FINANCE

Joan Garahy
Horwath Bastow Charleton
Horwath House
The Red Church
Henry Street
Limerick
061 310 311

Taking control of your pension –maximise the investment strategy

Are you, like most pharmacists and medical professionals having difficulty grappling with your pension, or should I say pensions? Do you have a myriad of personal pension plans, taken out in a rush each Halloween before the October/ November tax deadline?

Some questions to ask

In assessing the suitability of a pension the important things that you need to think about include:

- ***What is the investment strategy of my pension(s)?*** A good advisor will make sure that it is appropriate to your needs, and compatible with your other investments (e.g. properties, personal stock market portfolio, ownership of business etc). S/he will ensure that exposures are not being duplicated so that too many of your eggs are not in the one basket, resulting in decreased diversification and greater risk. Your advisor should work with you to decide that the risk is right for you at each stage of your career - risk tolerance can change as people age (have families, life experiences etc). Moreover, you should consider if the investment strategy needs to be changed to reflect changed personal economic circumstances if and when they arise.

- ***How much does each pension cost me?*** For example: What, if any, deductions are taken from each contribution and why and what is the overall management charge?

  A good independent advisor will be able to make sure that you get value for money and that the prices you are being charged are competitive.

- ***Will my pension meet my requirements when I come to retire?*** Your advisor can calculate how much income your pension should generate for you when you retire (based on your current contributions and projected growth of the investment strategy) and you can then judge whether it will be sufficient for your needs. You should also seek advice to maximise the tax efficiency of your contributions.

- ***How is my pension performing?*** Your advisor should be able to tell whether the funds within your pension have performed well compared to other similar funds in the marketplace. This, in turn will give you an indication of how well your pension is being managed. If every other product in the market is doing better than your pension then, obviously you have a problem. Also, are you being kept informed of how well your pension(s) is performing? You should be receiving information and performance reports annually, at least.

Solutions

Now, let's talk about solutions to help you ensure that your pension is actively working towards your personal financial goals.

The first step should be a review of each individual pension and, if you have multiple pension policies, then an analysis should be undertaken of how they combine. Many people are sold a pension in a rush, which focuses on reducing a tax liability rather than planning for retirement. We recommend that you seek 'independent' advice to help review existing pensions - don't just ask the pension provider.

Such a review should take the following aspects into consideration:

- Overall Asset Allocation: what you have invested in

- Compatibility of investment strategy within the pension with other assets: if you already hold investments such as properties or shares then it might be appropriate for your pension to diversify into other asset classes

- Time to proposed retirement date

- Projected size of fund at retirement date

- Size of fund required to sustain lifestyle (typically targeted at 2/3 of final salary, adjusted for inflation)

- Maximising tax efficiency of contributions

- Investment choices: is there a wide range of options covering the full risk spectrum?

- Charges

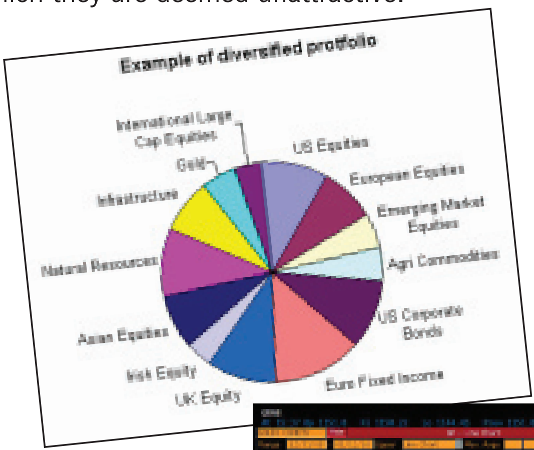
- Strategy post retirement

Armed with such a review, you and your advisor can ***draw up a plan for the future and take control of your pensions.***

'One-size-fits-all' managed funds have not delivered good returns

The vast majority of pensions are restricted to the fund choices offered by the insurance companies (for example Aviva/Hibernian, Standard Life, Irish Life, Eagle Star/Zurich to name but a few). In many cases, the default choice of pension products is the 'Managed Fund'. As you may know from seeing the tables in various newspapers, 'Managed Funds' have not served investors particularly well. In the last decade, the average per annum return from Pension Managed Funds was 0.1%, with the best being 2% p.a. and the worst -1.8% p.a. However, average inflation over the same period was 2.9% and thus not a single fund has beaten inflation. So, if your money has been tied up in a typical Managed Fund for the last ten years, it has actually lost value, in terms of purchasing power. To be fair, the last ten years were a particularly torrid time for equity markets and, if one looks at the 20-year figure it suggests that the average pension fund delivered 6.9% p.a. Longer time frames are generally more relevant when considering pension fund performance, but you need to be very careful of your own timeframe to avoid getting caught up in a 'lost decade'.

Some would have the view that the title 'managed' fund is misleading – in many cases, the fund manager is highly constrained and must hold a certain proportion of equities/government bonds/property/cash, etc. So, even if the fund manager is bearish about the outlook for shares (equities) i.e. s/he believes that the value will fall, then the most they can do is to reduce the weighting from, say 70% to 60% because they cannot exclude equities from the fund altogether for the period in which they are deemed unattractive.



There are alternatives: seize control - maximise the investment strategy

It is important to be aware that there are alternatives to the default 'Managed Fund' strategy. With the help of good quality independent investment advice, you can design and tailor-make a pension specific to your personal needs. It does not have to be a high-risk share portfolio. All risk categories and asset classes should be considered.

You can create a portfolio which gives you appropriate exposure to a range of investment opportunities - for example: commodities, (not just oil and precious metals but agricultural/food commodities, timber, steel, etc) infrastructure, government bonds and corporate bonds can all play a part in a diversified well balanced portfolio. The key word is ***appropriate***.

Too many people in the past few years have learned that complacency in relation to their pension can have severe repercussions. Ensure that you treat your pension like any other asset. Watch it and manage it, or ensure a good independent advisor proactively manages it for you.

✓ *Right mix of risk & return*

✓ *Right balance - diversified sector & geographic exposure*

✓ *Managed asset allocation*

✓ *Proactive stock selection*

A Well Diversified Pension Portfolio

***

Joan Garahy is Managing Director of HBCL Investments & Pensions Ltd, part of Horwath Bastow Charleton in Limerick. She and her team manage direct investment portfolios for a number of clients, including pharmacists. If you would like to discuss any investment or pension issues with Joan please contact her at joangarahy@hbcl.ie or 061 310311.