MONEY

NOT FARE
INDIRECT TAXI RIDES ARE UNCOMFORTABLE FOR JOANNE McNALLY'S BANK BALANCE
SUNDAY PAGE 5

Best way to bring your pension pot to the boil

Some savers benefit from having more than one scheme while others should consolidate, writes *Linda Daly*

As the concept of a job for life withers, workers can expect to change jobs up to 15 times over the course of their career.

Between 2000 and 2014, the percentage of workers in the EU in the same job for 10 years or more decreased from 17.5% to 12.5%, according to figures from Eurostat. Over the same period, the proportion of those in a job for three to five years increased from 17.7% to 19.4%.

The more jobs we have over the course of our lifetime, the more pensions we are likely to accumulate. The take-up of pensions in Ireland may still be quite low – 47% of all workers had a pension in 2015 – yet figures from the Central Statistics Office also show that almost one in 10 workers had at least two pension plans.

Today's young workers could be juggling up to 15 pension pots when it comes to retirement age – especially if the government finally comes up with its planned auto-enrolment pension solution.

Even now, many workers are juggling up to five pension pots. So should you consolidate your pensions into one, or should you leave them where they are?

Why you should consolidate

Combining pensions into one pot will help tidy your finances and make retirement planning that little bit easier.

"Most of us prefer the idea of having one fund, one investment strategy, one fee structure, and having one set of policy documents that come to us year by year," said Bob Quinn of the Money Advisers, a financial advice company. "We know what company we're with and we know what's invested."

Some people lose track of their pensions over the course of a 40-year career, according to Quinn. They may remember their former employers, not their fund managers.

In the UK, where there is an estimated £400m in unclaimed pension savings, there is a dedicated tracing service to help people find their pensions. In 2015 and 2016, the service had 169,000 tracing requests. There is no such service here, although the Department of Social Protection does offer help to pension fund administrators to find plan holders.

An upcoming EU law will make it easier for people to keep track of old pension schemes, however. Under the 2016 EU pension directive, which has to be implemented by 2019, pension trustees must provide annual benefit statements to both active and deferred scheme members. At present, trustees are only obliged to provide limited information to deferred members and only if they ask for it.

Amalgamating your pension neither decreases nor increases its fundamental value. Ten different pensions can produce the same income as one. What it can do is decrease the charges.

"If you are in an old pension product from back in the day, it could have a limited fund choice or a less generous charging structure, so perhaps it would be better to amalgamate into something more modern," said John McInerney, pensions technical manager at Aviva.

The pensions landscape has improved in recent years, he added. "Pricing has got better in some cases, fund choice has got better and the diversification is better."

McInerney, who once dealt with a client who had 31 different pensions, said having multiple pots may not guarantee diversification of investment. "Some funds are quite similar so while you're diversifying by spreading your investment out across different policies, you're not really diversifying at all because the funds are investing in similar companies," he said.

Witches' brew: after years of toil — usually across several different jobs — getting the most from your accumulated pension pots can be troublesome

> **Perhaps it would be better to amalgamate into something more modern**

When more pots are better than one

According to Jerry Moriarty, chief executive of the Irish Association of Pension Funds, which represents pension savers, pensions in different pots can generate greater diversity. "If you transfer all your money into a pot where the investment manager performs poorly, then you will lose out," he said.

There are many reasons why someone may not amalgamate their pension. "People need to compare the terms, the charges, the flexibility and the rules of each of their plans," said Danny Mansergh, head of member communications at Mercer Ireland. "Your former employer's pension plan may have had lower charges, a better fund range or rules that are more beneficial to you," he said. "In that event it's better to hang on to your pensions. If you have a substandard plan through a previous employment with unpleasantly high charges, then change."

Mansergh warned against transferring out of a defined benefit (DB) scheme – where employers offer guaranteed lump sums to employees upon retirement – without first getting actuarial advice.

" If you transfer voluntarily out of a DB scheme you get a transfer value, and if the scheme is underfunded at the time you make the transfer, the transfer value is reduced."

If the scheme is solvent, however, transfer values can be attractive.

Despite some bad press, DB schemes also tend to provide more certainty than other pension arrangements.

Having multiple pension pots could also allow you a degree of flexibility when it comes to retirement. "If you want to take a staggered approach to retirement then keeping [your pension pots] separate makes sense," said Quinn.

In the future, more people will gradually wind down work before retiring, going from five- to three- or two-day working weeks. Phased retirement may mean it's appropriate for someone to take their pensions in stages – perhaps at 60, then 65 and 70.

"If you have amalgamated your pension pots that's not going to be an option, because generally speaking you must take all of your pension benefits from a particular plan at the same time," said Mansergh.

McInerney recommends sitting down with a financial adviser to figure it all out.

"There are different products in the pensions landscape and you may not be able to amalgamate them into one under Revenue rules," he said. "While it might make sense in theory to automatically transfer nine different pots into one, it doesn't mean it will make sense in practice."

For example, if, upon leaving a job, you moved your pension into a product called a buy-out bond, you will be not be able to amalgamate that bond into a personal pension plan, under Revenue rules.

Likewise, you can only transfer an occupational pension scheme into a flexible personal retirement savings account (PRSA) if you have less than 15 years of pensionable service with your employer.

How should I merge?

Those still in employment will most likely want to transfer all of their old pension funds into a current scheme. Moriarty said you should check with your employer to see if they will accept the transfer.

If you're still funding a number of schemes, then you should identify the best pension. This may be the one that offers the best returns, the one that has the cheapest fees or the risk profile that suits you.

Moriarty said that if you decide to go ahead with consolidating pots, you should contact all of your pension providers. Find out the charges associated with each pension fund and compare them.

"If the difference in charges between comparable funds is 0.03-0.05% per annum, that is a big difference. It will add up to a hell of a lot over the years," said Mansergh. "Similarly, if the difference is 0.01%, that is not a lot."

Find out if any exit charges or penalties are applicable, though many modern plans won't have any transfer charges attached.

Your pension providers will furnish you with a form, a leaving service statement, that enables you to instruct the trustees of the plan you are exiting.

If you want to transfer to a PRSA, and the value of your pension is greater than €10,000, you will have to pay for a certificate of comparison, which shows the pros and cons of transfer to a PRSA. This can cost anywhere between €500 and €2,000.

If you have chosen a fund, make sure you are aware of the risk profile of the pension fund. Your pension funds or combination of pension funds should best match your risk profile.

"The process involves a bit of paperwork but it is usually straightforward," said Mansergh.

MARKET MOVER
RICHARD POWER

Richard Power, director of stockbroking at Cantor Fitzgerald. Power, has been with the firm since 1999 and manages the Green Effects ethical investing fund, which has €65m worth of assets under management. Set up in October 2000, it is the largest ethical fund in Ireland.

Green Effects is available to investors in Germany and Ireland. A minimum investment of €10,000 is required. Some of its investors have included religious orders, charities and hospital foundations, organisations that have socially responsible mandates or ethical investment practices. The fund doesn't invest in oil, banks, arms, pornography, tobacco or any process that harms the environment.

Investment philosophy

It takes an ethical approach to responsible investment, and invests in global equities, with holdings from all the major markets, including the UK, Europe, the US and Asia.

"These are primarily companies that are making a positive contribution to the environment or have strong corporate social responsibility values," said Power.

Stock include Vestas Wind Systems, which is one of the largest wind turbine makers in the world, and Shimano, the Japanese bicycle parts manufacturer. Tesla, the electric car maker, was added to the fund about a year ago. Another pick is Kingfisher, the owner of the B&Q chain in the UK.

Performance

The fund is up about 4.2% in the year to date. Over a five-year term, annualised returns are just under 14% per annum, and over a one-year period the fund is up 7.1%.

"Over the last few years, US equities within the fund, which represent about 35% of its holdings, have performed quite strongly," said Power.

"Over the last six to 12 months, the returns have been helped by the Asian holdings within the fund. About 20% of the fund is invested in Japan," he said.

Buying and selling

Power and his team have been reducing the fund's holdings in Tesla over the last two months.

"It had a phenomenal run, and [its share price] nearly doubled over the space of a nine to 12-month period. Our view is that the company is still loss making; it recently raised money ($1.8bn [€1.5bn]) on the bonds market, which funds the production of its Model 3 sedan car. We think at up north of $350 —which it was at the start of August — the shares are a little bit overvalued and we've reduced exposure within the fund by 1% or 2%."

The managers increased Green Effects' exposure to Svenska Cellulosa, a Swedish consumer goods company and one of the largest owners of forests in Europe. It performed ahead of expectations in the last month.

Outlook

"We're more positive on Europe and Asia versus America on valuation grounds. Within the fund, we have taken down our exposure to US stocks by between 5% to 10% over the last three or four months and we've allocated those moneys into the European and Asian stocks within the fund," said Power.

He said the firm isn't forecasting a large pullback in the US, but "we think the US market could see a retracement of 5%-10%".

Gary Connolly

It's hard to be positive when rates are negative

The history of markets is strewn with memorable episodes of euphoria – from stock-picking shoeshine boys to day-trading millionaires – that morphed into ebullience and proved, with hindsight, to be a harbinger of a pending crash.

In time, the recent sale of Irish bonds by the National Treasury Management Agency (NTMA) at a negative yield may enter the same pantheon.

For the first time ever investors are lending the Irish government money on a medium-term basis with the certainty of receiving back less than their original sum in five years' time.

And this is a global phenomenon. The central banks' response to the financial crisis has turned the normal rules of bond markets upside down; trillions of dollars worth of debt – $9 trillion, according to the Financial Times – is trading at prices so high that the yield is negative.

Normally investors are paid interest when they lend a country money. However, abnormally low interest rates have resulted in money being raised at extremely low and, as in the case of Ireland, at negative interest rates.

I'm running out of superlatives to describe how extraordinary the NTMA sale was, particularly given the precarious financial position this country was in as recently as the current decade; it's only six years since the yield on two-year Irish bonds briefly topped 24%.

Equally extraordinary has been the goings-on in – financially – dubious parts of the world. In June, Argentina startled the markets by issuing $2.75bn (€2.33bn) worth of century bonds, not due to be repaid for 100 years, with an effective yield of 8%. You might have thought this would be a hard thing to sell. After all, Argentina has defaulted on its debts eight times in its 200-year history; spectacularly so in 2001 and again most recently in 2014.

This for a country that doesn't even qualify as an emerging market, according to Morgan Stanley; it recently kept Argentina in the ranks of "frontier" nations, alongside Morocco and Nigeria.

As a measure of how blithe investors seem to the risks, one need look no further than the Ivory Coast. In recent months, the civil war-wracked west African nation underwent yet another military uprising. Unperturbed, investors heavily oversubscribed for the country's recent sale of 16-year bonds with a 6.25% yield.

This is the daytime television equivalent of Bobby Ewing walking out of the shower; all that went before was merely a bad dream.

Bond markets have been on a tear for more than 30 years. Double-digit yields from the 1980s seem so far removed from the current reality as to appear almost quaint.

The throngs of bears calling the market a bubble are growing and the narrative is very persuasive.

Trees don't grow to the sky, and this bull market will end at some point. But it doesn't have to end in tears. As Yale professor William Goetzmann observed: "Focusing attention on a few salient crashes in financial history ignores the base rate for bubbles. In simple terms, bubbles are booms that went bad but not all booms are bad."

To be fair his analysis relates mainly to equity market bubbles, which provide a much richer data set. Financial market history doesn't help much when it comes to bond markets. But the conclusions one can draw from looking at them are weak at best.

Declining bond yields, being the traditional input for stock market valuation, have helped propel a near nine-year uninterrupted rise in equity markets.

The rising tide having lifted many boats is making the job of asset allocation extremely difficult.

Investors searching for yield in increasingly shady areas of the market increases the potential for this to end badly.

Intelligent investment involves bearing risk when well paid to do so. Is lending your money to the Irish government at an interest rate of -0.009% likely to be the best thing for your savings over the next five years? If the answer is yes, it's an appalling vista.

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