

Closed funds – an open and shut case?

According to Richard Jones of Security Financial Services of Rhosneigr on Anglesey, millions of policyholders and some £190bn of their money are in closed funds...with-profits operations shut to new investors.

Richard recalls that in a speech in September 2004, David Strachan, Director of the Retail Firms Division at the Financial Services Authority (FSA), said that out of 110 with-profit funds, 66 were now closed for new business. These funds occupy around a fifth of the entire market, and there are over 50 life insurers who have at least one with-profits fund that is closed to new business.

How do you know whether or not you have money in a closed fund? Richard says it's not always obvious which of your policies are held in these funds. Although they are closed to any new business, many of them still accept regular monthly premiums, and he suggests you contact one of the IFAs listed on this page for advice.

He says the prevailing view so far has been that a closed life fund has had a negative impact on the value of policies. Managers of many closed funds have to take a more cautious approach, managing the company's liabilities rather than maximising returns for policyholders. Consequently, they alter the asset allocation, investing less heavily in equities and more in fixed-interest bonds.

"This has reduced relative returns for policyholders, particularly as the performance of equities has improved lately," says Richard, who reports that an investigation by the Financial Services Authority (FSA) at the end of last year revealed that of all with-profits funds, closed funds made up 81% of those in the bottom quartile, while open funds were dominant among the top performers.

He comments: "While not all closed funds perform badly, only 15% of funds that have been closed for one to five years feature in the top quartile."

Richard says if you are stuck in a fund with poor growth prospects, the biggest obstacle to getting out is likely to be the MVR (market value reduction); these are exit penalties applied if policies are surrendered early, so it is important to find out how much this would cost.

He explains: "MVRs are coming down as the stock market rises, but the flipside is that annual bonus rates are also falling. Your decision will depend mainly on the status of the MVR on the policy which can be quite high, although many insurers have been reducing them recently. If there are only a couple of years until your policy matures and the MVR is high, you should probably stick with it."

Richard adds: “If you’re not entirely sure precisely which funds you’re invested in, if you haven’t reviewed for some time whether or not the underlying fund still suits your aims and objectives, and that the funds own investment philosophy remains the same, I again recommend you contact one of the IFAs on this page and ask them to check through it with you.”

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