THE GOOD GUIDE TO PENSIONS 2020

GOOD WITH MONEY

MORE MONEY, FEWER PROBLEMS

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PICTET Asset Management

Contents

Introduction

The Good Money Girls

Is your pension right for you?

It's always the quiet ones you have to watch, so Mum used to say: "What are they not telling you? What have they got to hide? Never trust the quiet ones."

Your pension is a quiet one. It is keeping schtum for a reason. It's got hidden depths, sure, but not necessarily the good kind. Start to rummage around, and you'll realise those depths are actually pretty dark, with all sorts lurking about.

They say the devil's greatest trick was convincing mankind he doesn't exist. Your pension's greatest trick is to make you think it's achingly dull.

The last thing it wants you to do is start taking an interest. Because then you'd know the truth and you'd start meddling and creating an awful lot of work for your pension and those managing it.

It's even more tempting though, isn't it, when you know it doesn't want you to...

Of course, you should. Because you need to know: is yours the right pension for you?

About this guide

This guide is designed to intimately acquaint you with your pension, with the hope that you can see its marvellous potential to change the world - and all the places it might currently be invested in that are definitely not helping the planet.

It will give you the tools to identify whether your current pension or pensions are goodies or baddies, and whether you want to consider lobbying your current providers to change their ways, or would prefer to cut loose and switch to a new one.

1 - First, a short explainer on just one way pensions have destroyed the planet...

Pensions are investments. An investment is when you give money - either by buying shares in or by lending to companies, in exchange for an expected return and your capital back at the end. You usually accept that this can take several years.

Pensions are unique investments because they are designed to last for a long time - for decades in fact, right up until you retire and even beyond.

This means that those clever people that manage them have a lot to think about when considering where to put your money so it grows over very long time horizons.

When you think about all the things that could happen to global economies and companies over a long time, you can appreciate how much these pension fund managers have to think about.

The biggest thing historically that pension fund managers have scratched their heads over is the level of risk the investment presents, relative to the return prospects.

The risk level has to be acceptable to ‘normal’ savers, ie. you and me, while the return has to be sufficiently promising to justify all of us putting our money into a pension rather than, say, a savings account.

But why has this led to pensions destroying the planet?

Well, investment options merely reflect the world around us. Up to now, a massive component of that world has been fossil fuel energy. So naturally, these companies have featured strongly in pension funds.

One investment in particular that has typically ticked all the boxes for pension fund managers is oil. You will find oil companies like BP and Shell in almost all major ‘default’ pension schemes.

Why?

It’s not because pension fund managers love depleting the world’s resources. It’s to do with oil companies’ size, their risk level and the way they pay returns.

Oil companies are huge - they are literally the engine of the global economy. They are relatively old compared to companies in some other sectors, with long performance histories.

Despite the odd shock, over time, they have been quite dependable investments - with global population rises and consumption increases over time increasing the demand for oil.

Oil companies have also always been good at paying something called a 'dividend' - a regular payment to shareholders, made out of surplus profits, and designed to act as a kind of thank you for staying loyal. These dividends have provided a good, reliable source of income for pension fund managers.

Pensions and fossil fuels: a "conscious uncoupling"?

For these reasons and others, pensions and oil companies have always been a match made in heaven.

Of course, that's before the catastrophic environmental consequences of continued oil investment are factored in. When you factor them in, then the whole exercise of saving for a pension that contains oil becomes rather pointless, because the world won't be a very enjoyable place when you retire.

Traditionally, no consideration at all was given to the absurdity of this outcome: merely risk and return.

Clearly, in a world that survives and thrives, pensions will have to find something else to invest in. That message is finally coming through loud and clear - so a third 'r': responsibility, is taking centre stage.

It looks like pensions and fossil fuels, like Gwyneth and Chris, have begun their "conscious uncoupling".

The role of people power

All movements spend a few years being niche then suddenly exploding, to the point where no one can remember things being any different. We are now used to fairtrade and organic food and sustainable clothes and domestic products. So too will we get used to green pensions and hopefully, merely come to casually expect them.

That's all thanks to huge amounts of campaigning by groups like Share Action and more recently, Richard Curtis's Make My Money Matter campaign. Such people power is starting to bring the change that's needed. The introduction of PensionBee's new Fossil Fuel Free Pension Fund was driven by its customers, for example. Find out more in their article on page 22.

Good With Money published this guide for the first time just over a year ago, and so much has changed since then, not just because of the coronavirus pandemic but also because of Greta Thunberg, David Attenborough and others - a global switching on of awareness that has filtered through to finance - and the power of our pensions and investments in particular, big time. If you get into pensions activism, trust us, you will be on the right side of history.

And some encouraging new rule changes...

Like any clean divorce, some rules - and a good lawyer, are required.

There are now some new laws for pension schemes on how to follow 'ESG' principles.

As of October last year (2019), pension schemes have been required to consider whether the financial impact of Environmental, Social and Governance (ESG) factors might affect their members' pension investments.

Pension scheme trustees have had to set out, in their Statement of Investment Principles (SIP), their policy on how they take account of financially material factors, including ESG considerations and climate change, in their investment decision making.

From 1 October 2020, this statement must also set out how the scheme's asset managers are incentivised to align their investment strategy and decisions with the trustees' investment policies, including in relation to ESG (see pensionology section on page 7 for definition) matters.

The Government is currently consulting on policy proposals to require trustees of larger occupational pension schemes and authorised schemes to address climate change risks and opportunities through effective governance and risk management measures.

FACT: Size of global pensions market in OECD countries is £25 trillion ($32 trillion)*
*http://www.oecd.org/daf/fin/private-pensions/globalpensionstatistics.htm

Value of world's five biggest oil companies: £1.13 trillion ($1.46 trillion)*
*As at Sept 2020

Pensionology

The finance industry is full of big words and funny acronyms. Throughout this guide we've tried to keep them to a minimum; however when in Rome sometimes you have to speak a little Latin. Below are some of the terms.

AMC/fund fee

An AMC – or annual management charge – is the fee a fund manager charges to manage your money (also known as an OCF). It is usually charged as a percentage, so if you have £1,000 invested in a fund, and the AMC is 0.75 per cent, then you will pay £7.50 per year.

Autoenrolment

A scheme that means when you join a workplace, you are automatically enrolled in its pension scheme. If you don't want it, you "opt-out". The minimum level is set at 4 per cent of annual salary from workers and 3 per cent from employers, with 1 per cent tax relief from the government (so, 8 per cent in total).

Importantly, 8 per cent of annual savings is the minimum amount studies suggest we should all be saving to make sure we have an adequate pension pot when we retire.

DB

This stands for defined benefit and is a type of pension scheme. Also known as "final salary", it pays a guaranteed income throughout your retirement that is based on what you were earning when you retired. These schemes are dying out. Now the industry favours DC schemes (see below), which involve workers funding their pensions themselves through investments.

DC

This stands for defined contribution; the type of workplace pension scheme most of us are now in. You get a pot at the end, the size of which will depend on how well your investments have done, and you have to make it stretch.

Default fund

This is the investment choice that pension savers are plonked into – well – by default. The default scheme is deemed the one that tends to best suit the largest number.

ESG

Otherwise known as 'Environmental, Social and/or Governance', this is an approach many pension fund managers use to assess the non-financial elements of a company's investment potential. It's all the rage in pensions, but not without flaws.

SIPP

This stands for Self-Invested Personal Pension. You manage your own pension savings, rather than letting an employer do it for you.

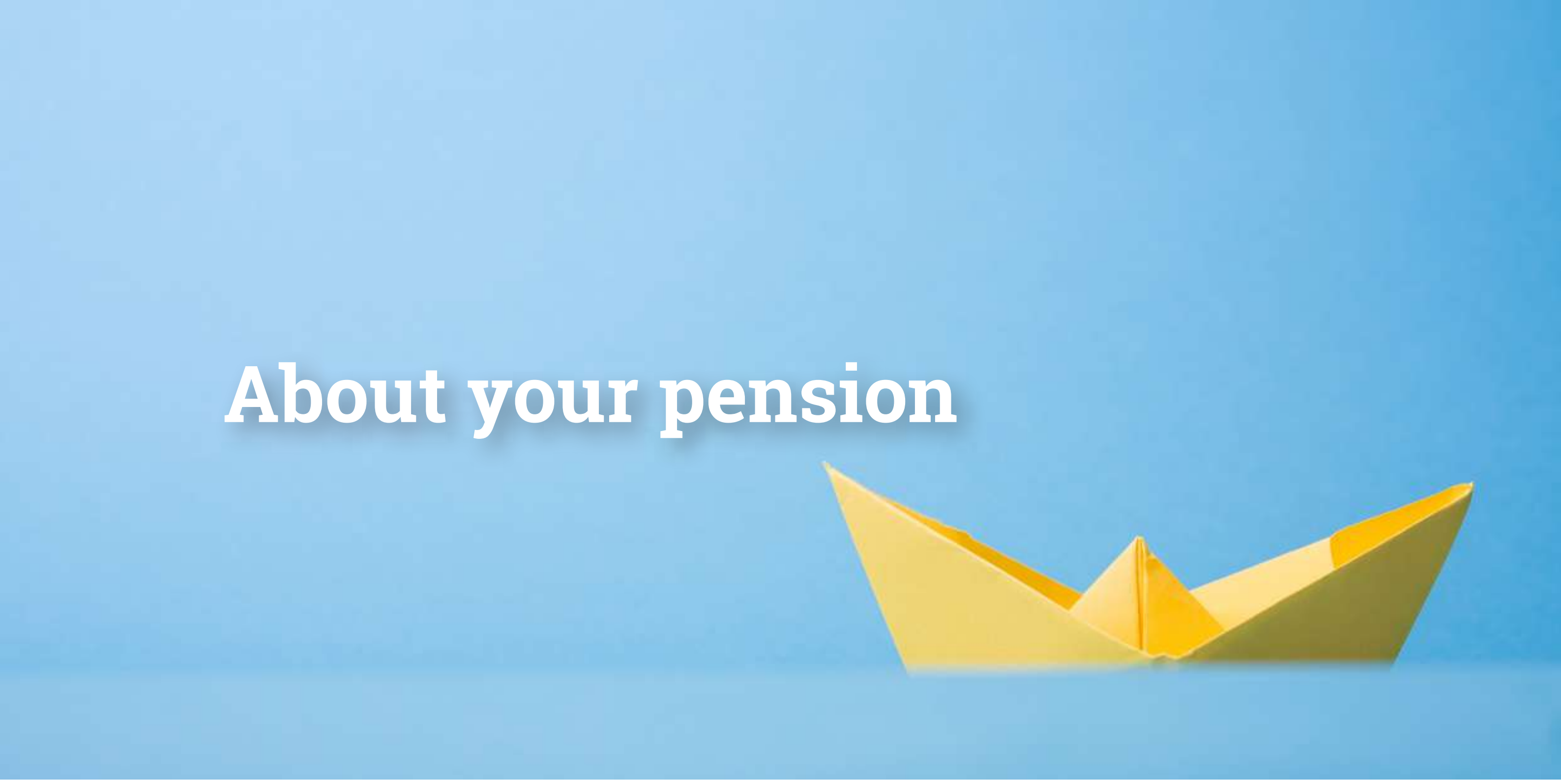
Master trusts

These are the big pension schemes that sit behind most workplace pensions.

Trustees

The people in charge of a DB pension fund.

About your pension



Why pay into a pension?

This is your safe space. If you don't really know why a pension is any different to a savings account, it's OK. We'll explain, without judgment.

The main benefit to you of saving into a pension rather than simply putting all your savings into a savings account, is your contributions are made without tax. This is called tax relief. It's an effective bonus from the Revenue on what you put into your pension: a reward, if you like, for being sensible and taking the benefit of that money later, once you've stopped working, rather than now.

Savings accounts pay interest on balances, which is currently abysmally low across the board and not keeping pace with inflation. So over time, money held in savings accounts loses value. Pensions are designed to grow in value over and above inflation.

Importantly, 8 per cent of annual savings is the minimum amount studies suggest we should all be saving to make sure we have an adequate pension pot when we retire.
Even this might not be enough.

A bit more on that tax relief point...

Tax relief is the top thing that makes pensions a great deal, but if we're honest, hardly anyone understands why.

Pension contributions, one way or the other, get tax relief. The amount of tax you therefore don't pay on what goes into your pension depends on the income tax amount you pay. So broadly, you get 20% relief if you are a basic rate taxpayer and 40% if you are higher rate. This means £1 of pension contribution costs you 80p if you are a basic rate taxpayer, or 60p if you are a higher rate taxpayer. There is an annual limit of £40,000 and a lifetime limit, too.

When you retire you can take a 25 per cent tax free lump sum from your pension pot, then you will be charged income tax on all withdrawals above the annual tax-free allowance, currently £12,500.

In brief: why you need a pension

You could be making all sorts of rose-tinted assumptions about why everything will be OK without a pension. Here are some reasons you need to address those assumptions, pronto.

- State pension - you can't rely on it and it pays about £9,000 a year currently
- Husband or wife - you can't rely on them (even more sadly) as they might not have enough and you might not stay together
- You will probably live to 83-ish, so you will need something to live on when you stop work, because...
- You will probably not work until you die (health starts to get in the way at around 63)
- You probably won't win the lottery
- You probably won't become a social media influencer or Youtuber who earns six figures a month
- The average inheritance is less than you think it is, at £48,000
- You will probably need at least **£250,000** in your retirement pot to get a decent standard of living in retirement
- End of final salary schemes - so employers don't manage investments for you, you manage your pension income yourself

Pensions in the ring

There is more than one way to skin a cat, and there are more ways to provide for your retirement than a pension, but we can't think of any better ways.

DING DING

ROUND ONE:
Pension v property

If you are living in your main home and it's growing in value, this equity is not something you can easily live off in retirement, because it's 'illiquid', in other words, it is literally in the bricks and mortar around you.

You can take an equity release mortgage, but this is borrowing and you must pay interest for the privilege, which in turn eats into any inheritance you might leave for your children.

You could downsize, but realistically, many people don't actually want to do this, as they are attached to their family home and want to retain a good base for visiting family.

When it comes to buy to let, yes, you can make a reasonable income through being a landlord from the monthly rent, then hopefully accrue some capital growth too for when you eventually want to sell your property. However, buy to let is now more heavily taxed than it once was and there are sometimes unpredictable costs associated with property and tenancy management, so it's by no means an easy ride.

Winner: Pension. Property has undeniable appeal, not least whopping capital growth over time (although there is no guarantee that will continue in future), but if it's your main home, it's not easy or cheap to access that equity. Pensions have long-term investment growth and a tax relief top up from the Government.

ROUND TWO:
Pension v savings

Lots of people prefer the simplicity and ease of access of savings compared with a pension.

Pensions are designed so you can't access them deliberately, because if you could, you might do so before retirement, then not have that money when you actually need it, ie. when you stop working.

Pensions are also invested to give your money a chance to grow in value by more than the rate of inflation over the long term. Based on current savings rates, which are lower than 1 per cent on average, your savings would be worth less and less over time as prices rise.

Winner: Pension. For retirement, a pension wins hands down. Savings are good for other purposes like holidays, Christmas and rainy day emergencies. But for retirement saving? Not so much. Interest rates are so low that inflation will erode the value of any savings you have over time.

ROUND THREE:
Pension v no pension

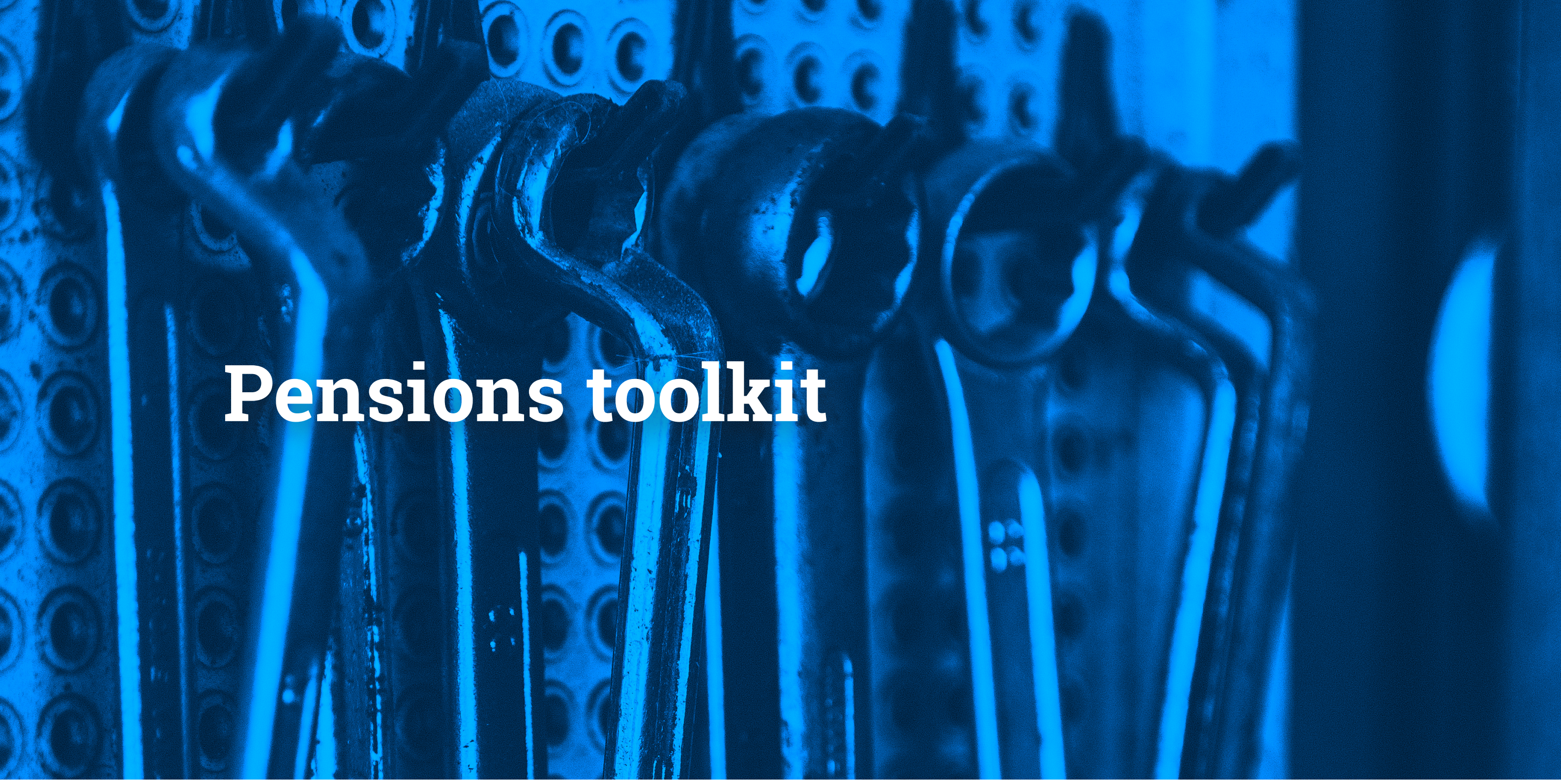
Lots of people "don't believe" in pensions. They "mistrust" them and think that even if they put money in, at some point, they will lose it all and the whole exercise will have been pointless.

While it's true that the state pension is kind of pitiful and many people in the old-style defined benefit scheme did lose their life savings when schemes went bust, none of this should affect your decision.

The risk of your pension going bust with your employer is now no longer such a concern, as most schemes don't work like this any more (your pension is administered by your employer but has nothing else to do with them - it's managed by a separate pension provider).

The fact that the state pension is so pitiful is not a reason to give up on retirement altogether - that's exactly the reason you need to invest for your own retirement in your own workplace or private pension.

Winner: pension. Of course.



Pensions toolkit

Get to know your pension. Until you do, you won't have the tools to understand where your money is going in the world, and how to move it.

What DON'T you know about your pension that you need to find out?

These are the questions you need to ask yourself:

- Do I have a pension/ pensions?
- What sort of pension is it?
- How can I find out?
- How much is my pot/ pots worth?
- How much do I put into my pension each month?
- Where is my pension invested?
- Can I move it to another fund if I want to?
- How do I choose where my pension should be invested?

What pension do you have?

A. Workplace, defined contribution (most likely if you are employed and earn above the minimum for auto-enrolment).

B. Workplace, defined benefit. Most likely if you are or were a public sector worker, though some private company schemes are or were defined benefit. Only now 0.5% are.

C. Former workplace pension(s) if you worked in the past and had pensions with previous employers (NB. If you have more than one, at some point, you need to gather these up and work out whether to put them all in one place).

D. None (most likely if you are under 21, unemployed or low income).

E. Personal or SIPP (Self-invested personal pension). Most likely if you are self-employed and set one up for yourself at some point, or you are topping up workplace savings and like to control your own investments.

Don't know what kind? Here's who to ask about your pension:

- Your employer or past employers
- The pension provider your employer or past employer uses
- HMRC
- Advisers

To find out how much your pots are worth
Have a rummage around your filing box for any old documentation. Email your pension provider or former employer, if you don't have the provider's details, and ask for your most recent statement. They usually send these every year so if you have given them your correct address, they should automatically update you.

NB. If you move house, ALWAYS inform your previous pension providers. One reason people lose track of old pensions is that they move to a new address and their old provider can't find them. Then they forget about it. Imagine that, forgetting about thousands of pounds with your name on it?! It happens all the time. There is a pension tracing service you can use if you think you've forgotten one https://www.gov.uk/find-pension-contact-details

To find out how much you put in each month and what type of contribution scheme you are in (there are two kinds)
Check your payslip. This will show how much of your pay has been deducted as your pension contribution. Your HR department should also be able to tell you whether your pension is DB or DC - crucial to this issue, and whether your contributions are "salary exchange" or "relief at source". Most are salary exchange, but relief at source can be better for lower earners. If yours is relief at source, this might also mean you have to claim more tax relief from HMRC in your tax return, if you are a higher rate taxpayer. So it's worth checking if you are not sure.

Where is my pension invested?
Now we get to the fun part. It's incredibly hard to find out which companies end up with your pension money. Most master trusts run different funds, but the holdings within these funds are not published in an easily accessible place. You have to ask. Some are becoming more transparent, for example NEST Pensions and Royal London. If you can't find the details, it's reasonable to assume that your money has been invested across a range of global companies that will probably include some fossil fuels. Of the largest workplace providers, only NEST excludes fossil fuels by default. Others may follow.

Can I move it?
If it's a 'DC' workplace scheme, then, usually, yes. You can move it to a more sustainable fund with the same provider if that option exists, or to another provider, though your existing provider might not make it easy so be prepared for a minor effort here.

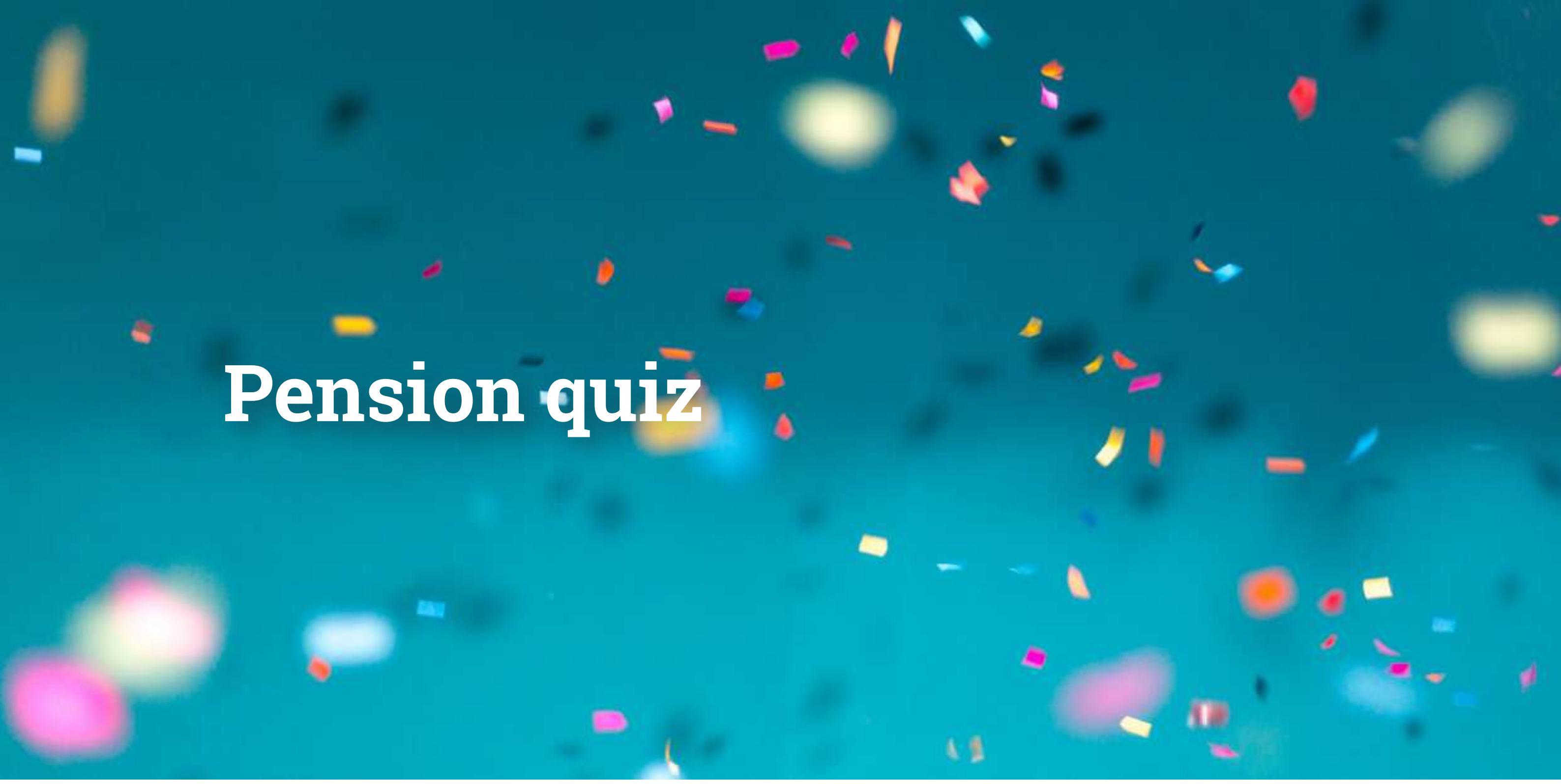
If your pension is DC but it's worth more than £30,000 and includes a 'DB element', you'll need to speak to an adviser. That's the law.

Full defined benefit pensions can be moved, but it's not usually advisable and you would certainly need to speak to an adviser before doing so, as these schemes can be more valuable as they are than they become if they are switched to a DC or personal pension. If you are in one of these schemes, then lobbying for better investments within your current pension is probably the most use you can be. Alternatively, you could ask your employer to pay contributions into a personal pension, such as a SIPP.

How do I choose where to move my pension to?
In general, look for green, sustainable or ethical labels, BUT, don't take a provider's word for it, ever. Greenwash is rife, and ESG approaches can hide a multitude of sins. Check the holdings for companies you don't like, like fossil fuels.

Also check the engagement record of the pension fund. If the fund has oil and gas holdings but makes life hell for those companies in the boardroom by challenging them constantly on carbon emissions, that's a good pension fund trying to change the world, too, but by engaging rather than avoiding these 'baddie' companies.

Good With Money has a top five ethical pensions list, here, to get you going:
https://good-with-money.com/2020/06/10/top-5-ethical-pension-funds/.



Pension quiz

1. What is the average UK pension pot when someone retires?

A. £60,000

B. £140,000

C. £250,000

D. £600,000

2. What is the recommended pension pot size?

A. £150,000

A. £200,000

A. £250,000

A. £400,000

3. How much does someone on the average UK salary put into their pension every year?

A. £420

A. £940

A. £1,300

A. £2,000

4. What is the value of the entire global pensions industry (OECD countries)?

A. £2 trillion

A. £2.5 trillion

A. £25 trillion

A. £250 trillion

Turn to page 40 for the answers

Good at a glance:
The UK's biggest pension funds rated in a handy table

If you are auto-enrolled, the chances are your provider is one of the five biggest, below. This table shows how they compare on ethical and sustainability issues.

In combination with findings from ShareAction's latest report and research from the EIRIS Foundation, we use the criteria from our Good Egg Company accreditation process, which you can find out more about by visiting http://goodegg.good-with-money.com

In each area we have awarded a gold egg for leaders, a plain egg for dawdlers and a broken egg for laggards.

Is your pension with one of these massive trusts?
Check who is in charge of your money with your employer, or previous employers, today!

	NEST	TPP	Aviva Mastertrust	Standard Life Mastertrust	NOW: Pensions
Good product choice	(Ethical and Shariah options)	(Ethical and Shariah options)	(None now, but ESG default coming)	(Six ethical funds - best)	(None)
Environment and climate	(Leading by a country mile)	(Nothing now, but planning to improve)	(Policies on worst offenders plus TFCD disclosure)	(No policies in place)	(Green bonds in default and carbon analysis)
Social and human rights (inc. weapons and labour policies)	Not as good on weapons)	(Good voting but not good on weapons)	(COVID and Black Lives Matter statements)	(Poor on labour issues and weapons)	(Best on weapons)
Good governance (inc. voting record, executive pay and board diversity)	(Good on voting and 45% women on board)	(Good on voting and 25% women on board)	(Two female board appointments in 2020)	(Low gender diversity at board level	(No voting record but has most women on board)
Industry and customer (inc. communications and fair treatment of customers)	(Accessible, transparent, informative website)	(Accessible, transparent, informative website)	(Inaccessible website and no public information, but better for members)	(Inaccessible website but innovative member app)	(Good website but no info on fund holdings)
Performance, fees and charges	(One of best performing and cheapest)	(Good fee structure and good performance on alternative funds)	(Average)	(Among the lowest returns and fees undisclosed)	(Underperformed benchmark over 5, 3 and 1 year)
Overall Goodness					

Can I switch my workplace pension?

If you are auto-enrolled in any kind of pension scheme, then your employer will choose your provider and, unfortunately, you won't have a say. If you are lucky enough to be with NEST, The People's Pension, Standard Life (or another provider with Good alternative funds) then you have the option to align your pensions with your principles. Often, you can do this quite easily. In NEST's case it is as simple as logging in to your online account and switching funds on your lunch break, in-fact.

None of these funds will be the answer to everything, though. In some cases they may still hold energy companies as well as shares in controversial corporations across the world from Amazon, Facebook, Johnson and Johnson to Mastercard.

There are few that would advise leaving an employer scheme due to the **FREE MONEY** that you get from them, though. We repeat: saying no to free money is rarely sound financial planning.

This doesn't mean you don't have options, though. Indeed, as we explain later, you might choose to supplement your employee pension with a personal pension more closely aligned with your principles. Or, if your employer is open to contributing to a Self Invested Personal Pension (SIPP) for you instead of your employer scheme, you can take the bull by the horns and take full control of your pension (see our final section for more).

No matter what, the first port of call will be to dig out your paperwork and then, if necessary, get in touch with your HR department or work appointed financial adviser, who can help you further.

I'm self-employed. Do I get auto-enrolled?

Self-employed people do not have to enroll into a pension – but they really, really should, as even without employer contributions, they still benefit from tax relief. The self-employed have lots of options: from personal pensions to SIPPs and Lifetime ISAs. You can open a personal pension directly with most (though not all) of the UK's biggest pension providers.

Good at a glance:
Workplace pension providers rated in a handy table

In the categories in the table below, we consider the above providers based on their investment policies, fund range, as well as on their own company practices.

To do this we use the criteria from our Good Egg Company accreditation process, which you can find out more about by visiting http://goodegg.good-with-money.com

In each area we have awarded a gold egg for leaders, a plain egg for dawdlers and a broken egg for laggards.

	Aviva	L&G	Royal London	Prudential	Scottish Widows
Good product choice	(Wide range of Good options)	(Default ESG option)	(Wide range of ethical funds)	(In-house ethical fund poor)	(Strong range with Zurich funds)
Environment and climate	(Policies on worst offenders plus TFCD disclosure)	(Not great on coal, good on climate voting)	UN PRI signatory	(member of a range of initiatives)	(No coal divestment)
Social and human rights (inc. weapons, labour and diversity policies)	(Poor on weapons)	(Diversity pledge, but concerns over tax avoidance and nuclear weapons)	(Policies on increasing diversity, Profit Share)	(Diversity policy not as strict as others)	(Bad on weapons)
Good governance (inc. voting record, executive pay and board diversity)	(Good on voting but only 20% women on board)	(Good voting on climate, excessive director pay)	(Policies to close gender pay gap)	(lack of transparency on voting record)	(Low gender pay gap, but Lloyds executive pay issues)
Industry and customer (inc. communications and fair treatment of customers)	(Inaccesible website and no public information but better for members)	(Factsheet lacks info)	(Transparent, good info on website)	(Hard to find fund info)	(Hard to get info)
Performance, fees and charges	(Default fund poor performer, average fees)	(Low fees, returns good)	(ESG funds at no extra cost)	(Performance mediocre, lots of external funds)	(Zurich funds doing well, Scottish Widows not as well)
Overall Goodness					

Private pension schemes

Personal pensions

Having an employer help you set up your pension is great, but what if you're self-employed? And what if, having asked your employer about switching into an ethical fund and come across a resounding 'no' you still want to try and do something Good with your retirement savings?

Well, then it may be time for you to explore the wonderful world of personal pensions!

Personal pensions aren't too dissimilar to the DC workplace pensions we have already explored, but there are a couple of key differences.

Firstly – and this is the really Good part – a personal pension often gives you more choice and flexibility to match your savings with your scruples and support companies that score highly on ethical and environmental issues.

Personal pensions are also super flexible. Depending on the provider, you can start with any amount at all and make regular or one-off contributions whenever you want.

All of this means a personal pension plan could make a great compliment to an existing workplace scheme, as well as being a great option for the self employed or those maybe taking a career break (Hello, new mums!)

Remember:
8 per cent of annual income is the minimum recommended amount to stash for our retirement per year.

Taking back control

Thanks to some groundbreaking innovation from our sponsor PensionBee, personal pensions may also be just what you need to sort out that pile of old plans you have floating around – somewhere.

The average Briton now has 12 jobs in their lifetime and each of these jobs usually comes with its own pension. Now, until the UK government WAKES UP and implements a functional pension system like the 401k in the US, or the Superannuation Plan in Australia (both of which SAVERS control, taking them from job to job for any employer to pay into), it's up to you to keep track of all these pensions. And this 'aint easy.

Indeed, the Association of British Insurers found in 2018 that up to £20 billion of pension money could remain unclaimed - that's 1.6 million pension pots that will never be cashed in.

PensionBee can help you take control of this situation and, crucially, start saving in an easy-to-understand and even ethical way. They do this by combining your old pensions into one simple plan that you can manage online, like your bank account. We know, right?

Tax 'n' stuff

One more thing if you're not convinced already - just like with workplace pensions you don't pay tax on your contributions. As before, you will get the first basic rate 20 per cent back automatically and the higher and additional rate payers claim the further 20 or 25 per cent back in their tax returns (more free money!).

As with any other private pension, from the age of 55 you can take out a tax-free lump sum from your personal pension up to 25 per cent, or a quarter of the value of your pot. After this, withdrawals that put you over your annual tax-free allowance (currently £12,500 for most) will be taxed at your income tax rate at that time.

As we've mentioned, if you want to combine a personal pension with a workplace pension you can – as long as your total pension savings for the year don't go over £40,000 – which, let's face it, is a mythical number for most of us.

Will I retire in style?

We've looked at what saving £50, £100 and £250 of your salary into a personal pension might yield over the long-term. Check it out.

	£50 net **per month**	£100 net **per month**	£250 net **per month**
10 years	£9,905	£19,810	£49,525
20 years	£26,039	£52,078	£130,197
35 years	£71,127	£142,254	£355,636

Just to help demonstrate the power of saving as much as you can for your retirement, too, we took a look at how much you could have if you choose to save into a personal pension ON TOP of the minimum contribution of 8 per cent of annual salary set for a workplace pension (4% employee, 3% employer and 1% tax relief).

Personal pension + AE

	AE + £50 PP	**AE + £100 PP**	**AE + £250 PP**
10 years	£50,348	£60,253	£89,968
20 years	£134,427	£160,466	£238,585
35 years	£373,897	£445,024	£688,406

We assume an investment growth rate of 5 per cent per year and take into account the government's tax relief. This means that, effectively, £62.50, £125 & £312.50 is saved per month, respectively. Figures are kindly provided by Good Egg Company and leading ethical financial adviser EQ Investors.

Again, pension savers that choose ethical or sustainable options where available may also benefit from higher returns, as suggested in the performance of some of the funds listed below, and throughout this guide. ***This is never guaranteed though! And remember: past performance may not be the same as future performance.***

Why we're introducing a fossil fuel free pension

By Priyal Kanabar, Customer Insights Manager at PensionBee

At PensionBee our company vision is to help all people achieve a happy retirement, through financial freedom, good health and social inclusion.

Right now, many savers are investing into pensions with those very expectations - and that they retire into a world that is environmentally stable, has good social support structures and fair access to the earth's resources. But if that future world is characterised by climate disaster, then their retirement savings will be stretched in ways they didn't anticipate. For example, as a result of a climate catastrophe, the cost of food can increase so much that pensions saved over a lifetime will last only a few years in retirement.

Since late 2019 we've been hearing from customers who are concerned about climate change, and who are resolute that their pension investments should not be accelerating it. We welcome their feedback, as at PensionBee, all our innovation is led by real customer needs and preferences, and building a pension that customers truly want can only increase engagement and saving.

Contrary to popular opinion, pension investing is not just about high returns at the expense of the planet or society. Our research indicates that most customers want to balance making money with investing in companies that create positive social outcomes too - and that most believe in an 'engagement with consequences' approach. This is the strategy of our Future World Plan, which is bound by a climate impact pledge. And it's an approach that we fully support, as we believe that sustainable, well managed companies will lead to better returns in the long term.

The money managers of this plan - Legal & General - engage with companies that the fund invests in, and hold them accountable for improving their carbon footprint, as well as other environmental, social and governance practices. Engagement involves setting targets and divesting from companies if these are not met within certain timeframes, alongside publicly calling out companies in the national media and voting against company management. The purpose is to improve the behaviour of some of the biggest companies in the world.

PensionBee

However, we've also discovered that a significant proportion of customers want to completely exclude fossil fuel producers from their pensions[1]. A female respondent to a PensionBee survey suggested that removing companies entirely is an effective way to push them to change: *'Unethical companies will only listen to concerns of individuals when they start losing money'*. She is aged under 30.

A male respondent in his fifties sees investing in alternative energy companies as a profitable opportunity: *'Low carbon....renewables...anti plastic lobby...clean oceans...these are all ethical but real opportunities'*. While another male respondent, also aged over 50, felt a sense of urgency and called for more extreme action: *'We're running out of time to make a change... act now act hard and fast. The alternative is to be part of the problem. .. i.e. the destruction of our environment'*.

Across all age groups and genders people are calling for the removal of fossil fuels from their pension investments, challenging a commonly held assumption that young women are driving demand for sustainable investing.

In response to these findings we searched the market for an existing mainstream 'Fossil Fuel Free Fund', but discovered a dearth of suitable options. To be offered by PensionBee, funds must meet four key criteria. Funds must be:

1. Diversified
2. Good value
3. Simple
4. 100% FSCS protected

We couldn't find any existing funds in the market that met these criteria. So we compiled evidence of consumer demand through two major surveys with around 2,500 responses, and shared it with our money managers to see if they had a solution. As a result, we will soon be launching the UK's first mainstream Fossil Fuel Free Plan in partnership with Legal & General, who have created an entirely new fund.

The UK Government has made a legally binding commitment to achieving net zero greenhouse gas emissions by 2050, and we believe it's only going to be possible to meet those targets if we directly pressure oil companies to stop polluting. The willingness of these huge fossil fuel companies to adapt is critical in whether we, as a society, succeed in the shift to a zero-carbon future fast enough to meet the needs of the planet.

Pensions provide consumers with a vehicle to drive change, and make their voices heard, whether through the 'engagement with consequences' approach of the **PensionBee Future World Fund**, or through the exclusionary approach of our new Fossil Fuel Free Fund. Head to **https://www.pensionbee.com/waitlist/fossil-fuel-free** to join the waitlist and become one of the first to investors in our fossil fuel free pension!

[1] https://www.pensionbee.com/resources/customer-investment-views.pdf,
https://www.pensionbee.com/resources/future-world-fund-investment-views-summary.pdf

Why are pensions so complicated? And what can we do to fix things?

By Clare Reilly, Head of Corporate Development at PensionBee

If you're perplexed by pensions, rest assured - you're not the only one. No less than Andy Haldane, the Bank of England's chief economist, has admitted that even he fails to understand them.

Speaking at a swanky City dinner a few years back, he reportedly told his audience that despite being "moderately financially literate" he was "unable to make the remotest sense of pensions", before going on to conclude that "conversations with countless experts and independent financial advisers have confirmed for me only one thing — that they have no clue either".

Somewhere along the way, the basic concept of a pension has become baffling, to the point where even a leading economist can't grasp the industry's intricacies. And it all started out so simple.

The first pensions can be dated back to Roman times and the reign of Augustus Caesar. In an attempt to quell a military rebellion within the Roman Empire, Augustus introduced one of the first recognisable pension schemes in history with his military treasury. He created a pension plan which enabled retired soldiers to receive a lump sum around 13 times their salary, following 16 years of service in a legion and four years in the military reserves. The retiring soldiers were in the beginning paid from general revenues and later from a special fund.

That's not so complex, right? So why are we in such a mess over a millenia later?

One of the first places to point the finger of blame has to be the pensions industry. We've reached a point where the multitude of pension products has left savers in a muddle. And not only that, their associated acronyms resemble an alphabet soup. There's SIPPs, SSAS's, DB pensions and DC pensions - just to name a few - then there's the various benefits that come with these schemes, like GCOs and GMPs. Anyone new to pensions would need a financial dictionary to understand all of these.

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Secondly, much of the industry has made pensions almost impossible to manage. Online platforms are archaic or don't exist at all, with many companies still stuck in an age of paper and post. Despite us being well into the 21st century, an annual paper statement is still the norm in the pension industry. Retiring roman soldiers got more transparency about what they could expect to receive than many savers get today.

But it's not just the industry that should shoulder the blame for all the confusion. Successive governments have played their part in all the complexity, too.

Since the introduction of the Old Age Pensions Act in 1908, our MPs have tinkered with pensions beyond all recognition. It feels like every Budget brings more changes from the Treasury, with some resulting in dire repercussions.

Take the case of almost 3.8 million women born in the 1950s, who were hit hard when successive governments hiked up the age when they would get their State Pension. They expected payments to start at 60 – but then the government moved the goal posts. Changes were introduced further and faster than anticipated. Worse still, many of the affected women were only notified within a year of their expected retirement age, while others didn't receive letters at all.

This left some women with less than a year's notice to prepare for a six-year increase in their State Pension age, missing out on up to £45,000 as it rose from 60 to 65. Many had already taken irrevocable decisions – such as accepting redundancy, taking early retirement or leaving jobs for caring responsibilities – based on expecting their State Pension to kick in when they reached 60.

The situation facing these women represents the worst impact of government interference. Yet this is just the tip of the iceberg when it comes to the constant political tampering.

In 2015 we saw the 'pension freedoms' introduced, which, amongst a slew of smaller changes, shifted the age at which you could access your personal pension to 55 - only for this to be pushed back to 57 in recent legislation.

Dabbling like this hasn't done savers any favours, especially when combined with the complexities of the wider industry. So, what exactly can we do to fix things?

An obvious place to begin is by taking steps to simplify the industry, which is exactly what we're trying to do at PensionBee. We're adverse to jargon and explain our products in plain English, whether that be our plans' investment approaches or their fees. Standardising this across the sector would be an excellent way to get savers more engaged, as clear communication is key to reducing complexity.

In addition, the industry needs to embrace technology. We're seeing more and more companies shifting online and introducing apps, but we're still eons behind other sectors in the personal finance space. If you can check your bank balance 24/7, why shouldn't you be able to do so with your pension? We need to follow the lead of other industries, and ease access to retirement money. Technology can make saving so much simpler - as we've shown at PensionBee. We've now combined the pensions of over 100,000 savers and given them complete transparency and simplicity, through our web and mobile app.

And last but by no means least, we need more consistency from our MPs. There needs to be a clearer strategy in place in terms of pension policy, aimed specifically at reducing the current complexity. In the meantime, we'll be doing all we can to revolutionise the industry at PensionBee.

Self-Invested Personal Pensions

What is a SIPP?

A Self Invested Personal Pension (SIPP) is a private pension that, unlike traditional workplace or private personal pensions, gives you full control over where and how the money inside it is invested.

Back in the old days SIPPs were really only for rich people with financial advisers that could open and run them, with the main attraction being that savers could hold commercial property inside them.

Today the latter remains a key attraction, however the former has thankfully been relegated to the past. The spread of the internet contributed to the birth of the low cost, or 'DIY' SIPP, which has opened out self-directed pension saving to everyone – even you!

You can hold lots of things in a SIPP aside from office buildings; from open-ended funds, (aka unit trust or OEICs), to investment trusts, exchange traded funds (ETFs), individual stocks and shares, government and corporate bonds and plain old cash.

Tax 'n' stuff

As with all pensions, investments inside a SIPP are not taxed while you are saving and you receive income tax relief on contributions: 20 per cent for basic rate, 40 per cent for higher rate and 45 per cent for additional rate tax payers.

Just like a workplace pension you can contribute up to £40,000 per year tax-free into a SIPP, or £3,600 if you are unemployed. SIPP providers claim the minimum 20 per cent tax relief from the government for you, while higher and additional rate earners claim the rest through their annual tax returns.

You can access a SIPP – like any pension – from the age of 55, at which time you can take a 25 per cent tax-free lump sum. After that you'll pay tax on withdrawals if they push you over the annual tax-free allowance (currently £12,500 for most).

Is a SIPP right for me?

Not everyone has access to a workplace pension. For freelancers and sole traders SIPPs are a great way to save for your retirement while making sure you are still getting some free money in the form of tax relief from the government – this is especially true for additional and higher rate tax payers.

SIPPs are also a great choice for the Good investor as – as mentioned above – you can decide EXACTLY what goes inside one. Don't want any fossil fuel companies? Done. Not keen on miners and other notorious human rights abusers? No problemo. Not a fan of government policy so you'd rather not lend them money via government bonds? Sure. With a SIPP, it really is up to you where you put your pension savings.

Big investment platforms such as Hargreaves Lansdown, Interactive Investor, EQ Investors (a Good Egg mark company) and AJ Bell offer SIPPs. Charges vary depending on how much you are putting in your SIPP. Generally, % based fees are better for lower amounts and flat fees are better for higher amounts above, roughly £60,000 (depending on the charges). This is really important to bear in mind - you will need to do some calculations to compare properly if you aren't sure. Do this before you sign up as it can be a hassle to transfer between different SIPPs (or between any pension schemes, for that matter).

Funds for tomorrow, today: The Pictet Range

Pensions are one of the best areas for truly long term investing. If you have 20 or more years before you retire, you can think about the world of tomorrow, what it might need and – perhaps – put your money to work making that happen.

Our guide sponsor, Pictet Asset Management, runs some pretty forward thinking funds. Its thematic range includes strategies investing in everything from sustainable forestry, to clean water supply, to smart cities.

Below are eight that leading sustainable fund analyst 3D Investing believes are all contributing to shaping a stronger, more sustainable future world:

Top sustainable funds for your pension

In collaboration with 3D Investing, every six months we publish the Good Investment Review, which lists some of the highest rated sustainable and ethical investment funds on the UK market today. Below we list a few picks to inspire you. For the full range download the latest review.

UK companies

Liontrust Sustainable Future UK Growth
10 year return: 244%*
5 year return: 51.2%

As already mentioned, the Liontrust Sustainable Future fund range is the most established in the industry, and consistently outperforms. UK Growth invests in firms shaping the sustainable economy, with zero exposure to fossil fuels.

UK debt

Threadneedle UK Social Bond
10 year return: n/a
5 year return: 25.2%

This fund – spearheaded by founders of The Big Issue – will not shoot the lights out in terms of performance. What it will do is provide a steady stream of income while investing in some of the most impactful companies in the UK.

Mixed asset

Thesis Climate Assets
10 year return: n/a
5 year return: 47%

Thesis Climate Assets invests in the shares and debt of companies all over the world. It has a focus on investment opportunities arising from the convergence of climate change, resource scarcity and population shifts.

Global companies

BMO Responsible Global Equity
10 year return: 260%
5 year return: 87.3%

Formerly F&C Responsible Global Equity, this is one of the oldest ethical funds in the sector. It is a big fund that invests in big companies across the world, but does not currently invest in fossil fuels.

Emerging markets

The Pacific Assets Trust
10 year return: 347.1%
5 year return: 106.1%

Investment trusts almost always outperform funds over the long term. The Pacific Assets Trusts, established in 1985, is no exception. Plus 3D gives it 3 stars for investing in emerging sustainable leaders. Perfect.

Renewable energy

Greencoat UK Wind Trust
10 year return: n/a
5 year return: 73.1%

Greencoat UK Wind is one of the lowest risk ways to get into investing in renewable energy (though not cheap). Established in 2013, this £1.6 billion fund invests in wind farms across the UK.

Specialist sustainable solutions

Pictet Water
10 year return: 245.7%
5 year return: 71.6%

We wanted to give Pictet Water a nod again thanks to its strong performance. Over both ten and five years the fund has ranked within the top 10 of its sector – which is pretty impressive when over 10 years that is 291 funds and 481 funds over five years.

*All return data is sourced from FE Analytics and is to 31 March 2019. It also excludes fund fees, as well as those charged by your SIPP or LISA provider.

Will I retire in style?

Throughout this guide we have run numbers to show you what you might expect to make from saving into a pension. When it comes to SIPPs though, things are a little different.

This is not least because, as we have demonstrated above, not only do returns from different funds in different sectors vary widely over different periods, so do provider charges, and all of these things will have a huge influence on your final return.

As such, it really isn't possible to give anything like an accurate idea of what you might retire on by investing in a SIPP. If the returns outlined above are anything to go by, though, it will likely be pretty decent – even after all the fees and charges. Plus, you will be investing in EXACTLY what you want to invest in, and avoiding what you don't.

The greening of corporate credit

By Jon Mawby, Head of Investment Grade Credit & Lead manager of the Pictet-Strategic Bond fund

The corporate green bond market has taken off and is only going to get bigger. But investors need to be cautious.

The market for green bonds has been booming. Demand for investments with an environmentally-friendly pedigree has increased hand in hand with a growing awareness of the need to control climate change and pollution, to prevent the erosion of biodiversity and ensure a sustainable future.

But as with every new asset class that takes off, investors need to be wary of the pitfalls.

A decade ago, the market for corporate green bonds barely existed. By the end of April 2020, it was worth USD347 billion.

In a nutshell, green bonds are debt raised to finance specific environment-related projects. Part of their investment appeal is driven by regulation: governments keen to encourage green projects often offer tax breaks for holding these instruments. But they're also attractive because they signal the sort of management farsightedness that tends to equate with long-run corporate success.

For firms, the benefits are that demand for these bonds tends to diversify their investor base. And data suggest green bond investors tend to be more committed and hold the instruments longer than they do conventional debt.

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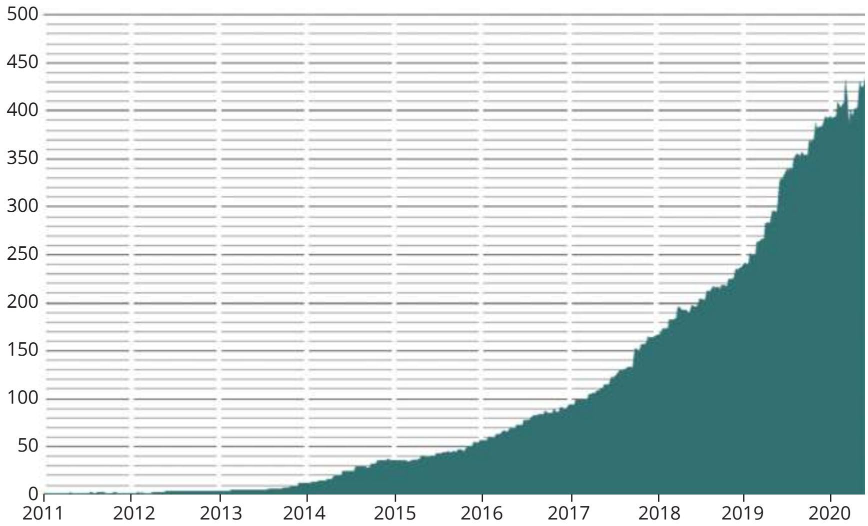
Asset Management

Green bonds shoot for the stars

Size of corporate and government green bond market, ICE Bank of America Merrill Lynch Green Bond Index, USD bn



Source: ICE Bank of America Merrill Lynch Green Bond Index. Data as at 30.04.2020.

And recently, issuance has been broadening along the credit spectrum. Although corporate green bonds are mostly rated investment grade, high yield issuers like recycling and waste management company Paprec, wind turbine manufacturer Nordex and glass manufacturer O-I Packaging Group have also made forays into the market. And more could find themselves there. Fallout from the Covid pandemic could see some of the 44 per cent of the green bonds that are rated BBB – a smaller proportion than the wider corporate debt markets – become fallen angels by dropping into high yield territory.

The risk facing investors is of confusing bonds that exist out of a company's genuine desire to push forward a green programme with those that are little more than greenwashing. That's to say, companies issuing debt as green bonds, but then using the money raised for other purposes, such as to refinance existing debt.

There's no clear demarcation between where the one ends and the other starts. Partly, this is because green bonds aren't necessarily ring-fenced project financing, but rather tend to sit on the issuing company's balance sheet and thus are part of the total mix of assets – which is why green bonds are generally assigned the company's credit rating. But rating agencies could still downgrade green bonds on environmental, social or governance (ESG) considerations as they increasingly factor these into their analysis.

For instance, Italian electricity producer Enel was accused of greenwashing when it issued a bond linked to its commitment to increasing its use of renewables. Failure to meet targets would force the company to pay a higher coupon on the bond. That's ostensibly green, but critics argued that in fact it was little more than an option to produce dirty power.[1]

Or take Teekay Shuttle Tankers, owner of one of the world's largest fleets of oil tankers which set out to raise at least USD150 million to build four new fuel-efficient ships with a green bond. It fell short, in part because investors questioned how green even a fuel-efficient oil tanker could possibly be.[2]

Grey areas in green bonds

Complicating matters is how some issuers are further slicing up this class of securities, for instance 'blue' bonds that are related to investment in water, or 'transition' bonds that promote the shift to a lower-carbon economy. Meanwhile, 'social' bonds that promise wider societal impact have seen renewed interest following the global coronavirus epidemic.

Sometimes it makes sense to look past the green label and to invest in ordinary securities issued by a truly green company. Some firms with a strong environmental pedigree have shied away from issuing green bonds because of the still small size of the market and its specialised nature, or because they calculate they are not being compensated for the additional compliance costs associated with green bond.

So, for instance, only three car companies have so far issued a green bond, and Tesla, leader in the field of electric vehicles, isn't one of them. And that's notwithstanding the sector's wider push into green transport, particularly electrification. Indeed, the green bond market is still relatively concentrated with more than 70 per cent of issuance by financials and utilities.

But for all the grey areas in green bonds, matters are improving. Some of that improvement comes from best practice, some comes from industry bodies, and some from regulators.

For instance, having issued three sustainable bonds, culminating with a USD1 billion debt raising in 2019, American coffee chain Starbucks has created a template for other companies to follow. Its aims of shifting the sourcing of its coffee beans to sustainable producers and making its retail operations greener attracted widespread investor support.[3] The company, in turn, became an information resource for other firms seeking to raise green finance.

A voluntary industry code determines what qualifies as a green bond, which is verified by an approved party certified by the Climate Bonds Standard and Certification Scheme. This, in turn, is reinforced by a second opinion from independent external agencies, such as Sustainalytics, that review the greenness of the bond.

Finally, government agencies have been getting involved. The European Union has led the way in December 2019 by establishing rules governing which financial products qualify as "green" or "sustainable". These rules require firms to fully disclose what proportion of their investments is environmentally friendly or sustainable. A mere 17 per cent of the market value of the green bonds held in the MSCI Green Bond Index would meet the requirements of EU Green Bond Standard (EU GBS).

But quantifying what are often qualitative aspects of operations is a challenge and the field is still new. Agencies that rate companies on environmental, social and governance criteria can provide wildly differing assessments, depending on the weights they give to various factors, such as industry, operating region and management intentions.

Given all the complexities involved, investors need to take a careful, analytical approach. Some green bonds are greener than others. Some ordinary corporate bonds issued by green companies will be greener than green bonds. And sometimes, ordinary debt finance raised by companies in dirty industries will be put towards environmentally worthy investments – especially when the firm is looking to fundamentally change the nature of its operations. Balancing environmental credentials with social factors demands taking a broad view of the market. No single green bond should be assessed in isolation of the issuing company's overall strategy towards a greener more sustainable business model.

[1] https://www.environmental-finance.com/content/analysis/in-response-to-accusations-that-enels-sdg-bond-was-greenwashing.html

[2] https://www.ft.com/content/b1d4201c-f142-11e9-bfa4-b25f11f42901

[3] https://www.sustainalytics.com/sustainable-finance/wp-content/uploads/2019/05/Starbucks-Sustainability-Bond-Second-Party-Opinion_05012019.pdf

Sponsor profiles

PensionBee

PensionBee is the UK's leading online pension provider, enabling customers to interact with their savings through its unique combination of smart technology and dedicated customer service.

Since it was founded in 2014 by Romi Savova, PensionBee has been a challenger in an industry ripe for disruption. It has grown rapidly by helping consumers to solve the challenges they face when it comes to locating, combining and managing their pension savings.

PensionBee uses its proprietary technology and Open APIs to allow customers to manage their pension, view their live balance, make contributions and withdrawals online and with the help of a smart calculator to plan their saving. It now counts over 100,000 active customers aged 18-80 and over £1 billion in assets under administration.

Pictet Asset Management

The Pictet Group is a partnership of eight owner managers, with principles of succession and transmission of ownership that have remained unchanged since foundation in 1805.

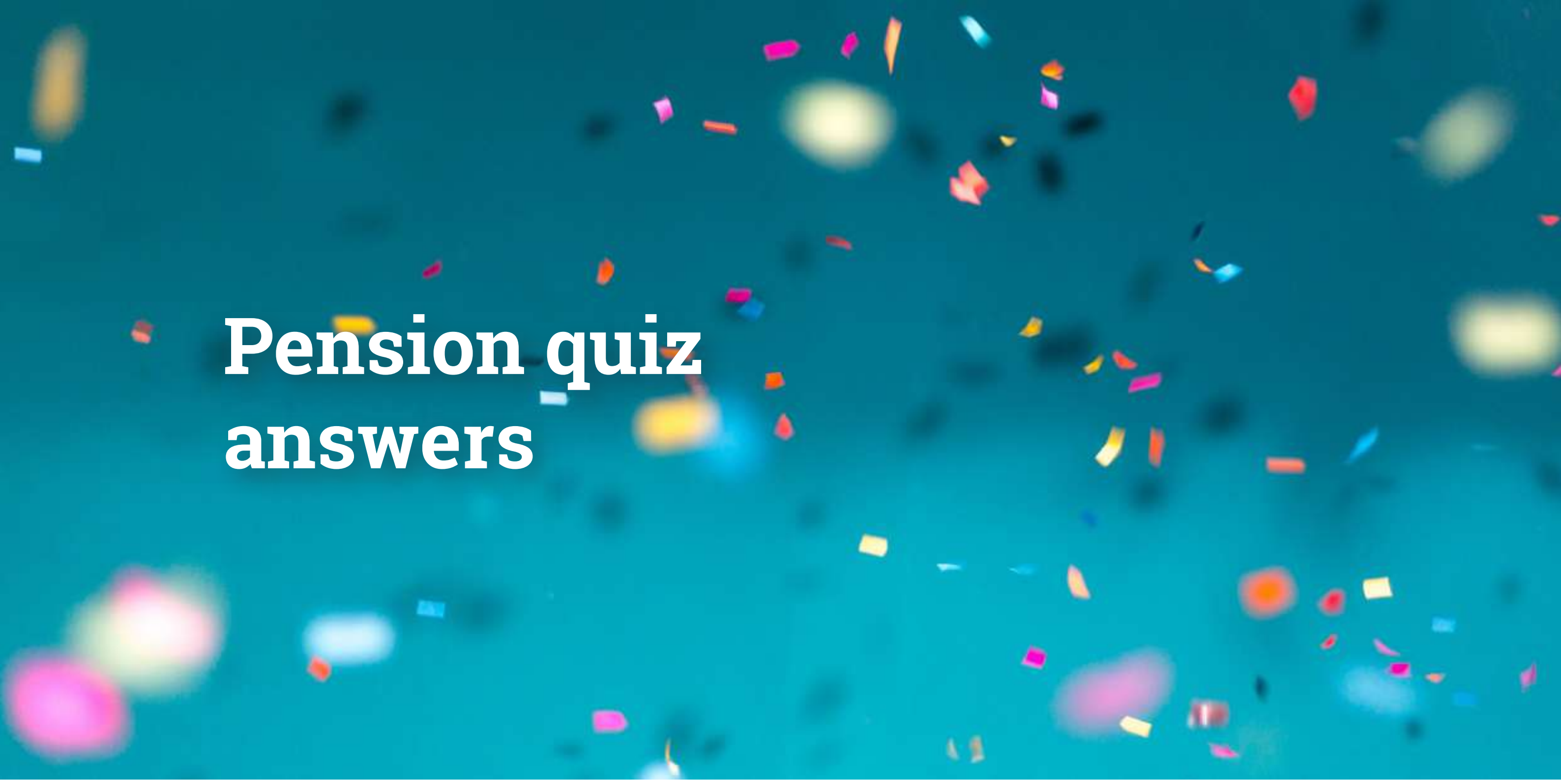
It offers only wealth management, asset management and related asset services. The Group does not engage in investment banking, nor does it extend commercial loans. With more than £407 billion in assets under management or custody at 31 March 2019, Pictet is today one of the leading Europe-based independent wealth and asset managers.

The firm says it is convinced that Environmental, Social and Governance (ESG) considerations can help it make better long-term investment decisions for its clients.

For decades, sustainability has been central to Pictet's way of thinking. Since the Pictet Group was founded, it has aimed to ensure the prosperity of its clients over the long term. In doing so, it has instinctively considered the interests of future generations.

Pictet Asset Management believes in responsible capitalism and takes an enlarged view of the economy and its interactions with civil society and the natural environment.

Consistent with its fiduciary duty to act in the best interests of clients and its adherence to the UN Principles for Responsible Investment, Pictet is committed to integrating material ESG criteria in its investment processes and ownership practices with a view to enhance returns and/or mitigate risks.



Pension quiz answers

1. What is the average UK pension pot when someone retires?

A. £60,000
B. £140,000
C. £250,000
D. £600,000

2. What is the recommended pension pot size?

A. £150,000
B. £200,000
C. £250,000
D. £400,000

But that's for a 'decent' living standard. It depends on the lifestyle you want.

3. How much does someone on the average UK salary put into their pension every year?

Based on % of qualifying earnings rather than total gross salary.

A. £420
B. £940
C. £1,300
D. £2,000

4. What is the value of the entire global pensions industry (OECD countries)?

A. £2 trillion
B. £2.5 trillion
C. £25 trillion
D. £250 trillion

Contact details

Want to get in touch with us, or any of the providers in this guide?
See below!

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