



The Panoramic View

By Mark Penston

Panorama – Headlines get viewers

Some of you may have seen the recent Panorama programme – ‘Who’s Taken My Pension?’. One has to be careful not to protest too much, but it does seem appropriate to give some measured response and a wider perspective (a more panoramic view...)

The programme focused on what it felt were excessive pension charges and named some household names amongst the major offenders. The programme’s expression of what it felt to be excessive was to quote the charges payable over the term of the contract as a percentage of the total premiums paid. The claim that total charges could be as high as 40% of the contributions paid to the plan over the term failed to mention that the resulting fund size at retirement was nearly 200% greater than the contributions made in order for the quoted charges to be applicable. It’s a play on figures and it is fair to

say, albeit not surprising, that some pensions are more expensive than others, and you don’t necessarily get what you pay for.

Furthermore, the spotlight on the poor Sky Diver who saves £25 per month in to an Equitable Life pension performing at 3% per annum is perhaps as much an unfortunate reflection on the inability of the FSA to effectively monitor and regulate Equitable Life as it is poor client servicing. The fact that this individual had never received further advice regarding increasing contributions or changing funds is perhaps another own goal by the FSA in decimating the number of advisers who remain qualified to advise such clients. Arguably, we have a more professional and ethical financial services industry now, but that’s not much help if Ms Sky Diver cannot afford the services of an IFA.



Given that, as Panorama quoted, the average pension pot at retirement is about £33,000, it might have been more responsible to highlight the virtues of pension saving and levels of saving required rather than the sensationalism of manipulated figures that could

do nothing other than put people off the idea of saving for retirement.

As a society, we still sleepwalk towards retirement. The safety net of final salary schemes gradually perishes and even the Government is only just waking up to the fact that the £trillion cost of public sector pension funding is going to be difficult to fund in the future.

Clever ways to save for retirement...

I have written previously about the fact that pension schemes are not the panacea of retirement funding. Many of our clients have a retirement strategy which includes a variety of methods of achieving their desired retirement income that may or may not include pension schemes. Nonetheless it is a fact that for the bulk of society, a pension plan will, or should, form a significant part of their overall retirement strategy.

Tax relief on contributions and (nearly) tax free growth on the investment form a major incentive to save into pension schemes.

While constant changes in pension legislation must make it difficult for many to keep tabs on the best thing to do, it does create opportunities for those who seek advice from those financial advisers who do keep abreast of the changes.

Up to 60% tax relief on pension contributions...

The reduction of the personal allowance for those earning over £100,000 makes pension contributions attractive,

particularly for those who can effectively regain their personal allowance by making pension contributions.

The table below shows the benefits of pension contributions for different salary levels.

Total gross income (£)	112,950	115,000	120,000	125,000	129,999
Gross personal pension contribution (£)	12,950	15,000	20,000	25,000	29,999
Tax relief (£)	7,770	8,590	10,590	12,590	14,590
Effective rate of tax relief	60%	57.26%	52.95%	50.36%	48.63%

Over 65% tax relief on pension contributions...

Salary sacrifice has been an effective method of reducing tax and National Insurance and the combination of salary sacrifice and pension contributions can produce even

greater levels of tax relief, as shown in the table below. This shows that reducing salary to £100,000 will obviously reduce take home pay, but the employer is then able to make

a pension contribution based on the salary reduction and make a saving in both employer and employee National Insurance contributions.

Gross income before sacrifice (£)	112,950	115,000	120,000	125,000	129,999
Gross income after sacrifice (£)	100,000	100,000	100,000	100,000	100,000
Reduction in net take home pay (£)	5,050	6,260	9,210	12,160	15,110
Gross Employer pension contribution (£)	14,607	16,920	22,560	28,200	33,839
Effective rate of tax relief	65.4%	63%	59.17%	56.87%	55.34%

Please note that any opinions expressed in this update are only those of the author and no advice should be construed from them. Independent financial advice should always be sought before any actions are taken.

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