



Making the most of your Pension at Retirement.

Sometimes when you do things every day it is easy to become blasé about them. For example work that you or I might do most days of the week.

In my case that might be seeing individuals who will have saved up throughout their working lives in a pension and they would assume that they should 'draw' their pension from the same company. But this is not always in their best interests. Recent figures from the Association of British Insurers (ABI) suggest that is what over 60% of individuals do. Yet virtually everybody at retirement should make sure that at retirement they get the pension that is right for them and not right for the pension company. By exercising their contractual rights and asking for an 'Open Market Option' (OMO) the majority of individuals at retirement can receive a pension that is in some cases up to 50% bigger than their pension provider is offering.

At last the industry appears to be waking up to this scandal. The ABI has published guidance aimed at improving provider marketing material to consumers approaching retirement. The new guidance has been published in the same week as Money Marketing revealed yet more damning evidence about the standard of provider OMO literature, this time from Department for Work and Pensions (DWP) research.

The research found much of the information consumers received from providers was misleading and confusing. The DWP is expected to recommend a clearer and more timely provision of information from providers, including a single document explaining key decisions and increased awareness of the need for independent financial advice.

This follows on from Financial Services Authority (FSA) research earlier in the year that found 40 per cent of provider consumer correspondence failed to meet regulatory requirements. The ABI says its new guidance will ensure consumers are given a clear brief summary of the Open Market Option.

Individuals at retirement must understand that buying an annuity (effectively drawing their pension) is a once in a lifetime decision that can't be changed, so it's vital that customers are given appropriate help to make the right choices, and make the most of their retirement income.

But having ensured that happens, the Government and FSA must do more to force providers to improve. The Government has always bowed to insurance company pressure. The insurance companies are doing very well out of the current system. It is cheaper and easier for companies to be carrying on as they are. It seems to me that making these changes is merely a halfway house. If the ABI were to recommend that insurers just focus on the key message that using the OMO could increase your retirement income that would be fantastic, but they need to help educate individuals that this is merely one option at retirement.

For many people retirement is the single biggest investment decision of their lives. According to the ABI, about 93 per cent of retirees buying a retirement income stream - about 400,000 individuals with £11 billion of pension savings - opted for a lifetime annuity in 2007. The FSA is right to draw individuals' attention to using the open market option but is focusing too heavily on promoting the purchase of lifetime annuities in early retirement when this may not be the right option for them. The industry should be working hard to break this fixation with buying lifetime annuities at the point of retirement - it is outdated and outmoded in the 21st century. There is a new middle market that has opened up new, flexible options for retirees and unsecured pensions that are no longer just for the affluent. The Government, yet again, needs to do more!

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