Steve Dodge writes on “With Profit” Plans.

A Happy and hopefully prosperous New Year to you all.

I thought I’d start the new-year by giving you a little job to do. It should at most, unless you are really are disorganised, take less than an hour, and it might be a waste of your time but, on the other hand, it could be the most profitable hour your have ever spent in your life.

You need to establish if you have any Policies, Pension funds or Insurance Bonds in “With Profit” Funds. If you have they need urgently looking at by an IFA. Why?

Well, “With Profit” funds have been the mainstay of British Insurance Policies for over 250 years. The idea is simple, your money is invested and each year your insurer adds a “guaranteed” bonus to your policy. In good times they make more money than they pay out and they keep the surplus in a “reserve” so that in bad times they can continue to pay a bonus even though markets might be falling.

So instead of your investment/pension etc. going up and down in value every day you get a smooth rate of annual growth, guaranteed. When the policy matures there could be some money left in the reserve, which is technically yours and many companies pay out this money as a terminal bonus on the day the policy matures, increasing maturity values quite considerably in some cases.

BUT, in 2002 it all changed, due to Equitable Life, who, in simple terms, failed to honour the guarantees they gave. As a consequence all “With Profit” funds were ordered to be safer but as regular readers know the safer something is the lower the return will be. So low in fact that some “With Profit” policies have not had a bonus added for years and now that markets have fallen the prospects of a good terminal bonus are receding fast.

That said there are still a few very good “With Profit” funds in existence, which does complicate the matter, one should not simply bailout of With Profits, you need advice.

So if you have any pension, policy, plan or investment in a “With Profit” fund it really must be looked at closely and intelligently and IFA’s are the only people who can do this for you. They now have the technology and training and the information required to help you reach an informed decision about what you should do with your With Profit Funds.

Is it worth seeking advice? Well “With Profit” plans are designed for the long term and difference in return on £10,000 invested over 20 years growing at say 4% or 7% is £16,785. That’s how much it could be costing you to stay in “With Profits”. (£10,000 @ 7% = £38,696, @ 4% = £21,911)

How much will it cost you to find out? Well most plans have an on-going commission built into them and thus most good IFA’s, would be happy to simply take the plans under their wing if they are good quality but if it makes sense to move the fund, then your adviser should agree a remuneration basis with you before you do anything.

So you have nothing to lose, except your money and perhaps an hour of your time. If you don’t have an IFA you can always contact The Independent Financial Advice Centre.