CARPENTER BOX
FINANCIAL ADVISERS

The power of a pension review

Be the biggest winner out of existing pension capital with a pension review

For the vast majority of UK residents, the pension represents either the foremost or second most valuable asset we will own in our lifetimes.

Why have a pension review?

Workers in Britain today will likely spend between 20-35% of their lives retired and if we want a fighting chance of realising our retirement lifestyle aspirations, we must perform essential maintenance and look for chances to improve our pension solutions sooner rather than later.

The results may be less tangible in the short term, but they are life changing in the long term.

Pricing

General market evolution, technology and outsourcing has brought downward pricing pressure on the pension sector for 20 years. The 2015 Pensions Freedoms adopted by the government saw new product launches across the board as softening of rules attracted new inflows and these offerings feature modern software systems. There is hundreds of billions of pounds marooned in older style schemes charging too much.

Features

Post 2015 Pensions Freedoms rules mean nobody is forced to buy an annuity (swapping capital for guaranteed income contract) if they don't want one. Savers can draw a variable income from an invested pension from age 55. Many older schemes don't offer this yet charge more than the modern schemes that do.

Legacy

New rules allow unused pension savings to be passed to dependents or nondependents via lump sum, annuity or flexi access drawdown. The latter empowers the cascading of wealth down a theoretically unending number of generations. In the majority of cases, Inheritance Tax is not applied to pensions.

Investments

The proliferation of choice has led to downward price pressure on investment options. Increased transparency and analytical tools allow advisors to identify higher quality and better value solutions for their clients. The adoption into the mainstream of indexing strategies has opened up new low-cost solutions popular with some.

Environmental, Social and Governance (ESG) Investing

No longer must you pay over the odds or experience poor performance for selecting ethical investment solutions. These solutions have achieved cost parity and now offer comparable, sometimes even greater, returns.

Consolidation

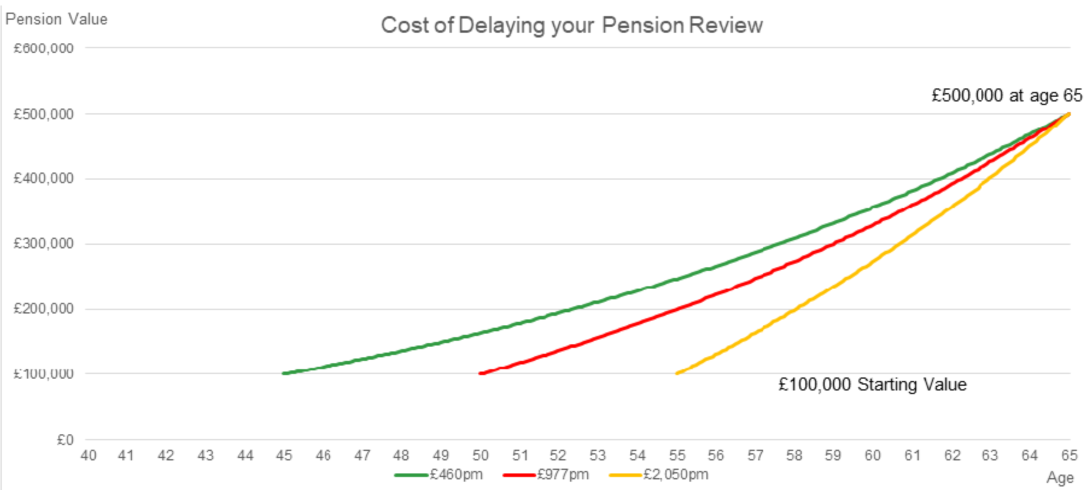
With career mobility on the rise in the modern economy, gone is the job for life. Couple this with the adoption of Auto Enrolment in 2012-2017 (most employees will now be auto enrolled into a pension scheme within 1 month of joining), employees are accumulating a large collection of pensions. Savers view it as hard work keeping track of them all. A streamlined approach is valued (where advisable) as savers will usually find a smaller collection of pensions more accessible and won't be deterred from future engagement by the sheer volume.

Shortfall Analysis

Pension savings are a means to an end – they enable a lifestyle objective. A pension review can act as a health check to reveal your current pension funding trajectory. We can reveal if you are falling short, how much extra you need to save, or indeed what age you may be able to afford to retire, using sophisticated forecasting software.

Cost of delaying your pension review

The graph below illustrates the power of compounded returns and relative value of time/early action when it comes to pension savings. It compares 3 savers who reach 3 different ages and find themselves with a £100,000 pension value, when they identified they need a £500,000 pension value at age 65.



The graph illustrates the net employee contribution necessary (no employer contribution) on a monthly basis for a higher rate tax payer to reach the funding target at age 65. Note that the increase in contributions is much sharper than the reduction in time to goal. This quantifies how powerful earlier action can be with pensions.

* 5.5% net return compounded monthly, £100,000 starting value, assuming higher rate taxpayer, lineal returns, same risk throughout period.

How much of the total can the market give you compared with funding yourself? The saver who took action at 45 will enjoy considerably more spare money than their counterparts, as the compounding returns over time have rewarded their foresight and patience richly.

DISCLAIMER: This sheet is for guidance only, and professional advice should be obtained before acting on any information contained herein. The value of investments and the income derived from them can fall as well as rise. You may not get back what you invest. Information correct as of April 2021.

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