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INVESTING KNOWLEDGE

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Is Your Pension Festering?

By Harvey Jones

I received my annual personal pension statement the other day, and before filing it carefully in a laminated folder, I did something unusual. I read it.

Perhaps you are one of those diligent people who pore over your pension statements to check how well your plan is performing and whether it is on target to meet your retirement needs.

If so, I suspect you are in a minority. Most people probably glance at the bewildering figures and commentary, then remember they have something more exciting to do, like the ironing.

But now I'm pledging to mend my ways.

All the fun of the share

While I log onto my online share accounts a couple of times a day, particularly at the moment, when it makes such pleasant reading, I haven't devoted anything like the same care and attention to my pensions.

In fact, I haven't done a thing since setting up either of my Standard Life (LSE: SL.L - news) stakeholder pension five years ago, aside from maintain my contributions, mostly for the tax relief. This isn't very wise, but I bet I'm not the only one.

He's in control

Part of this is about control. I like logging onto my online share dealing site, because once I'm there, I'm the boss. I can buy what I like, sell what I like, and execute it instantly. And I can do that whenever I want, as often as I choose.

I can also invest in a wide universe of shares and funds, something I can't do with my stakeholder pension. Standard Life offers me a choice of around two dozen funds, all of them managed by, er, Standard Life. Where's the fun in that?

After looking at my statement, I see that I originally divided my money between its Stakeholder Managed and Stakeholder With-Profits funds. Since I've been flaying with-profits plans for years, it came as a shock to discover I actually have one myself.

The managers of those funds will determine the fate of my future pension pot, not me. From what I can see, they haven't done so badly, losing about 15% of my money since September 2007.

But I can tell you one thing. If I was building an investment portfolio from scratch, I wouldn't consider either of these funds for a moment. They wouldn't even cross my radar. Yet I've got about a quarter of my invested wealth in them.

I've also just discovered that I can switch my money into other Standard Life plans online, but having run through my limited options, I can't quite see the point.

Waste of time and money

Millions of people leave their money sitting in underperforming pension funds, year after year after year.

Pensions website HowmuchdoIneedtoretire.co.uk recently highlighted the worst performing £1 billion-plus pension funds over the last decade. Abbey Equity, Friends Provident UK Equity, Scottish Life Managed, Clerical Medical Managed and Phoenix Life Exempt Managed are the greatest underachievers. Is your money twiddling its fingers in any of them?

The big pension funds get away with sustained lousy performance because most investors haven't got a clue what is going on. Like me, they probably don't even bother to look.

How long?

Another reason for my inertia is that transferring your pension to another company has traditionally been tortuous. It certainly was when I try to liberate my money from stricken insurer Equitable Life back in 2002.

I didn't have one of its disastrous with-profits policies, and was free to move without penalty, but it still took well about 15 months, and dozens of hectoring phone calls and letters. I know Equitable Life was a special case, and my pension contacts tell me things are quicker now, but I'm not convinced.

New research from The Annuity Clearing House shows that pension providers are taking up to 10 weeks to transfer retired people's funds over to their annuity provider. 10 weeks! That's atrocious, when I can buy and sell a stock or fund in 10 seconds.

Phoenix (again), Winterthur Life, Scottish Mutual and the Co-operative Insurance Services were among the worst offenders.

And for obvious reasons, pension companies have been slow to tell clients they are free to switch their pension funds to another provider before then. I bet only a handful of people ever do.

Taking charge

There is a solution to this, as most of you won't need telling. I'm finally looking into setting up a low cost self-invested personal pension plan (SIPP).

I don't want my money sitting for several decades in a big anonymous insurance company fund, I want to plough it into a mixture of whizzy AIM stocks and dividend-spraying blue chips. And then I want to haul it out and stick it somewhere else, whenever I think the time is right.

Unlike most pension savers, I want to be in control of my future. And now I've realised where I have been going wrong, it's entirely up to me.

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