Read it and weep

Pension and investment statements are often so long and confusing you could end up drawing your own pension before you get through reading one

Pension and investment statements should be something you look forward to receiving. Although they can't really be described as a fun read, they are timely reminders of how clever you've been by investing for your future. However, in reality most of us probably dread ripping open the envelope because financial statements are often too long, full of jargon and downright confusing.

A recent Which? survey revealed that only 20 per cent of respondents actually find investment statements very easy to understand, with even fewer – only 14 per cent – finding pension statements very easy to understand. Younger respondents find both types of statement particularly difficult to understand.

Without a clear understanding of how your pension and investment plans are performing and what retirement income you should expect from your pension, it's difficult to judge whether your savings and investments are working hard enough – and whether you need to take any action.

Only 14 per cent of Which? members find pension statements very easy to understand

Unplain English

Layout and wording can vary from one statement to another. This can mean that useful data gets lost in pages of blurb.

Phrases such as 'transfer value' and 'today's prices' are common – but without adequate definitions, they're useless. For instance, 'transfer value' means little unless you know that it refers to the value of your pension contributions if you move them to another plan. 'Today's prices' is vague unless you know it is referring to an estimate of what your pension could be worth, taking into account future inflation – this is known as a fund projection.

Rates of growth

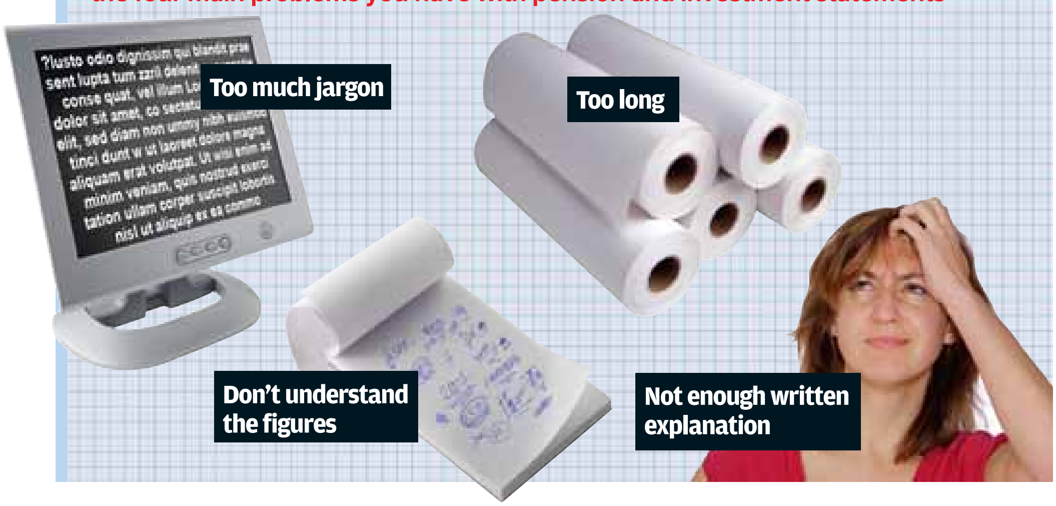
Fund projections are included in statements to illustrate how products with a specific target (such as pensions) might grow over time. To do this, the provider makes several assumptions – such as what the average rate of inflation will be between now and the fund's maturity date. It will also assume that contributions will stay the same and estimate the annual rate of growth.

- Tax-free investments, such as stocks-and-shares-based Isas, assume a typical growth annual growth rate of 5, 7 and 9 per cent.
- Taxed investments – unit trusts held outside an Isa, for example – are provided at 4, 6 and 8 per cent.
- In the case of pensions, a standardised rate of growth of 7 per cent is used.

However, it may be that your pension or investment to date has grown at a lower rate than the projection. If so, you won't hit your target and should act to remedy the situation, perhaps by switching your fund or investing more to make up the shortfall.

DOES NOT COMPUTE

Which? surveyed 1,878 members about financial statements. Below we show the four main problems you have with pension and investment statements



PHOTOGRAPHY SIMON WRIGHT, ALAMY, GETTY IMAGES

PENSION PALAVER

Elizabeth and Rus Newton

Rus was frustrated with the annual statement from his wife Elizabeth's annual stakeholder pension provider, Halifax Bank of Scotland (HBOS). He says: 'I would have expected the statement to show transactions made in the past year, so we could check what has been paid in and where the money was invested. Without a record of transactions, how can we hold the provider to account and how do I know the bank's not made errors?'

Elizabeth phoned the bank three times to request a more detailed annual statement. According to Rus: 'The phone calls resulted in us receiving the same "balance" statement again, and two letters we wrote drew a complete blank. Eventually HBOS told us it is not obliged or willing to provide this information.'

We approached HBOS for an explanation. It told us: 'Regrettably, in this case your correspondent has highlighted that his wife has not been provided with the information she has requested. Obviously we would like to put matters right as quickly as possible and will assign the appropriate person to look into the matter immediately.'

'Without a record of transactions, how do I know the bank's not made errors?'

Checklist

If, after looking at your statement, you are unclear about how your pension or investment is performing, you should do the following.

- **Overall picture** If not shown on your statement, ask how much money has been paid into your fund since it began, what it was worth at the end of the last year and what its current value is.
- **Investment info** Make sure you know which funds your money has been invested in. Ask your provider to tell you how your funds have performed with other funds in this sector.
- **Projections** Also ask your provider to explain how your investment or pension has performed when compared with the standard projection. Follow this by asking how best to proceed if your fund has been underperforming.
- **Charges** You must have a clear record of any charges. If you don't understand them, ask your provider to explain.
- **Drop the jargon** Demand that your pension or investment answers all these questions in plain English. Unless you understand your statement, you can't tell how your fund has performed to date – and you won't know whether you need to take any action.

What you told us

Which? asked readers who participated in our survey what advice they would give to the providers to improve statements – and they didn't hold back

'Write to them as if you were explaining pensions to a teenager!'

'Less jargon. Don't hide important parts in small print just because they are not going to be welcome.'

'An idiot's guide layout. Simple traightforward indications of current unds, projected funds and comparison with the market leaders.'

'Use everyday terms and give meaningful definitions of terms used.'

'The pension statements include many values and I am not clear as to their meaning.'

TAKE ACTION

What to do if you can't understand your statement

If your statement isn't easy to understand, contact your provider and ask it to explain what the terms mean. Also request any important information you can't find on your statement (see the 'Checklist', above, for what you need if you are to understand your statement). You are entitled to clear answers and should persevere until you get them.

It's important to find out how your pension or investment has performed (see 'Checklist', p33).

Rambling regulation

It would be unfair to blame only fund providers for overlong and confusing statements. The Financial Services Authority (FSA) specifies what information, including an array of data, notes, warnings and assumptions, must be included in financial statements. If these requirements are resulting in rambling statements, we think that clearer guidance is needed to encourage providers to produce better, easier-to-understand statements.

Clarity is an issue the industry is addressing. In a recent speech to the Association of British Insurers (ABI), Nausicaa Delfas, Head of Department for Treating Customers Fairly at the FSA, spoke about the need for the industry to treat customers fairly: 'The main areas of concern relate to the use of jargon and a lack of explanation of what things actually mean to the policyholder.'

The ABI echoed this view, telling us: 'At present, many pensions and investment statements are too long and complicated and, as a result, unclear.'

What you can do

Some providers might frown on calls for transparency from the likes of the ABI and the FSA. They might balk at requests for additional specific information, but if there's something you want to know about your statement, ask for it. It's your money. After all, you'd quickly query anything on a current account statement that was unclear or odd, just as you'd query a mystery amount on a restaurant bill. The same rules apply when it comes to your financial statements.

Projections explained

Projections show how your funds may grow over time. However, they are useful only if you actually understand them

The purpose of a pension projection is to help you see how much money you will get when your fund matures. However, it's really important to remember that this is only a projection. The amount you actually get could be higher or lower than the forecast.

Unless you have a target sum in mind, based on what you ideally would like to get from your pension when you retire, you cannot hope to gauge how successful your investment has been. And if you don't understand the projection, you won't realise when you should take action if the fund is falling short of what you actually need.

If the projected total in this year's statement is lower than it was in the previous year, you may have to take action to achieve your target sum. This could mean increasing your contributions. Alternatively, you might consider switching to another provider if your plan is falling behind your target because of its poor performance.

Don't understand your projection? Follow the advice in our 'Checklist' on p33.

What you might get when you retire

This illustration shows how much you might get if you retire on the date shown. The figure is only an example and is not guaranteed. We have prepared this figure using standard assumptions required by law. The amount is shown in today's prices to give you an idea of what your pension could be worth. Your actual pension could be higher but so could prices. This illustration is based on your fund value on 6 June 2006 which will include the value of any payments received since 3 June 2006.

All firms use the same rates to show how funds may be converted into pension income. For the annuity rate, which is used to convert the fund into a pension, the lower rate projection assumes an interest rate in retirement of 2.10% p.a., the mid rate projection assumes 4.10% p.a. in retirement and the higher rate projection assumes 6.10% p.a. in retirement. These assumed interest rates are subject to review every year on 6 April using a method prescribed by the Financial Services Authority to reflect market changes.

These projection explanations were taken from real pension statements, and they're not exactly easy reading. It's important to understand your projection – if yours doesn't make sense, ask your provider for a plain English explanation

The way we were

The September 1977 issue of our then sister publication *Money Which?* criticised an advert for promising a £42,000 return on an investment of £10 a month. As with today's financial statements, the devil was in the detail: consumers would reap this return only if they started investing at age 25 and their fund grew by 10 per cent every year.

Contacts

Association of British Insurers
020 7600 3333; www.abi.org.uk

Financial Services Authority
0845 606 1234; www.fsa.gov.uk

Pensions Advisory Service
0845 601 2923
www.pensionsadvisoryservice.org.uk

OTHER USEFUL CONTACTS

Investment Management Association 020 7831 0898
www.investmentuk.org

Money Made Clear
www.moneymadeclear.fsa.gov.uk

Securities & Investment Institute
020 7645 0600; www.sii.org.uk

OUR RESEARCH

In February 2007 we surveyed 1,878 Which? online panel members about financial statements. Thanks to all who took part.