

# *Pension Charges .....*

## *a Framework Financial perspective*

“The devil is in the detail ....”

The recent government publication of the “*Report on Pension Charges 2012*” report has once again put pension charges back into the spotlight, and unlike the vast majority of our industry colleagues, it’s a topic that we are happy to highlight and discuss.

So where to begin .....

Firstly, there is absolutely nothing wrong with pension charges, and by that we mean that you should expect to pay for any professional and valuable service, in the same way you would expect to pay for a meal in a restaurant, a newspaper, a training course or a flight. This is the fundamental basis of trade and economics. In fact, that’s why money was invented, to allow some easier way of exchanging value. It’s simply an extension of the bartering system.

So if somebody reviews your financial situation, gives you advice, sets up a pension scheme and provides ongoing advice and management, then it’s only basic fair trade that you pay for that service. Agreed?

However, here is where we have a problem. Yes you should pay for a valuable service and you should know how much you are paying!! How else can you make a value judgement? This applies to all products and services.



Let me give the example of a simple cup of coffee again. You walk into some coffee shop or hotel and order a cup of coffee. You sit down and you drink it. Question, was it worth it? Did you enjoy it? Yes? Ok great, you did? Great. Ok that’s €50 please. What do you mean it’s not worth €50? Ok, so what was it worth? €2, €3 .... maybe up to €5/€6 if the surroundings were nice and the service was very good.

So my point is, you cannot make a judgement of value unless you know the price. Hence the terms, good value, bad value.

At Framework Financial, we can provide you with pension advice, a pension and the ongoing management and we will charge you a fee. Now, let’s say you walk down the road to one of our industry colleagues and they will offer you some pension services but no fee. Wow it’s free. (*and here I was thinking that there was no such thing as a free lunch !!*) Ok, ok, so they tell you the pension provider pays them a commission fee for your business. Now that’s an interesting situation and opens up another question. Do all pension providers (Life Assurance & Investment companies) pay the same fee and might this compromise their independence in providing you with advice? Worse still, maybe you’re getting your advice from your bank manager? Do you think they’ll offer you the best solution for you, OR, the best solution they sell? There’s a big difference.

Anyway, I digress, such is the less than transparent nature of the business. Let's say you accept that your broker or advisor gets a commission payment from the pension provider to cover his service to you, and let's say that the advice recommended is the best solution for you. Now, was it good value? Was it worth it? So you have your pension, it's a good solution for your needs and your advisor got paid by the life company. Good value for you? Yes?

Maybe it's like the €50 cup of coffee? You really enjoyed it until you knew exactly how much it cost you.

So let's say that the €10,000 you put into your pension fund isn't quite what actually ends up in your fund. Let's say it's less than €10,000. (what about my free lunch?) Let's say that you pay €5,000 into your pension fund every year and it's not quite €5,000 that arrives into your account. Finally let's say that there is an ongoing investment management charge for your pension fund. Now the charge isn't the big issue but wouldn't you like to know how much that was? Now let's say that there is a relationship between that 'free' service you got from your broker or advisor and all of these things. Wouldn't you like to know exactly what was what? How else can you judge the value of the service?



Plus, given the long term nature of a pension, what is the true cost to you, i.e. how is it going to impact your budget when you are 70. What will you be able to afford or not? In other words, will it be beef or bangers for dinner?

It's worth pointing out too that it's not only pension charges and commissions that will determine your retirement, it's how you're spending your money today and how you're saving it. That's fundamental and we're then interested in maximising how that works for you and minimising the cost to do that.

It's probably fair to say that most of the brokers and advisors out there are intent on offering you a fair and reasonable service but they are operating in a legacy system of commissions, percentages and poor transparency that is neither good for the customer or indeed the industry in the long run.

We're not waiting for the system to change, we're changing the system.

If you are not already a Framework Financial client, and if there is one thing to take away from this article, it's ask the price and get real specific. It's your money and it's only truly you that is most motivated to hang onto it.

Please call us or recommend us to a friend for the truth about pensions and other financial advice.

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