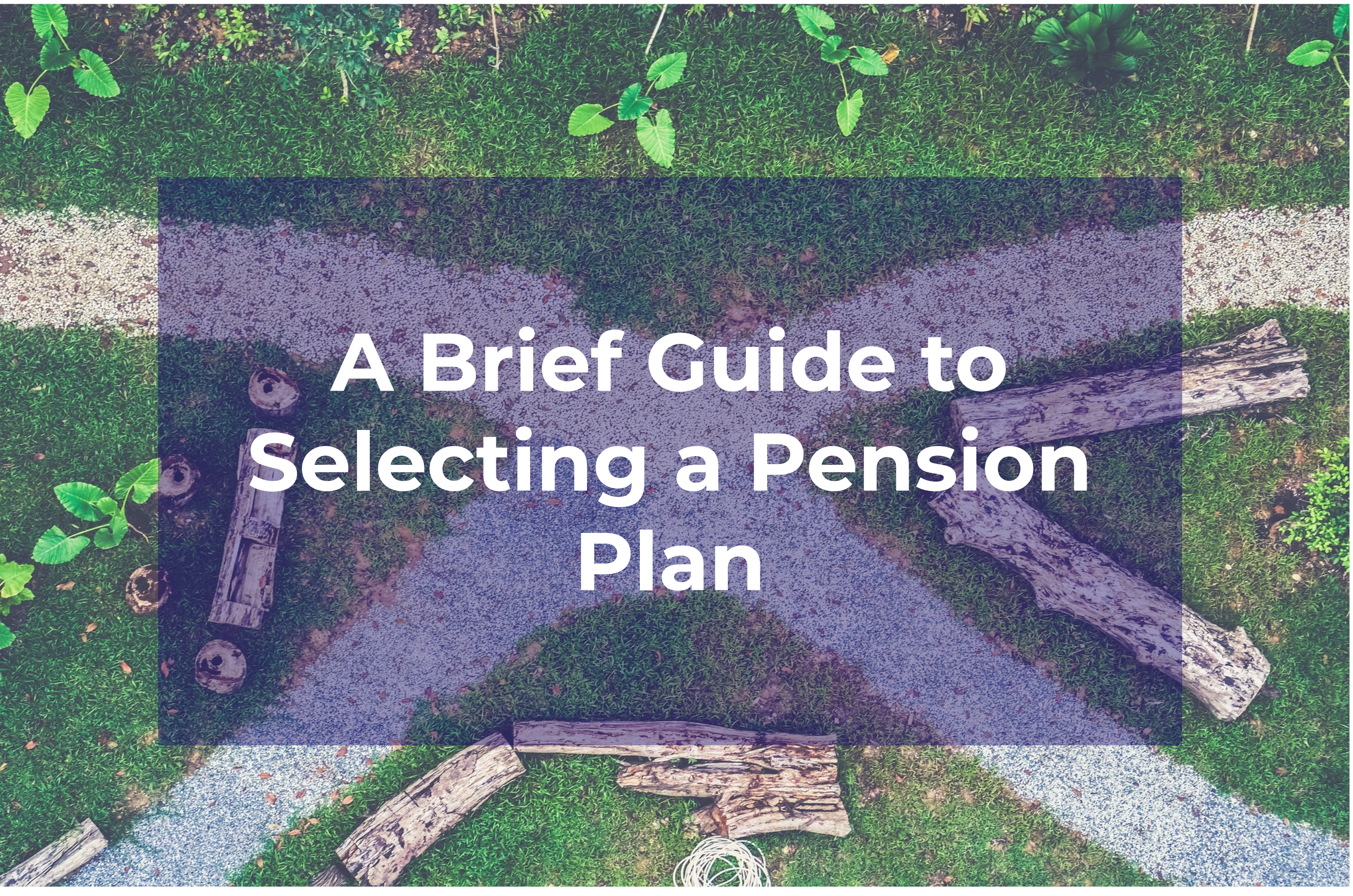
Atkins Bland

Investments • Pensions • Financial Planning



A Brief Guide to Selecting a Pension Plan

What does this guide contain?

This is our shortened version, and a longer version is available for anyone preferring more detail on the issues raised here.

We look here only at core issues to consider when selecting a personal pension arrangement.

We do not look at any specific plans or cover issues relating to any employer's pension which may be available to you.

If you are employed you should be a member of a workplace pension scheme with the benefit of employer contributions.

However, many chose to use a personal pension as well as their workplace saving, so this guide is relevant to anyone able to consider pension contributions and not just the self-employed.

The "*Atkins Bland Guide to Saving for Retirement*", looks at the general subject of retirement funding, including options other than pension plans.

How is a pension fund invested?

All investment-based pension plans give a choice of investments to use, ranging from just a few to literally thousands.

Most pension funds invest in either the stock markets, the bond markets, real estate or infrastructure, or, in many cases, in a mixture of all of these.

However, these broad areas can be broken down into sub-categories and this creates a huge difference in the level of choice between one pension plan and another.

Most pension schemes give the choice of using multi asset managed funds, or a range of specialist funds which allocate capital to particular areas.

Multi asset funds leave all investment decisions to the fund management company.

Specialist funds require the plan holder, normally in conjunction with their financial adviser, to determine how their capital should be spread amongst the different market sectors and geographic areas, and which fund managers to use for each area.

Some plans offer a “lifestyle” strategy, where asset allocation is designed to match time frame to retirement and is automatically adjusted at set dates ahead of that, reflecting the way investment risks change with time horizon.

Whichever style is preferred, access to a wide choice of funds, managed by different companies, is ideal, both to facilitate diversification and to avoid being stuck in a fund where the performance disappoints .

Investing for natural income

A pension fund will eventually be used for income. For some this will be by selling the investments and using the money to buy an annuity. For others it will be through keeping the money invested and taking income from the capital.

Few can know many years in advance which option will be most suitable when they reach retirement age, so it may be wise to select a plan suited to either.

Ideally, that means a plan with a wide range of investments that distribute income.

Most pension plans operated by insurance companies do not offer this at all, so may not be a good choice if not buying an annuity.

The “*Atkins Bland Guide to Generating Income from Natural Yield*” looks at this important subject and is available on request.

Screening for ethical or environmental issues

The most flexible pension plans offer access to more or less the full market of ESG (Environment, Social and Governance) or SRI (Socially Responsible Investing) funds, while others offer very few.

If ESG or SRI factors matter to you, plan selection should focus on adequate availability of funds in these categories.

The "*Atkins Bland Guide to Socially Responsible Investment*" looks at this subject and is available on request.

What about future fund performance?

The future level of return from any pension investment is unknown, because future investment performance cannot be forecast with any accuracy.

This means it is not possible to know which investment sectors will produce the best results or which investment fund managers will be at the top of the league table, and which will be towards the bottom. Past performance is often used as a guide to fund management quality, but it is not a reliable indicator of the future and there are always other factors which need to be considered.

This is the reason it is wise to have a good spread of investments.

It is also best to have access to a good range of different fund management companies, partly to widen the spread to control risk and partly to be able to easily move from one to another.

What about charges?

The charges for setting up and running a pension scheme, or most other investments, include three broad costs:

- *The administration costs*
- *The fund management costs*
- *The costs of initial and on-going advice*

Looking at each of these:

Administration costs

These pay the company operating the plan for the various administration functions required to run a pension plan. The difference between the administration charges of different companies tends to be quite modest, due to the need to be competitive. However, the quality and flexibility of the service can vary substantially.

As a guide, administration costs are normally in the range of 0.25% pa to 0.5% pa as a function of the value of the pension plan. With very small plans and if using a company with a fixed charge as well as a percentage-based charge, the costs can be rather higher than this. In

Fund management costs

These costs can vary substantially, depending on the nature of the fund and the level of expertise and research required.

The lowest cost funds are normally called “passive” funds, or “trackers”. This involves no research and analysis since the fund simply tracks a market index, or a mixture of indices with a fixed proportion tracking each. As these funds are largely run by computers, they can be very low cost.

Typical management fees for “passive” or “tracker” funds are between 0.1% to 0.4% pa.

Where a fund’s management involves a team of research analysts and one or more managers making day-to-day decisions on how the money should be invested, this adds to the cost. Funds in this category are usually called “active” funds.

The fund management costs and expenses for these do vary a lot but are typically between 0.5% to 1.5% pa, but with highly specialist funds sometimes well above this range.

Advice costs

These are to pay an adviser, amongst other things, for:

- Researching the market
- Obtaining details on your circumstances, objectives and priorities
- Analysing these
- Preparing and explaining recommendations
- Implementing any agreed actions
- If required, providing ongoing investment advice, monitoring and servicing

The specific level of these costs depends on the nature of the service required.

For those not wanting proactive advice on their asset allocation, but happy to use multi asset managed funds or a lifestyle strategy, the frequency of ongoing reviews should be lower, so ongoing advice costs reduced.

For those better suited to full on-going monitoring and more frequent reviews, including pro-active advice on the investment strategy, costs are a little higher, but need not be substantially so.

Are charges or investment flexibility more important?

This is impossible to know in advance, but a detailed look at past records shows that differences in investment performance can often be much more significant than differences in charges, even between the most expensive and the very cheapest.

This suggests that a lot of attention should be given to the investment strategy and choices.

However, the relevance of this will vary with reference a number of factors, and Atkins Bland will provide guidance on this as part of our initial and ongoing advice process.

Conclusions

There is no right answer to the question over which pension plan is best, as it depends so much on individual requirements and circumstances.

However, if the selection process achieves a very wide range of investment with a high level of flexibility and solid administration at competitive costs, it is likely to satisfy the needs of anyone and accommodate those need if they change over time.

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Important notes

The value of investments, other than deposit accounts or some guaranteed investments, will fall as well as rise, as can any income produced.

Any opinions expressed on the merits or disadvantages of any options are intended as a general comment only and not as specific advice to the reader.

This document is intended as a supplement to full independent advice and not as a replacement for it and should be read in conjunction with any personalised recommendations provided by Atkins Bland Ltd and with any product brochures supplied.

Any reference to taxation, regulation or legislation is based on our current understanding and details should be checked before any reliance is placed upon its accuracy.

Errors and omission excepted.

Prepared by Atkins Bland – March 2024