

Bringing it all together

Continuing our series of articles on getting the most out of investment platforms, Alastair Conway, Marketing and Proposition Director at Cofunds, considers how platforms can help clients get the most out of pension consolidation.

After the recent FSA report that deemed 16% of pension transfers to be unsuitable, you might assume that pension consolidation is one minefield that IFAs should steer well clear of. But the fact remains that there is still millions, if not billions, of pounds in pension assets languishing in poorly performing, high-charging and/or restrictive pension plans.

Granted, any adviser attempting to recommend that a client move out of a generous final-salary scheme with guaranteed benefits has a steep uphill task persuading the regulator it's the right course of action – and quite right too.

But consolidation can still be the right course of action for many clients who want to get better control over their pension assets. Indeed, the post A-Day boom in transfers into self-invested personal pensions (SIPPs) showed what a hunger there is among UK investors for pensions that can offer broad investment choice, flexibility and control.

Here are a few ways that we believe an advanced investment platform can help deliver and enhance the benefits of pension consolidation:

Single-view reporting

The big advantage of pension consolidation is that it allows a client – and their adviser – to view and manage all pension assets as a single portfolio.

A platform can optimise this benefit by enabling all investments – and the income they generate – to be analysed, managed and reported together, while still retaining the ability to analyse each holding individually.

Moreover, no matter how many new investments are added to the pension portfolio, the reporting burden won't materially increase as all prices are being supplied centrally on the platform. For the adviser, it means simplified administration – for the client, a clear idea what all pension assets are worth and, therefore, a real opportunity to assess if they are on course to meet their retirement objectives.

(Incidentally, for wealthier clients this consolidated reporting can also lessen the risk of breaching the lifetime allowance unexpectedly – less of a concern in the current downturn, admittedly.)

Better risk management

Many savers may be under the misapprehension that having a range of pension plans is sufficient to spread investment risk – but quite the reverse. Many pension plans will have a default balanced or managed fund at their core. The result? Many savers with far too much exposure to the handful of companies – particularly banks – that dominate the FTSE All-Share Index.

By having all pension assets managed and reported on platform as a single portfolio, this type of high-risk overconcentration can be more easily avoided. Plus with tools like Morningstar X-ray – available on Cofunds – it is possible to look beyond the fund level to the individual holdings within each fund.

This is a huge benefit of pension consolidation – particularly in volatile markets when investors may want to take action to avoid certain sectors. Moreover, if a platform offers daily fund switching between funds, action to manage portfolio risks can be taken very swiftly.

Greater investment choice

The massive investment choice that platforms can offer has been repeatedly highlighted in this column (Cofunds currently offers more than 1,200 funds from 90 different fund groups, for example).

Suffice to say here, that there is little point offering consolidation to a client unless you can also promise sufficient investment choice to accommodate whatever needs arise during the rest of their investment life. If you can't, they may face the prospect of having to move their pension arrangements again sometime in the future.

Lower net charges

One of the FSA's biggest recent criticisms of some pension transfers was that investors sometimes ended up in more expensive arrangements – simply to get investment choice they didn't actually require.

We believe one of the great benefits of platforms is that they can potentially offer all the investment choice expected from a SIPP while still enabling investors to benefit from extremely low annual charges. On Cofunds, we have looked to offer SIPPs with a flat annual fee so the percentage cost drops for larger fund values.

By consolidating pension assets in one place, investors are more able to benefit from these economies of scale. On Cofunds, incidentally, SIPP investors also enjoy no initial charges and free switching on any fund.

Easy transition

A final big benefit on consolidation on platform is it minimises the need for the last-minute scramble to track down pension plans as retirement approaches. The critical transition from accumulation to decumulation can be timed to suit both the client and market conditions. Asset allocation can be carefully controlled to reduce risk and funds values can be checked at any time – daily online if needs be – so the client is fully aware of their ultimate pension pot value. In this way, the client can feel informed and – hopefully – a little more in control at this most important stage of the pensions journey.

Supporting suitability

These are just a few ways that platforms can enable clients to reap the advantage of pension consolidation. Like everyone, we are keen to ensure that every pension transfer is genuinely appropriate – so we have produced a Pension Transfer Checklist for advisers. For your copy, call the number below or visit the Cofunds website.

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