ASK THE EXPERTS

Endowment and top-up pensions

Q ENDOWMENT POLICY
We have repaid the mortgage on our home, but we are still contributing towards the endowment policy we originally took out to cover it.

The policy has five years to run but with our daughter's wedding coming up and a new roof to finance we'd like to cash it in. Is this sensible?

Endowment plans have had a lot of negative publicity in the past few years, and unfortunately much of it is deserved. However, before you surrender the plan, you should be aware of the possible disadvantages.

Most endowment plans will include a terminal bonus at maturity. Most life insurance companies will not commit to any figures for this in advance.

In theory, the terminal bonus could double the value of your investment when the plan matures, but you could walk away with no terminal bonus.

Furthermore, with the stock market being so depressed at the moment, it is likely that the surrender value of your plan if you cash it in now may be much lower than you expect.

By waiting a year or two for markets to recover before cashing in, you may actually end up with a lot more money.

Bear in mind that some companies also put on a market value reduction, which is in effect an early repayment penalty.

Note too that some with-profits endowment plans can be sold on the second-hand market, and if yours qualifies, you may get as much as 30 per cent more than by just surrendering it.

Lastly, I have seen some plans that are a complete waste of money. So if after doing the calculations you realise you are throwing good money after bad, then you may be better off surrendering the plan now.

Before you decide what to do, I recommend seeking professional advice.

Liz Willis

Q ADDITIONAL PENSION
I understand that it is no longer possible to buy added years in the NHS Pension (NHSPS) scheme but that there is a new additional pension option. How does this work?

As I have had a few years' break from NHS service I would like to make extra pension payments as soon as possible.

With the additional pension (AP) option, active scheme members can purchase an extra Retail Price Index-linked pension of up to £5,000 a year in today's terms at normal retirement age of 60 or over.

An automatic lump sum is not included with AP, but you can give up (commute) some of the pension to increase the tax free lump sum your other contributions provide at retirement.

AP must be taken at the same time as main scheme benefits and would be subject to an early retirement reduction factor if taken before age 60.

AP can be bought in multiples of £250 or by making instalment payments, and dependants' benefits can be included at extra cost.

Costs increase with age and are subject to actuarial review every four years. There is a calculator on the NHSP website (www.nhsbsa.nhs.uk/pensions) where members can get personalised quotes.

Although AP is not as financially attractive as added years it appears to be competitive when compared with money purchase pension plans such as stakeholder and personal pensions.

Kevin Quinn