

Pension Consolidation

Nick Bunch, Financial Planning Manager

October 2008 will see the abolition of the restrictions which currently apply to the investment of 'protected rights' – i.e. the pension savings generated by the National Insurance rebates received by those who contract out of the State Earnings Related Pension Scheme ('SERPS') and the Second State Pension ('S2P').

Previously, protected rights could only be invested in insurance company schemes, which in many cases were confined to the insurers' own funds. In future, however, any SIPP will be able to obtain authorisation to accept both transfers of accrued protected rights and new contracted-out contributions.

The protected rights will still have to be separately identified, but they will be able to be invested in the same way as the non-protected SIPP funds, including property purchase and even exotic investments such as private equity, hedge funds and gold bullion.

A relaxation already introduced in 2006 allows contracted-out pension savers to draw 25% of the value of their protected rights funds in the form of tax-free cash, and to use protected rights as part of an income drawdown plan.

The requirement will remain that annuities purchased with protected rights funds must provide a 50% spouse's pension, but even this restriction will be removed in 2012.

Investment: Keeping your cool!

It is always unsettling when stock markets are languishing, because the value of savings and pensions suffers and the economic problems which usually lie behind the malaise tend to hit consumers in the pocket and to exacerbate the negative sentiment. However, it is important to retain a sense of perspective and to bear in mind the lessons learnt from previous setbacks:

1. Investment is for the long term – five years or more – and if that is your time horizon, there is plenty of time for markets to regain the positive momentum which they have consistently shown over the long term.
2. Don't crystallise losses by selling holdings unless there is a serious need to raise cash immediately. Selling now will only serve to crystallise a loss.
3. If you make regular contributions to a savings scheme or pension whose investments are sensibly diversified, don't stop now. The principle of 'pound cost averaging' means that your money buys more units or shares when prices are lower.
4. Don't cash in ISAs unless you really need the cash, because it will be impossible to retrieve the lost tax relief. If you are unhappy with your current ISA holdings, it would be better to switch funds.
5. If you have available funds and there is some major item of expenditure which you intend to incur, it might be better to spend the money now rather than to invest it. Retailers and builders are feeling the pinch.

Continued...

6. If you are a cautious investor, any new investment money might suitably be directed towards cash or money market funds, absolute return funds or strategic bond funds. Investors with a less cautious attitude to risk might consider funds which permit the manager to invest in a variety of 'asset classes' – i.e. to decide on your behalf which assets classes - equities, bonds, property or alternative investments – provide the best recovery potential.
7. It is unlikely that an authorised institution will go bust, but some journalists are suggesting that deposits should be spread between a number of Banks and Building Societies so as to maximise the protection provided by the Government compensation scheme, which guarantees deposits of up to £35,000 per person per institution (a figure which may shortly be raised to £50,000).
8. If you are tempted by higher rates of interest offered by a smaller institution, remember that it is the larger institutions which are likely to offer greater security.
9. Although cash is the safest haven in the short term, it will lose value over time as a result of inflation. In the longer term, equities, though more volatile, have in the past proved to be the best way of beating inflation.
10. The only investments which provide guaranteed protection against inflation are Government index-linked stocks (Gilts) and index-linked National Savings certificates. However, gilts only guarantee to beat inflation if held to maturity, and the real return on index-linked investments is low.

These notes are for general guidance only. No liability is accepted by Streets Financial Consulting plc for actions taken in reliance upon these notes and it is essential that detailed advice relating to the particular circumstances of the case in question should always be obtained before action is taken.

Streets Financial Consulting plc (registered number 2029793).

Registered office: Tower House, Lucy Tower Street, Lincoln LN1 1XW. A list of directors is available for inspection at this address. Streets Financial Consulting plc is authorised and regulated by the Financial Services Authority.

For regulation purposes, corporate finance work undertaken may be dealt with by Streets Financial Consulting plc, which is authorised and regulated by the Financial Services Authority

Tower House
Lucy Tower Street
Lincoln
LN1 1XW

62 – 64 Hills Road
Cambridge
CB2 1LA

Tel: 0845 880 0846
Fax: 0845 880 0845

e: enquiries@sfcplc.co.uk
www.sfcplc.co.uk