

# How to get savings back on right track

## The problem

A LOW-RISK stakeholder pension — what safer way could there be to save for retirement? That was Daniel Philipart's view in 2002, just after the Government-backed plans were introduced. It was the defining features common to all stakeholder contracts — low, transparent costs, contribution flexibility and penalty-free transfers — that attracted him.

The 53-year-old has made regular annual contributions for the last seven years, amounting to £30,000, to his Standard Life scheme. He still wants a low-risk savings plan to add to his other retirement arrangements. An independent adviser selected his with-profits plan, recommended for cautious long-term savers. But last year Daniel's pension lost 17 per cent of its value and is now worth £33,000. "How can I get my pension savings back on track?" he asks.

## The solution

STAKEHOLDER pensions' clear, low-cost terms and conditions are justifiably attractive, especially for those on moderate or lower incomes. But, savers should never confuse that emphasis on fairness and good value built into the structure with the safety of the actual investments.

The main gains or losses in value

Stakeholder pension may have low fees but not low risk, writes **Maisha Frost**

## Make sure you know the detail

STAY on top of your stakeholder:

- Do not mistake the low, clear running costs for investment guarantees
- Know what kind of plan you have, for example with-profits

- Check the terms — can the unit price of investments be changed?
- If your fund has lost more than 10 per cent last year and is worth £25,000 or more, explore a different policy, compare charges

occur here, something determined by the investments chosen.

Broadly speaking, stakeholders are just as vulnerable to changing fortunes as any other market-linked plan. And there is a trade-off for the low running costs — the range of funds is restricted.

"There are misconceptions," says Malcolm McLean, chief executive of consumer help group the Pensions Advisory Service. "Savers look at the charges and the safeguards there, and to some extent the official approval these pensions have, then can assume, wrongly, this applies to all aspects of the policies."

"Stakeholder pensions are more

complex than many people think," agrees analyst Laith Khalaf of independent financial adviser Hargreaves Lansdown.

Many stakeholders are taken out by savers themselves directly and, unless they specify the funds they want, the pension companies invest on their behalf, based on their attitude to risk — cautious, medium, and so on. The default option policy helps keep overall costs down.

With-profits pension plans have traditionally been chosen by cautious savers, says independent pensions expert Nicola Downs, who explored alternatives to Daniel's current pension arrangements. She says:

Picture: PHOTOLIBRARY.COM



**AT RISK:** Stakeholders may be as vulnerable to changing fortunes as any other plan

"Daniel was entitled to expect a better performance from his investment. The small print shows Daniel's plan has units in the stakeholder with-profits fund, where there are no guarantees. If the underlying assets underperform, the unit price can be changed."

Daniel could stay with the plan but switch to cash funds offered by the stakeholder. "That would only confirm the 17 per cent loss: the returns would be so low he would have little hope of making these up," believes Downs.

Daniel's past concerns about taking out a personal pension have been down to the higher charges associated with them.

But he is happy to go with Downs' cover-all-bases solution of a managed portfolio, but totally in line with his cautious approach.

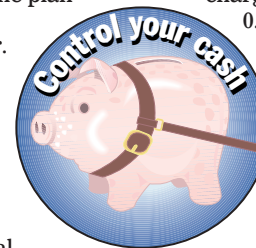
Accordingly, she has put together a new plan investing in eight different

areas and ranging from 57 per cent cash funds to 4 per cent European, 2 per cent Japan and 1 per cent global equity. Her fund choice includes Henderson, Casenove, M&G and JP Morgan. "This diversity will protect his money and give it the potential to grow," she explains. The charges will be 2 per cent — 0.5 per cent higher than the stakeholder.

The new plan should see Daniel minimising his losses, Downs stresses. "This year he is £5,749 down but in a personal plan it would have been nearer £507.

"There is no need for him to take any more investment responsibility than he has previously, there's no catch in the charges, and he certainly will increase his chances of getting whatever better returns are out there."

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