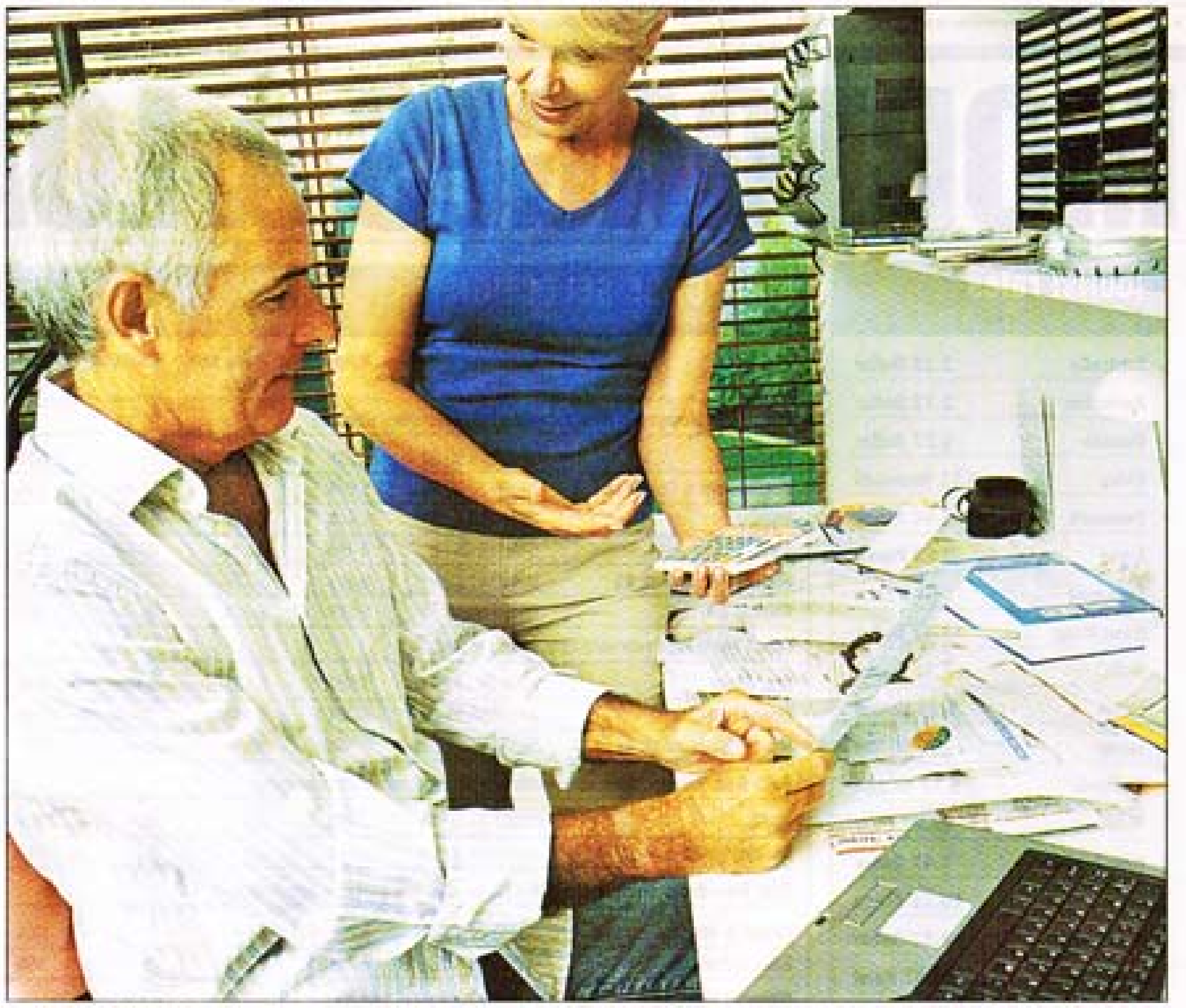
Perils of failing to check on a pension

Confusing quotes make it hard to plan for retirement but, says **Maisha Frost**, inaction is risky



HEADACHES: People who do not follow the progress of their pensions plans could face hard choices

Key questions to ask in redundancy

If you lose your job and your company pension scheme is transferred and frozen:

- Get to grips with what new scheme it is in — check what proportion is guaranteed, what represents the excess and how that will be managed;
- Ask for retirement forecasts, however far distant, about its worth;
- Ask what will go to your spouse if you die before retirement;
- Find out any costs of transferring the pot to another provider or type of pension;
- Do not be complacent about "management charges". These are more administrative than performance-driven.

The problem

THE destructive fallout from recession and redundancy are still blighting Simon G's life even though he lost his job 17 years ago during the last downturn.

However, he was unaware this was the root cause when he contacted Your Money recently with a query about help deciphering annuity quotes.

These concerned a pension plan he had contributed to for 20 years before being laid off in 1991. "The company was sold and my pension was transferred and frozen until there was enough to pay the Guaranteed Minimum Pension (GMP), which there is now," he explains.

Simon, now 62 and wanting to retire, says he has lost confidence because the quoted amounts differ so much, one by as much as £2,500 on the tax-free lump sum.

"I'm not getting any cost of living increase either, so my money would have been better off in a deposit account. And what about my fund if I die? It looks as if my wife won't get a penny," adds Simon, who is recovering from a major heart operation.

The solution

SIMON'S complaint betrays a basic misunderstanding about how pension advice and annuity pay-outs operate, how to get the best deal and, most topically, what action to take with any works pension if your company folds and you lose your job.

According to independent pensions expert Nicola Downs: "It is understandable in an emotionally charged situation such as redundancy, when there are so many things to cope with, people tend to overlook their pension contributions and what is happening to them.

"But Simon should not have lost sight of the plan because it was frozen and carried the tag 'guaranteed minimum'. He had no choice for the pension to be moved, but he should have revisited it.

"The impact of his inaction has taken a long time to be felt but it is very real nonetheless. He should have looked at the terms and how it was being invested long before this and explored measures to improve its performance if possible. After all, this pot represents 20 years of savings: that's a big chunk of a life."

Simon has got what is known as a section 32 buy-out, and "they are riddled with problems", in Downs' view because "expected pension benefits that have been bought are only partly guaranteed".

"In Simon's case, the scheme was taken over and all the growth has gone into making sure the guaranteed minimum part of the pension undertaking is met — otherwise the pension provider will be liable. However, that leaves very little in the other part of the plan called the excess." Pension providers give quotes that have to comply with regulations. "So they are lengthy, covering all bases," continues Downs. "They don't give advice on what is best for the saver, just the facts.

Simon has got a quote for a level-term pension — one that does not have the cost of living increases built in, nor including options for protecting his wife. He does not seem to have mentioned his own poor health but many companies do not supply impaired health quotes, which are much higher as the person is not expected to live as long."

Simon may have better options than he thinks at the moment.

He could take his fund to a company that will trawl the whole of the market for the best pension quote, taking account of his heart condition and any other health problems, such as Annuity Direct.

Downs recommends: "Simon can protect his pension capital up to 85 per cent. He should try for the open market option. His fund would have to be transfered first then converted into a personal pension annuity. The transfer would enable him to potentially get a bigger tax-free cash lump sum and a bigger annuity because of his impaired life. However, if he took this route he would lose his guaranteed minimum pension."

It boils down to Simon getting all the sets of figures and only then making a judgement. She warns: "Simon's confusion is a warning to others who may be unfortunate enough to lose their jobs this time."

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