PEP transfer guide

Whilst you can no longer open a new PEP there are still many options available to ensure that your existing investments are working as hard as possible for you. This guide aims to provide you with some food for thought on making the most of your PEP savings.

PEP fast facts

A FEW THINGS YOU MAY NOT KNOW ABOUT PEPS

1. PEPs were introduced in 1987 and closed to new investment in 1999.
2. By 1998, just before PEPs were closed to new investment, total gross sales had exceeded £69 billion, and 4.6 million accounts were opened in that tax year alone.[1]
3. In 2006, the PEP transfer market was worth over £863 million.[2]
4. In May 2007 there were still 4.38 million fund based PEP accounts in existence.[2]

Sources:
[1] HMRC Statistics
[2] IMA Monthly Statistics

Time for a review?

At the moment, a positive regulatory environment and a strong transfer market combine to provide you with the right conditions to take stock of your PEPs and ensure they are in line with your current needs and working their hardest for you.

If you would like to discuss any of the points raised, or take a look at your own PEP portfolios, please give us a call on the number enclosed.

A brief history

PERSONAL EQUITY PLANS (PEPS) WERE INTRODUCED IN 1987 AS A TAX-EFFICIENT WAY OF INVESTING. THE AIM WAS TO ENCOURAGE EQUITY OWNERSHIP AMONG A WIDER POPULATION THAN HAD PREVIOUSLY BEEN THE CASE AND TO FOSTER REGULAR LONG-TERM SAVINGS.

After a slow start, PEPs' popularity grew quickly throughout the 1990s, culminating in 4.6 million accounts being opened in the 1998/1999 tax year.

PEPs were closed to new investment in April 1999 and replaced by ISAs (Individual Savings Accounts). However, existing PEPs can still be actively managed and nowadays you can change investments held, or even managers, relatively easily. Indeed, the PEP transfer market remains strong, offering many PEP holders an attractive route to add value to their investments.

Relaxing the rules

IN ORDER TO BRING THEM IN LINE WITH ISAS, THE ORIGINAL RULES SURROUNDING PEP INVESTMENT HAVE BEEN CHANGED OVER THE YEARS. CHANGES INCLUDE:

- Abolition of the differences between general and single company PEPs.
- Introduction of the ability to merge general and single company PEPs.
- Widening of qualifying investments, allowing PEPs to hold shares listed on any recognised stock exchange in the world, as well as corporate bonds, gilts and a broader array of funds.
- Ability to transfer part of the contents of a PEP to another PEP manager, rather than the whole lot.
- Abolition of the requirement for a written request to withdraw funds; transactions are now allowed by phone, fax or internet.

A few basics

BY 1992 THERE WERE TWO TYPES OF PEPS:

1. A general PEP, which was limited to qualifying collective investments such as unit trusts which invested at least half their assets within the European Union. The annual allowance for this type of PEP was £6,000.
2. A single company PEP, which, as the name suggests, limited investment to shares in a single company. The annual allowance was £3,000.

In April 2001 (after their replacement by ISAs in 1999), PEPs were brought closer in line with ISAs lifting the geographical and single company restrictions. PEPs can now invest in a wide range of investments, increasing the scope for international markets.

PEPs enjoy the same tax benefits as ISAs; you pay no capital gains tax on growth or additional income tax on dividends generated and you don't even have to declare them on your tax return.

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Reviewing your PEP

IT IS NOW 20 YEARS SINCE PEPS WERE FIRST INTRODUCED AND EIGHT YEARS SINCE THEY WERE CLOSED TO NEW INVESTMENT.

In this time, we have experienced a range of market conditions, which, if you have left your PEPs to their own devices, will have had an impact on their make up. For example, the proportions between equities and bonds could have shifted without you realising and you could now have a larger allocation to equities – or indeed to bonds – than you intended.

In addition, during such an extended period of time, your circumstances could have changed. For example, you may now be nearing retirement and require more income to be generated from your PEPs than when you set them up 20 years ago. In other words, the investments you hold in your PEP could be out of line with your objectives and risk profile and therefore be unlikely to help you achieve your goals.

If this is the case, then it is time to review your PEPs and realign them with your evolving needs to ensure that they are working as hard as possible.

Realigning your PEPs

IF YOU THINK A REVIEW OF YOUR PEP PORTFOLIO IS A GOOD IDEA, THEN TALKING TO A FINANCIAL ADVISER IS A GOOD FIRST STEP. WE CAN HELP YOU LOOK AT YOUR GOALS AND SEE WHERE CHANGES NEED TO BE MADE TO ALIGN YOUR PEPS WITH YOUR REVISED OBJECTIVES.

Following the relaxing of the rules surrounding PEP investments, you can now invest in a vast array of assets and it is much easier to build up a diversified portfolio which meets your needs. It is usually very straightforward to switch your investments within the same plan manager for little or no cost. Alternatively you might not be able to get the ideal mix of investments through your existing plan manager and you might want to consider transferring all or part of your PEP to another fund manager who is more able to meet your requirements.

Transferring to another manager

THE CHANGES IN PEP REGULATIONS, THE STRENGTH OF THE PEP TRANSFER MARKET AND THE GROWTH IN FUND SUPERMARKETS MEAN THAT TRANSFERRING YOUR PEP INVESTMENT TO ANOTHER MANAGER HAS NEVER BEEN EASIER.

This involves getting rid of your current PEP investments and investing in new ones which could offer you better reward potential and a better risk profile whilst maintaining the tax advantages.

Nor do you have to settle for a single manager. You can spread your PEP investments across a range of managers carefully selected to increase the diversification of your portfolio, increase your possible returns and lower the volatility of your overall portfolio.

Actively managing your PEP investments in this way, will not only realign your portfolio to your current needs, it will also provide you with an easy way of switching your investments as your personal circumstances change.

Things to consider

IF YOU ARE CONSIDERING TRANSFERRING YOUR PEP, THERE ARE A FEW FACTORS YOU NEED TO CHECK FOR:

- Possible charges on early withdrawals from existing schemes.
- Administration fees. These could range from £25 to £50 and could be charged if you transfer out of an existing fund.
- Dealing charges. If you have a share PEP, stockbrokers may add dealing charges or fees of up to 2% to cover cost of re-registering.

How to go about it

Deciding to realign or transfer your PEP is an important decision and one that should not be made lightly. Whatever your individual circumstances, it is vital that you first set your investment goals, consider your attitude to risk and then review your existing PEPs in light of these aims. This will highlight where change is needed, if any.

Next, careful research, with our help if you would like it, will help identify the best options available in terms of investments and investment providers.

Once you have decided where to invest you will need to follow the application steps laid out by the provider to make sure you do not lose the tax benefits.