Money Matters

Simply the best?

Don’t be fooled that there is such a thing as the ‘best’ pension plan. Retirement planning will be different for everybody, depending on your circumstances, says Ray Prince

Like many of our clients, we are constantly updating our clients of Continuous Professional Development (CPD). As part of some recent CPD, we read a report called ‘Advisers Have Vital Role As Persuaders’. It was compiled, based on the results of a survey carried out by investment group Fidelity, which asked both individual investors and advisers to rank five factors in retirement planning success in order of importance, ‘1’ representing the most important.

The survey aimed to identify how well educated in retirement planning a typical investor is, and to stress how important it is for a financial adviser to communicate their advice clearly to clients. Put into context, there is a lot of talk about a looming ‘pension crisis’, so it’s vital investors are given the right advice.

Looking at some of the results of the survey below, we can see that although individuals understood the importance of the amount saved over a lifetime – the most important factor according to financial advisers – they still rated ‘finding the best pension plan’ their top priority.

The main point this survey brings to light is the idea that individual investors believe that there is a ‘best pension plan’ out there. We do not have space to reiterate our investment process here, but in short, while the pension wrapper is important (as it is tax efficient), the investments within the pension that really matter.

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<table>
<thead>
<tr>
<th>Advisers</th>
<th>Individuals</th>
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<tbody>
<tr>
<td>Amount saved over a lifetime</td>
<td>1</td>
</tr>
<tr>
<td>Date at which saving started</td>
<td>2</td>
</tr>
<tr>
<td>Getting the right asset allocation</td>
<td>3</td>
</tr>
<tr>
<td>Picking the right funds</td>
<td>4</td>
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<tr>
<td>Finding the best pension plan</td>
<td>5</td>
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Many things concern us here, including the probability (based on many clients’ case work) that if such planning were implemented, the client would possibly have ‘too much’ for their needs at age 60 or over, and in a wrapper, which restricts what you can do with it (75 per cent of the proceeds have to be used to provide an income – 25 per cent is available as a tax-free cash lump sum).

This can of course also be at the cost of the client’s life – what’s wrong with enjoying life and spending money now if more money does not need to be invested? To cap it all, for the few hours work that had been carried out for the client, £19,452 was to be paid as a lump sum when the client signed up! This money would be paid to the adviser through deductions from the pension plan.

Key learning point

Be aware that there is no ‘best pension’, and if anyone says there is it’s probably time to take a step back and ask the adviser what form of measurement they have used to arrive at the decision they have taken.

The next step

If your adviser has not taken into account the above factors as a minimum to your overall retirement planning, we recommend you do so now. Retirement planning is not just about pensions – building in all factors and having a life now is quite important, too. Even if you intend to simply buy policies instead of comprehensive planning, be aware of advisers who charge large amounts of commission and talk about the ‘best pension’.

For a free copy of Rutherford Wilkinson’s Audio CD: How To Avoid The Three Most Common Retirement Planning Mistakes, call Catherine Lowes on 0191 217 3340 and a copy will be posted to you (please quote ref: DT).