

Pension consolidation

Bringing all of your separate pension plans together into one single pension pot

Few of us today remain in the same career throughout our working lives. The result is that many people may have a number of different pension pots from previous employers. However, combining them into one single pension could make real financial sense.

If you have accumulated different pension plans, keeping your pension savings in different plan schemes may result in lost investment opportunities and unnecessary exposure to risk. Making the most of your pension plans now could have a significant impact on your happiness in retirement; getting it right could mean a higher income, or even an earlier retirement date.

The most obvious reason for moving a pension is to obtain better investment performance and lower charges to potentially increase your retirement income. But you need to be aware that you could be subject to exit penalties on your existing fund, and if you are close to retirement, you might not have time to recoup the costs, even if you do move to a better performing fund.

DIFFERENT TYPES OF PENSION

You might well have several different types of pension. Final-salary schemes pay a pension based on your salary when you leave your job and years of service. If you have any past or current contributions in a final-salary scheme, it's usually advisable in nearly almost every situation not to move it.

But if you've got any other kind of pension – a money purchase occupational scheme or a personal defined contribution pension – it may be appropriate to consider bringing your historic pensions into one place. These pensions rely on contributions and investment growth to build up a fund. A key advantage of moving your funds into one pension pot is the ability to monitor fund performance more easily.

Consolidating your pensions into one pension wrapper can make keeping track of your pension savings more easy: you can keep a closer eye on the value of your savings and it could also potentially reduce the amount of management fees you are paying. It will also make things much easier when you eventually retire and want to start drawing on your pension savings.

Not all pension consolidations will be in your best interests, and you should always look carefully into the possible benefits and drawbacks and, if unsure, seek professional financial advice.

Pension consolidation can be a very valuable exercise, as it can enable you to:

- Bring all your pension investments into one easy-to-manage wrapper
- Identify any underperforming and expensive investments, with a view to switching these to more appropriate investments
- Accurately review your pension provision in order to identify whether you are on track

REVIEW YOUR EXISTING PENSIONS

It's vital that you review your existing pensions to assess whether they are still meeting your needs. Some older plans from pension providers that have been absorbed into other companies have pension funds which are no longer open to new investment – so-called 'closed funds'. As a result, focusing on fund performance may not be a priority for the fund managers.

These old-style pensions may often impose higher charges that eat into your money, so it may be advisable to consolidate any investments in these funds into a potentially better performing and cheaper alternative.

ECONOMIC AND MARKET MOVEMENTS

It's also worth taking a close look at any investments you may have in managed funds. Most unit-linked pensions are invested in a single managed fund offered by the pension provider and may not be quite as diverse as their name often implies. These funds are mainly equity-based and do not take economic and market movements into account.

The lack of alternative or more innovative investment funds, especially within with-profits pensions – and often also a lack of the latest investment techniques – mean that your pension fund and your resulting retirement income could be disadvantaged.

LENGTH OF TIME TO RETIREMENT

Lifestyling is a concept whereby investment risk within a pension is managed according to the length of time to retirement. ‘Lifestyled’ pensions aim to ensure that, in its early years, the pension benefits form significant equity exposure.

But as you get closer to retirement, risk is gradually reduced to prevent stock market fluctuations reducing the value of your pension. Most old plans do not offer lifestyling – so fund volatility will continue right up to the point you retire. This can be a risky strategy and inappropriate for those approaching retirement.

In your 50s and 60s, your pension pots should have appreciated significantly, and you may decide that any exit penalties or fees for advice represent significant disincentives to act – after all, you will have less time to recoup the cost before retirement.

Take into account whether your existing pensions have:

- Loyalty bonuses
- Early termination penalties
- Guaranteed annuity rates
- Integrated life cover or other additional benefits
- Final salary pension benefits

Questions you need to ask when seeking advice:

- How much will it cost to consolidate all my pension plans?
- Does there need to be a certain value for my pensions to consolidate them?
- Are there any advantages to keeping the pots separate?
- Does there need to be a certain value for my pension to purchase an annuity or utilise drawdown?

CONSOLIDATING YOUR PENSIONS WON'T APPLY TO EVERYONE

The potential benefits of consolidating your pensions won't apply to everyone, and there may be drawbacks to moving your pension plans – particularly so for certain types of pension. It is therefore vitally important to carefully consider all aspects of your existing pensions before making a decision as to whether or not to consolidate. If you would like to discuss your particular situation, please contact us.

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