Money

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Thoresen finds his voice over bonuses

SUMMING UP

JEFF SALWAY

WHEN he was chief executive of Edinburgh-based Aegon, Otto Thoresen earned a reputation for being politely cagey.

As senior management are wont to do these days, he chose his words carefully and avoided stirring controversy.

However, he now heads the (long-underperforming) Association of British Insurers, and just months after getting his feet under the desk appears to have discovered his voice.

Thoresen argued last week in a letter to the UK's banks that the coming bonus season can no longer be "business as usual", warning them to look at the way they arrive at the inflated figures paid out in bonuses and salaries.

It's at least three years too late but, coming from the trade body for some of the UK's biggest institutional investors, it's strong stuff. Of course there is a danger in over-simplifying the bonuses argument. There are people in the UK banking industry that generate huge value for their employers and fully merit their bonuses. But merit and value are rarely the basis for the huge management payouts we've seen in recent years.

Dragged your bank into a reckless merger that led to its eventual £20 billion government bailout? No problem, feel free to walk away with a sum containing more zeroes than most people could conceive of. Overseen PPI mis-selling on a scale that leaves millions out of pocket and your bank paying out billions in fines and compensation? Don't worry about that either.

The banks still resort to the fatuous threat of a brain drain if bonuses are slashed. Yet the same banks are making employees redundant in the thousands and complaining about their cost burden.

For a body with such potential for influence, the ABI has been far too meek and ineffective in recent years. Is it finding its voice at last under the leadership of the softly spoken Scottish actuary?

Cashing in on children

JUNIOR Isas (Jisas) may be flawed, but they have already proved popular with parents and grandparents pondering cash gifts for Christmas.

Yet only 26 cash Jisas are available to them, 24 of which are offered by building societies, according to Defaqto. Just two banks – Northern Bank of Northern Ireland and Bank of Cyprus – have managed to make a Jisa available in the six weeks since they were launched.

Most big brands will be entering the market in the early months of next year, having gauged demand. Yet they all offer a wider range of accounts than is necessary.

Those accounts increasingly feature introductory periods with bonus rates that plunge to rock bottom after year one. They know all too well that savers will leave their money where it is after that first year, so their long-term cost is low. Christmas is one of the busiest times of year for child savings business, but we all realise that customer needs come a distant second when there's profiteering to be done.

New rules to break open pension pots

Savers will be able to convert 'trivial' holdings into cash lump sums, writes *Jeff Salway*

The amendment will give savers a better deal and take pressure off annuity providers. Photograph: Rex Features

THOUSANDS of savers are to be given new freedom to convert small pension pots into cash lump sums next year, under new plans set out by the government.

The proposals will benefit thousands of people with decent-sized pension entitlements but holding individual pots worth less than £2,000 and who currently have few options open to them.

However, advisers urge those tempted to cash in their "trivial" pension holdings to tread carefully or risk losing out on valuable benefits.

In draft Finance Bill legislation published last Tuesday, the Treasury signalled a rule change allowing people to access small personal pensions through lump sum payments, rather than having to use the money to buy an annuity at uncompetitive rates.

The extra flexibility will come into force on 6 April, 2012. It will affect some 25,000 savers aged 60 or over with total pension rights valued at more than £18,000 but also holding one or more personal pension pots worth less than £2,000, provided they are not already in an income drawdown arrangement. As it stands, they must convert any small pension funds into an income by purchasing an annuity. Only those who have less than £18,000 in total pension entitlements can take small personal pension holdings as cash, under the current "trivial commutation" rules.

Pension pots of less than £2,000 built up in occupational schemes can also be cashed in, under regulations introduced in 2009.

The lifting of those restrictions means savers with total pension entitlements worth more than £18,000 can take up to two pension pots of less than £2,000 as cash.

The amendment will take the pressure off annuity providers, for whom small pension pots are not profitable, and give savers a better deal for their money.

Mark Christie, a director of Edinburgh-based Carbon Financial Partners, said: "A pension pot of £2,000 could generate an income of as little as £6 to £8 per month, which won't be of any real benefit to someone.

"Having access to the fund as a lump sum would be far more beneficial, allowing something meaningful to be done with the money."

Cashing in small pension pots is known as trivial commutation, but until now it was limited to those with total pension savings below £18,000 (amounting to less than 1 per cent of the lifetime allowance, currently £1.8 million). The lifetime allowance falls to £1.5m in 2012-13, but the triviality limit will remain at £18,000, as the link with the allowance is to be broken.

That suggests the rule change coming into force in April may particularly benefit higher-rate taxpayers, according to Neil Lovatt, sales and marketing director at Scottish Friendly.

"The government's schizophrenic policy towards pensions over the past 35 years has left many people with tiny pension pots from a variety of employers that few life companies want anything to do with," he said.

"So this is a welcome piece of flexibility, but it will be interesting to see if anyone tries to exploit the flexibility as it's not a bad way to reduce your tax bill if you are a higher-rate taxpayer and likely to become a lower-rate taxpayer after retirement."

However, the extra freedom over small pension pots could boost savers who want to go into income drawdown, according to David Gow, a financial planner at Acumen Financial Planning in Edinburgh.

"Amalgamation could be fruitful in helping those who are just short of the minimum income requirement of £20,000 a year to qualify for new 'flexible drawdown' rules, whereby you can take as much income as you want from your pension fund," he said.

"These new rules are very welcome, but we shouldn't lose sight of the fact that a pension pot is designed to provide an income in retirement until you die. Paint a picture of your ideal future and seek advice to devise a plan for that future."

Advice is highly recommended whether it's personal or occupational pensions you're thinking about cashing in, given both the complexities and the costly consequences of making the wrong decision.

This is especially the case where occupational final salary benefits are concerned.

For example, many older contracts contain guaranteed annuity rates that will be several times more valuable than the rates available from annuities now, which are at record lows and falling.

Some company plans may also include more generous tax-free cash allowances, having been written before the tax-free cash maximum of 25 per cent was imposed in 2006. Similarly, some people who contracted out of the state earnings-related pension scheme prior to 1988 may be entitled to valuable inflation-linked increases.

The new flexibility may encourage more people to seek out personal pensions they've lost track of. More than £3 billion in pension benefits remains unclaimed, according to the Unclaimed Assets Register, with thousands of people failing to vouch for small personal and occupational pension pots. If you think you may have unclaimed personal or company pensions lying around somewhere, contact the government's pension tracing service on 0845 600 2537.

Benefits of single-minded approach

Consolidating your pensions into a single, bigger pot may be worth considering even if you're several years away from retirement.

A 2009 survey by Edinburgh-based Aegon found nearly half of working Scots had accumulated several pensions during their careers, with almost a fifth having three or more pensions from different employers.

But having several different pensions is costly and makes it difficult to monitor performance – meaning you could be paying over the odds for poor investments.

Rolling all your pensions into one plan should be fairly simple, but the benefits could be big.

Getting rid of all the paperwork and knowing your money is in one place creates both space and peace of mind. It also makes it easier to check the value of your investments and keep an eye on their performance. One plan also costs a lot less in charges than holding three or four separate ones. That will particularly be the case if you hold pensions that are more than a decade old, as newer plans are typically cheaper. The benefits of consolidating should become clear when you come to buy an annuity as the bigger pot gives you a better chance of being offered a good rate.

But tread carefully if you do consolidate your pensions. Check for any exit or transfer penalties that could eat into or erode the gains made from switching and look closely at the charges levied in the new plan. Above all, seek the guidance of an independent financial adviser, preferably a fee-based planner with experience of pension transfers.

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MARKET WATCH

Dominic Jeff

STRUGGLING travel firm Thomas Cook is expected to reveal the closure of some 200 travel shops and 1,000 job cuts when it delivers its delayed full-year results on Wednesday.

The country's second biggest tour operator, which sells more than 22 million holidays a year in the UK, is expected to make the announcement as it unveils a 31 per cent slide in pre-tax profits to £191 million for the year to September.

The board will be under pressure from investors and lenders to slash costs and turn the faltering business around following its plea for help last month.

Evidence of falling inflation from the Office for National Statistics (ONS) should provide some comfort to struggling retailers this week while Carpetright and Supergroup will reveal how the weak consumer environment has affected them.

Recent falls in the cost of filling up a petrol tank, supermarket price wars and high street special offers are expected to have driven down the official rate of inflation for November. Economists expect the ONS to reveal on Tuesday that the consumer prices index fell to 4.8 per cent last month.

The country's largest floor-covering retailer, Carpetright, is expected to reveal its worst first-half profits as a listed company on Tuesday as the spending squeeze takes its toll.

Analysts at Singer Capital expect the firm to report pre-tax profits of £1.2 million in the six months to 30 October, compared with £10m the previous year.

Supergroup, owner of the Superdry fashion label, will shed more light on how recent stock supply problems have impacted its performance with half-year results on Wednesday.

The company, which has 70 stores in the UK branded as Superdry and Cult, has already warned that profits for the financial year to April will be between £6m and £9m below forecasts.

But Mike Ashley's Sports Direct has weathered the storm on the high street and is expected to underline its resilience with a solid set of results on Thursday.

The company has taken advantage of the weak competition and is expected to report a 2 per cent rise in pre-tax profits for the half year.

DIRECTOR DEALINGS

Perry Gourley

NEWRIVER Retail, an investment trust set up to find bargains in the beleaguered commercial property sector, has had a busy year.

The trust, whose Scottish investments include the Piazza shopping centre in Paisley and shops on Glasgow's Union Street, completed an oversubscribed equity fundraising to bring in £42.5 million.

Acquisitions have taken total assets under management to around £270m, up from £174m six months ago.

The company recently announced interim results to 30 September showing profit before tax has increased by 65 per cent to £2.8m and a 500 per cent increase in the interim dividend to 6p per share.

Shares in the company have edged downwards in recent weeks but all four executive directors have chosen to increase their holdings.

The biggest purchaser was chief executive David Lockhart, who acquired 12,000 shares at 225p and now holds 1.62 million shares.

■ Russell Taylor, chief executive of exhibitions and conferences firm ITE, has sold more than 116,000 shares at 198.5p each following strong full-year figures last week.

■ Patrick Dardis, retail director at brewery group Young & Co, has sold 4,411 shares at 680p each.

The company recently announced sales increased by 34 per cent to £90.5m during the six months to October.

■ Leslie Van de Walle, a non-executive director at insurance giant Aviva, has sold 12,826 shares at 332.60p each.

■ Gavin Darby, newly appointed chief executive at telecoms group Cable & Wireless Worldwide, has invested heavily in the company.

He bought two million shares at 16.89p each. Darby was previously chief executive for Vodafone's US, Africa, India and China business.

■ Mike Coupe, a non-executive director of brewing and leisure group Greene King, has bought 2,000 shares at a price of 465p.

■ Simon Laffin, non-executive chairman of property group Assura, has bought 221,638 shares at 33.5p each. He now holds 221,638 shares in the company.