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How to Take Control of Your Pension

Do you have a number of different pensions that you have accumulated through the years? Would you like to put them together, and regain control of your pension planning? Chris Budd shows you how.

Many people say to me “I don’t like pensions”. What they are really saying, I believe, is “I don’t like insurance companies”.

In its simplest form, a pension is a tax free trust fund. For most people, their pension fund is their second largest asset, after their house. And yet so many people leave the management of their pension fund entirely in the hands of the insurance company.

Consolidation

The first step in regaining control is to find out exactly what your existing pensions are doing. What is their current fund value? If you were to transfer them away from the existing company, what would be the transfer value? If there is a difference between these two figures, why? – this could reveal a high charging policy.

What fund are you invested in? How has this performed against other funds? Is this fund appropriate for your personal attitude to investment risk?

There may be other benefits that you are not aware of, for example, additional life cover or a guaranteed annuity rate.

The Next Step

Once you have the information in front of you, you will have a clearer idea not only of the current state of your pension planning, but an indication of which, if any, of your existing policies to keep. It should be noted at this point that any benefits held within an old company final salary arrangement are most likely best retained.

You should then consider how you want to deal with this accumulated fund in the future. My guess would be that, if you have bothered to get this far, you are probably going to want to be more active with the investment of your pensions than perhaps you have been in the past.

If this is the case, then you should consider either a multi-manager pension or a Self Invested Personal Pension (SIPP). Each of these will offer a much wider range of funds into which you can invest than the standard insurance company policy (although it needs to be appreciated that such flexibility does come at a higher cost than the low charging – but simplistic – Stakeholder policy).

Assuming you have decided you have an appetite for at least a degree of investment risk, then those policies that can be transferred can be brought together under one new roof.

Investment Process

You should then apply an investment process to these funds (either yourself, or with the assistance of an IFA – Independent Financial Adviser). This will involve spreading the investments across a variety of sectors (such as stocks and shares in different geographical areas, property, gilts, etc), and then further spreading over a variety of fund managers. The creation of a portfolio in this way will spread risk and provide much greater opportunity for growth than sticking with the same one or two funds for twenty years or more.

Annual Review

Arguably the most important part of the process is the annual review. This is over looked by so many people, and yet it is crucial that any investment is reviewed on at least an annual basis.

Such a review would take two forms – firstly, are the sectors into which the fund invests still appropriate? (Is Property over valued? Will stock and shares go up next year?) Secondly, are the particular funds chosen still performing?

Conclusion

Many of the traditional choices of pensions, such as With Profits, are no longer appropriate in today's world. With much more sophisticated products and processes available, it is no longer necessary to simply allow funds to languish in insurance companies, unchecked and unloved.

With options at retirement now so much more flexible than they used to be (particularly the fact that you no longer have to purchase an annuity, but can draw down your income from your invested fund), consolidating and managing pension fund investments allows you to regain control of your future.

This article is for general information only and you should seek professional advice in respect of your own circumstances.

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This article appeared in Mature Times, December 2006 edition – visit their website at www.maturetimes.co.uk

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