“With-Profits” now in Terminal Decline

Are you still holding investments in “with-profits” style policies with Life Assurance companies?
If so, I have some bad, and some good news.

As covered in previous articles, and in my article “With-Profits – Is the End Nigh?” at www.midasfides.co.uk, this style of “one-size-fits-all” secret discretionary management is now widely considered to be wholly discredited. That wasn’t always the case, and I indeed recommended this product in good faith many years ago, but there have been developments which have rendered it inappropriate. These are:

The Bad News:

i) You do not control the asset-allocation in the fund. It is “one-size-fits-all”.

ii) Usually, you cannot find out what the asset-allocation is, as many companies refuse to answer the question, or consider it none of their clients’ business.

iii) The regulatory authorities can dictate the asset-allocation so as to safeguard the providers’ financial strength to prevent further embarrassment following the Equitable Life debacle, rather than to optimise client investment returns.

iv) Much of any investment gain is being channeled back into providers’ reserves rather than being distributed as bonuses

v) The rate of bonus declarations is discretionary. Power tends to corrupt.

vi) Bonus rates are influenced by the management expenses of the company as well as by the investment returns on the underlying funds, yet you do not control the management decisions of the company. This is an added level of risk for which there is no additional return. This probably negates the effect of smoothing of returns, which is main *raison d’etre* of “with-profits”.

vii) The Market Value Adjustment (MVA) is a discretionary and secret calculation. You can never be sure that any surrender values represent the true underlying value of your asset-share. If you were always guaranteed the true asset-share in your payout, you might as well have invested in a unit trust or OEIC, which guarantees this at lower and more transparent cost.

For those Life offices which have closed for new business, bonus returns are in some cases zero. Furthermore, their customer service is often terrible, to the point of gross incompetence, obstruction and rudeness, as they have no commercial incentive to maintain customer relations. Even those offices still open are typically paying very low bonus rates of around 2 or 3% per annum, because of the constraints on where they are allowed to invest and how much they can distribute. I am not aware of any hope of improvement in future.

The Good News

You do not have to put up with this. You can withdraw your funds, even if they are held within a personal pension, and transfer to a more transparent, cheaper, and more risk-adjusted and asset-diverse investment portfolio within a wrap account. See the leading article “Would you like some of this?” on the returns which can be achieved. It is debatable whether the MVAs on with-profits funds are actually a “cost” of withdrawal, as surely the true value of any investment is merely what you get back for it when you sell it. I no longer recommend mainstream Life Assurance products.

Action (in blue)

Contact me if you are still holding these outdated, poor value investments. They should be moved.