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BANKS BEHAVING BADLY
HOW LENDERS BOOST TRACKER MARGINS BY £1 BILLION P4

PROFIT FROM THE POOR
THE STOCKS THAT WILL BENEFIT FROM A CREDIT CRUNCH CHRISTMAS P5

MONEY

BEST BUYS
GUIDE TO THE TOP DEALS FOR YOUR FINANCES P7

Have your cheapest Christmas ever

Our step-by-step guide to netting the biggest bargains

REPORT P3

Low-risk pensions lose thousands

Savers hit by tumbling stocks, bonds and interest rates. By **Jennifer Hill**

THOUSANDS of people nearing retirement are unwittingly realising stock-market losses and moving into bonds — the yields on which fell to a 30-year low last week as interest rates tumbled.

Research seen exclusively by The Sunday Times shows that moving from high-risk investments to low-risk bonds and cash in the years before retirement has resulted in a poor outcome in two-thirds of cases in the past three decades.

Many pension savers opt to do this when they take out their plan, and fund managers will start the process from age 60 without notifying them.

However, the FTSE 100 has plummeted 38% in the past year, and yields on benchmark 10-year gilts fell to less than 3.4% last week — the lowest since records began 50 years ago. Savers may be better off staying in equities to benefit from any upswing and avoid locking into such low yields.

Adrian Waddingham at actuary Barnett Waddingham said: "The unprecedented fall in rates is part of a triple whammy for pension savings — the 'perfect storm' of falling stock-market values, increasing longevity and now very low interest rates."

Hargreaves Lansdown, an adviser, estimates that up to 1m pension savers have plumped for "lifestyling" — the automatic process whereby 20% of a pension pot moves out of equities and into bonds and cash each year from age 60 to 65.

However, its research, which examines five-year periods from November 1978 to November this year, shows that a balanced managed pension fund (typically made up of 80% equities and 20% fixed interest) would have outperformed 70% of the time.

In these periods, the approach gave an average pension pot of £25,380 more than a lifestyling strategy, based on a fund worth £100,000 five years before retirement. In the rare instances when lifestyling outperformed, it did so by only £25,501.

The worst period for lifestyling was in 2000-05, which included the bear market of 2000-03. Lifestyling returned only £2,788 on a £100,000 pot, £6,030 less than the balanced managed fund. Conversely, it delivered superior performance in 2003-8, when markets rallied for the first four years — £16,301 more than a balanced fund.

"While it's prudent to move to lower-risk assets as you near retirement, doing this blindly often comes at a high cost," said Laith Khalaf at Hargreaves Lansdown.

"If your lifestyling plan has just come to an end you will have cushioned yourself, but those lifestyling now could end up thousands of pounds worse off."

People about to retire and existing pensioners are also being hit: annuity and savings rates are dropping. Norwich Union, Prudential and Canada Life cut annuity rates by 1.5% to 3.5% last week.

The torrid time could see an increasing number of retirement savers buy an annuity before rates fall further — then defer taking their state pension. For every five weeks you defer, the government increases your entitlement by 1% — equivalent to an annual return of 10.4%. Typically, if you live for nine years after you start taking benefits, you will be better off (see table).

Pensions advice, page 6

GAINS FROM DEFERRING

Defer by	Income starts at*	Breakeven age†
No deferral	£4,710	n/a
1 year	£5,468	74
2 years	£6,183	75
3 years	£6,894	76
4 years	£7,664	77
5 years	£8,473	77

Source: Hargreaves Lansdown

Anger at 'virtual' gas bills

BRITISH GAS is demanding hundreds of pounds in "overdue" payments from customers — when many are in credit, writes Ali Hussain.

The letters, sent to those paying by standing order, suggest in the opening paragraph that customers are in debt, then go on to list payment methods.

However, the sums are in fact "virtual" debt — money that they do not owe, but might if they do not increase their monthly payments.

The utility giant has about 84,000 standing-order customers. It declined to disclose how many had received the letter.

The watchdog Consumer Focus said the letters could be misleading. "It's standard practice to ask customers to overpay during certain times of the year so that they do not fall into debt," it said. "However, it should be made clear, if the supplier wants a customer to overpay by a lump sum, that this is not an actual debt."

One reader, Caroline Jefford, 52, a designer from south London, received a letter from British Gas saying "the amount of £243 remains overdue", when she was actually in credit by £46.38. "I had to wait over 20 minutes on the phone just to be told that I didn't owe any money at all," said Jefford.

"These letters could come as a huge shock — particularly to the elderly at this time of year."

British Gas said customers' standing orders looked unlikely to cover their winter usage — with the sums "overdue" calculated on the potential shortfall.

Unlike its 4.5m direct-debit customers, who will have seen payments automatically rise after energy price rises this year, standing-order customers will only pay more if they agree to increase their payments.

Those who do not will accumulate this "virtual debt" — money they might owe in future. Standing-order customers tend to be in credit during the summer months and in debt during winter when usage increases.

Energy firms are sitting on a cash pile of about £226m in overpayments, research from price comparison website Moneysupermarket shows.

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Here are three actively managed Fidelity funds, which may appeal to investors willing to take a bolder approach to stock markets at present.

Of course, not all products are suitable for all investors. If you would like advice on your investment options, we recommend that you talk to an adviser. Past performance is not a guide to what might happen in the future, the value of investments can go down as well as up, and you might not get back as much as you invested. Overseas investments may be subject to currency fluctuations. Investments in small and emerging markets can be more volatile than other overseas markets.

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Fidelity European	+30.7%	+27.9%	+30.4%	+16.2%	-31.4%	+60.7%
Fidelity South East Asia	0.0%	+29.6%	+32.1%	+47.3%	-48.5%	+46.5%

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