Switching funds can plug your pension gap

Maisha Frost helps a policeman arrest decline

Picture: JOHN McLELLAN

The problem

POLICE officer Graham Rouse, 51, is considering retiring in four years and is fed up with the way his pension is performing. He had expected his top-up plan, an additional voluntary contribution (AVC), to add more than £1,000 a year to the income from his occupational scheme.

Graham, from Essex, pays £50 a month into the Standard Life AVC. His with-profits fund is worth just under £18,000, and he was dismayed by last year's £7.99 final bonus. "It hardly seems worth continuing," he says. "Would I be better off just paying into an Isa?"

The solution

GRAHAM has acted in the nick of time, says independent adviser Nicola Downs. "Four years before retirement is about the limit — any later and it wouldn't be worth it."

Graham should not confuse the benefits of pensions in general with the poor performance of his investments in particular, she says. The £50 he invests each month becomes £64.10 when tax relief is added, whereas £50 invested in an Isa remains just that. "Graham wants this money for income in retirement and, in his situation, a pension is the best vehicle," Downs continues.

Graham has three options: stay in the with-profits fund; remain with Standard Life and switch to another plan; or transfer to another provider. He must check his pension to see what penalties a move would incur. "They can range from 3 per cent to 50 per cent, so no decision can be made until he has a figure," warns Downs.

He should also check the details of any guaranteed annuity rate clause.

As a Standard Life saver, Graham may also may be in line for a cash windfall as a result of the company's forthcoming demutualisation.

"However, that is probably two years away and time is such a factor for Graham that any future handout is less of an issue for him," Downs adds.

Whether he switches to another Standard Life fund or transfers to another provider he will still face new set-up charges. "These will have to be balanced against estimated future growth," reckons Downs, who has done the figures. "If Graham's penalties are 20 per cent or less, he should get out of his current plan."

She recommends a low to medium-risk fund. Her recipe for Graham includes 46 per cent of fixed-interest investments, 20 per cent in property, 23 per cent in UK equities and the remainder in international funds.

"The fixed interest is for security, although the outlook is not so good, which is why I have balanced with property."

Her fund choice includes New Star and Invesco Perpetual Monthly Income Plus for fixed interest, Shroeder Under 250 and Merrill Lynch Dynamic for the UK, along with the Norwich Property Trust. She proposes Graham's pension be handled via a multi-manager scheme, adding: "Standard Life has one, which would involve less aggro because he is already with them, but I prefer Skandia's multi-manager pension plan because it offers a bigger range of funds."

Because transferring takes a few months, the pension will be operating after April 6 when important changes to pension rules come into force. "AVCs will be finished so Graham will just start a new personal pension, but the new allowance will mean he can take 25 per cent of his fund as a tax-free lump sum," says Downs.

If Graham chooses this course, she also advises him to double his contributions to £100 to make the most of his new situation's potential.

Downs also has a few further tips for those with-profits pension holders worried about low growth.

"Get the company to answer these key questions: what is the current annual bonus rate and the terminal bonus? What was last year's annual bonus rate and the terminal one? What is the fund's current value and its transfer one?

"If the amounts are less than 5 per cent, they are lower than a bank deposit account, so switching may be the best remedy."

● *Nicola Downs, Trentham Invest: 01306 881999, www.trentham invest.co.uk*

Action plan

1. Don't ditch the pension, look for better performance.
2. Find out fund values and penalties for switching.
3. If less than 20 per cent, balance that against growth forecasts.
4. Consider a Skandia multi-manager pension plan. Double contributions to maximise growth potential.

If you have a problem, write to Maisha Frost, Sunday Express, The Northern & Shell Building, 10 Lower Thames Street, London EC3R 6EN or e-mail maisha.frost@express.co.uk. Please include your telephone number.