-37.3%	23/51

Total pension Portfolio:	£44,381
5 year Investment return <sup>8</sup>	8.20%
RIY of Pension portfolio:	1.23%
Weighted Investment risk rating:	3.7

#### Footnotes

1. PP Personal Pension; RAC Retirement Annuity Contract; BB Buy-Out Bond/Section 32 Contract; SHP Stakeholder Pension; EPP Executive Pension Plan; GMP Group Money Purchase Scheme of ex Employer.
2. Guaranteed annuity - offered by some old contracts generally at a rate far in excess of what is now available.
3. MT - Most PP's and SHP's are by default written under the Life Insurance company Master Trust. (MT).  
PT - Personal Trust - the contract has been written into a Personal Trust established by the policy holder (PT).  
ET - Employer acts as trustee - usually applies to EPP's. (ET).
4. Transfer Charge - % reduction of the nominal value of the contract if transferred
5. This is an indication of how much investment risk the fund is exposed to on a scale 1 very low to 9 very high.
6. Investment returns for Investment House funds are those of the underlying Unit trust/OEIC.  
Investment returns for with profit funds take no account of Market Value Adjustments which may apply.  
Unit Linked Data as at 1/1/2005 - Fund Performance Statistics Money Management Dec 2005.  
With profit data from either the company website or O&M Systems Ltd.
7. Pension and Unit Trust/OEIC funds are grouped into Sectors according to the areas in which the invest and how they are managed.  
24/79 means that the investment return of the fund ranked 24th out of the 79 funds in the Sector in the 5 year period specified in footnote 6.
8. 5 year Investment return excludes the funds for which there is no information.