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# Boosting your retirement fund

Recovery offers a good opportunity to get your pension back on track before markets soar, writes **Harvey Jones**

THERE'S a good reason to celebrate the recent stock market recovery, because it may have plugged a giant hole in your pension.

Last autumn's crash hacked nearly 25 per cent off the value of the nation's pensions, but much of that lost value has now been recovered.

The total value of the UK's investment-linked workplace pensions fell from £450billion last September to just £344billion in March, according to figures from Aon Consulting. But they have since rebounded to stand at £451billion.

The recovery has also helped to plug the massive £80billion shortfall in the UK's 7,800 private sector final salary pension schemes, and repaired many people's personal pensions and investment Isas as well.

You could call it the great pensions rebound, although there is a long way to go before pension values reach what they were before the credit crunch.

The flipside is that anybody who drew their pension fund when stock markets hit rock bottom in March will be cursing their bad luck. Since then, shares have risen more than 40 per cent.

This shows just how volatile pension investing is at the moment, says Helen Dowsey, pensions expert at Aon Consulting. Even a month can make a big difference. "Someone who retired at the end of July may have a significantly higher retirement income than someone retiring in June. This highlights the need for people to plan their retirement carefully, and understand their investments, whose value can change dramatically in a short space of time."

Despite the pensions rebound, most people still have a long way to go to save enough money for their retirement. The average pension pot is about £25,000, which could buy you income worth a meagre £25 a week, on top of your state pension.

So don't squander this great opportunity, but review your pension plans, and consider investing more before markets rise even higher.

Your first step is to find out exactly where you stand at the moment. So dig out your most recent annual pension statements, or if you can't find them, request a copy from your company.

Your statement should show the total value of your pension pot and which funds it is invested in, and should also show how much income you are likely to receive in today's prices at age 65.

Worryingly, almost one in three workers don't know where their retirement savings are invested, and have never reviewed their pension's performance, according to research from insurer Prudential.

## 'Don't squander this opportunity: consider investing more'

People need to take a more active role in the management of their pension, says Andy Brown, director of investment funds at Prudential. "You routinely check your savings, utilities, insurance, mobile phone contract and broadband to make sure you're getting the best deal. Checking the performance of your pension should be no different."

Thanks to this inertia, a huge amount of pensions money is now sitting in underperforming funds, says Tom McPhail, pensions specialist at adviser Hargreaves Lansdown. "Many people put their money into mediocre pension funds and never review them again, which means it stays there year after year, at great cost."

Plenty of underperforming funds have swollen immensely, putting billions of pounds into the hands of second-rate managers.

Pensions website HowmuchdoIneedtoretire.co.uk recently highlighted the worst performing £1 billion-plus pension funds over the last decade. It identified Abbey Equity, Friends Provident UK Equity, Scottish Life Managed, Clerical Medical Managed and Phoenix Life Exempt Managed as the five greatest underachievers over the last 10 years.

Many people probably don't even realise they are free to shuffle the funds in their company-run or personal pension schemes.

Reviewing your pension will become more important as more employers shut final-salary pensions and replace them with cheaper money-purchase schemes. "More workers now have to take personal responsibility for their pension funds, or pay the price in retirement," McPhail says.

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### Most 'won't have enough'

EVEN if your pension pot has recovered lately, you will almost certainly have to save much more than you already do. Most financial advisers say their clients aren't saving enough for retirement, according to new research from Axa Winterthur Wealth Management.

The state pension is just £95.25 a week for single people and £152.30 for a couple, depending on your circumstances, says Mike Morrison, head of pensions development at Axa. "We are all living longer, and most of us would like to at least maintain our current lifestyle in retirement.

"The only way is to start saving and keep saving."

## Planning your best saving strategy

WHERE you should invest for retirement partly depends on what pension you have already, and your own attitude to risk.

The following tips, from Neil Thomas, director of independent financial adviser Simpsons of Brighton, should help.

- If you belong to a workplace final-salary scheme, your best option may be to buy additional years in the scheme (if you can). "Final salary schemes are attractive because your employer shoulders the investment risk. Even if stock markets fare badly, your pension is still protected. Unfortunately, many companies are now closing their schemes."
- If you are in your company's final-salary scheme, consider making additional voluntary contributions (AVCs). "Charges are usually lower than on a personal pension, which should help boost your total return. But not every scheme offers AVCs, and the investment choice is often limited. You may prefer the greater flexibility of a stakeholder pension," Thomas says.
- Stakeholder pensions are an attractive way to top up your retirement savings, because your contributions earn tax relief at 20 per cent or 40 per cent, depending on your tax bracket. You can also choose from a wide range of schemes offered by leading insurance companies such as Norwich Union, Prudential and Standard Life.
- Isas are also tax efficient and offer greater flexibility than pensions. "You don't get any tax relief on your contributions, but can draw income and capital gains free of tax. Plus you don't have to buy an annuity, as you have to with your pension fund, and your dependants can inherit the money after you die, which they can't with an annuity," Thomas says.
- If you're approaching retirement, you need to take careful stock of your pension planning, and choose your annuity wisely. Investment-linked pension savers now receive a "wake-up pack" six months before they retire, setting out their options, including the freedom to shop around for their annuity.

Many people still make the mistake of buying their annuity from their pension provider, rather than seeking better rates elsewhere.

From taking out your first pension to buying your annuity, you have to plan carefully. You should also take independent advice.