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FINANCIAL SERVICES

Your guide to **pension consolidation:** The pros and cons you need to know

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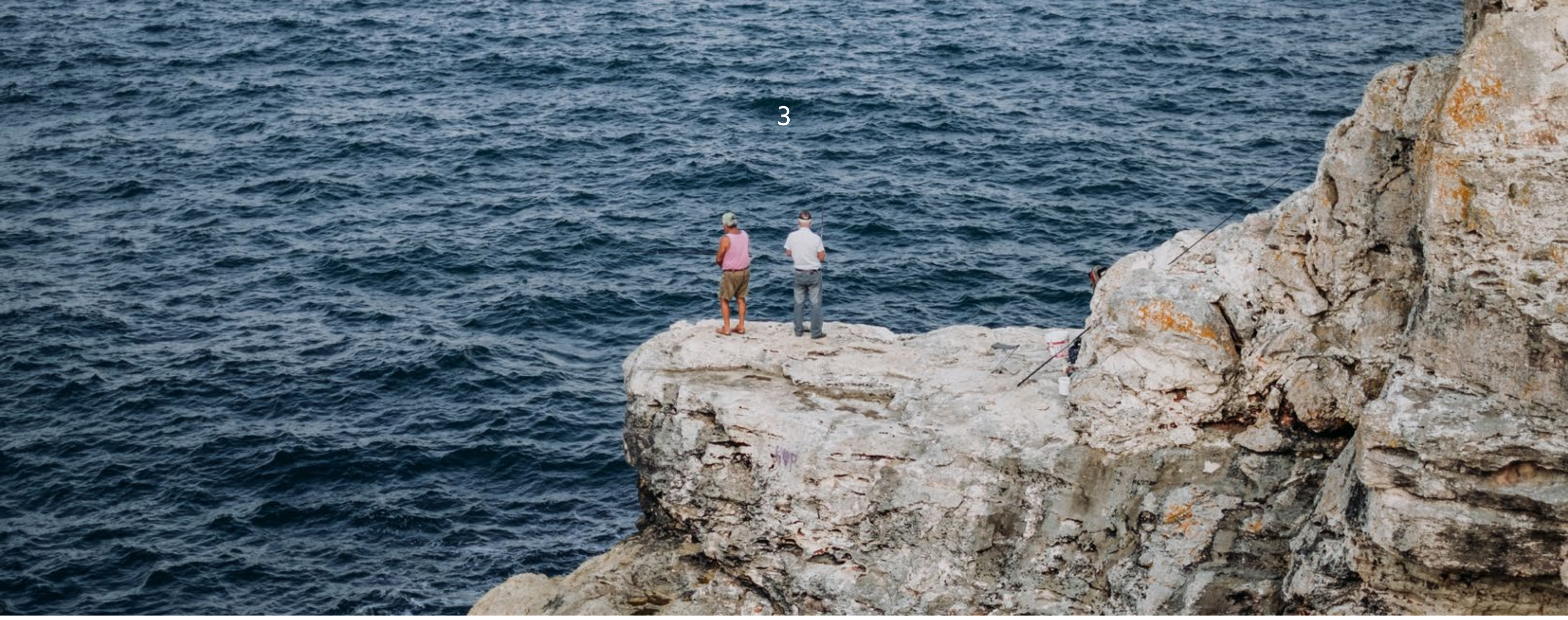
Do you have multiple pensions? In some cases, consolidating them could be beneficial.

Pension consolidation is when you combine two or more pensions into a single pot. You may decide to do this as you approach retirement or during your working life for a variety of reasons.

Read on to discover why consolidating your pension could make sense, as well as the reasons why it may not be right for you.

This guide is referring to defined contribution (DC) pensions when discussing consolidation. If you have a defined benefit (DB) pension, also known as a "final salary pension", it usually isn't in your best interest to transfer your money. Find out why on page 6.



How many pensions will you have when you retire?

Without consolidating pensions, you're likely to have several when you reach retirement age.

In the past, retirees usually didn't have to juggle too many pension pots. This was because it was more common for workers to stay with each employer for a long period. Now, job-hopping to move up the career ladder and learn new skills is common. As a result, you could accumulate many pensions during your working life.

According to Zippia, the average employee stays with their employer for 4.3 years and will have 12 jobs during their lifetime.

Auto-enrolment means that most workers will benefit from a workplace pension that their employer must set up and contribute to. So, you could end up with a pension for every job you've worked. In addition, you may also have set up a personal pension.

For some people, having several smaller pensions will be inefficient and difficult to manage.

During your working life, multiple pensions can mean it's difficult to understand how the value of your savings will change and if you're saving enough for retirement.

Once you stop working, it could also mean it's more challenging to create a financial plan that delivers a reliable income and provides you with long-term financial security.

There is £26.6 billion in "lost" pensions

Multiple pensions don't just make it difficult for some savers to plan for retirement, it can mean you're more likely to lose pension details too.

In fact, the Association of British Insurers (ABI) estimates that almost 3 million savers have "lost" pensions worth £26.6 billion.

As most workers are now automatically enrolled into a pension by their employer, it's an issue that's likely to grow. Between 2018 and 2022, ABI estimates the number of lost pensions increased by 75%.

So, checking your paperwork and ensuring you haven't misplaced the details of a pension is an important step. It's worth reviewing your current savings and seeing if there are any gaps. The government has a pension tracing service that you can use to find the contact details of a pension scheme if you've lost touch with some of your savings.

4 reasons you may want to consolidate your pensions

1. It can make your pension savings easier to keep track of

One of the key benefits of consolidating your pensions is that keeping track of a single pot is often much easier than managing several.

If you change jobs several times, you could easily end up with multiple pensions that you need to review annual statements for and make sure the details are up to date, such as changing your address if you move. It means you're more likely to lose the details of a pension and potentially overlook some of your savings.

Multiple pensions can also make it more difficult to understand if you're on track for retirement. While pension providers will forecast the value of your pension when you reach retirement age, how they calculate this will vary.

2. Consolidating your pensions could lower the amount you pay in fees

Your pension provider will charge a fee for managing your retirement savings. Each provider will have their own fee structure, so it's important to understand what you're paying.

You may pay an annual management fee, which will cover the cost of running your pension. This is often a percentage of the value of your savings. You are also likely to pay fees for your investments, which are often set by investment funds.

Depending on the type of pension you have, you may also pay a platform fee, service fee, or policy fee, as well as others.

These fees can significantly reduce the value of your pension and the income you will receive in retirement. So, consolidating your pensions and choosing a provider with lower fees could help your money go further.

This is particularly true if you have an older pension.

Previous research from the Institute for Fiscal Studies found that some savers could lose thousands of pounds if they do not move older pensions to ones that offer better value for money.

The average annual fee for deferred pensions taken out in the 1990s is above 1.1% of the fund value. This compares to 0.8% for pensions taken out in the 2010s. While the difference sounds small, it can have a much larger effect when you consider how the fees add up over the years.

In addition, the study found that older pensions are less likely to be invested in the way people want.

While lower fees could help your money go further, they shouldn't be the only thing you review when deciding which provider to choose. For example, if your investments are performing well, does this balance out a higher fee?

3. Make the most of your savings by choosing investments that are performing well

If you have a defined contribution (DC) pension, your savings will usually be invested. And the performance of these investments will affect the value of your pension when you retire and the income you can take from it.

So, if one of your pensions is performing poorly in terms of investment returns, transferring these funds to another pension provider could deliver a boost to your savings over the long term.

However, you need to keep in mind that investment performance cannot be guaranteed and past performance is not a reliable indicator of future performance.

As with any investment, you should ensure your pension matches your risk profile, which should consider things like investment time frame, your attitude to risk, and more.

If you have any questions about your investments and your risk profile, please contact us.

4. Fewer pensions can make it easier to take an income in retirement

As well as making your retirement savings easier to manage during your working life, fewer pensions can also be easier to manage once you retire.

If you have DC pensions, you'll be responsible for deciding how to access your savings and when.

You'll need to understand whether you want to purchase an annuity, take a flexible income, or withdraw lump sums, and then decide which pot to use. You may also need to factor in investment performance when managing withdrawals over the long term and think about sustainability to ensure you don't run out of money.

Juggling multiple pots could make this more challenging. Having a single pot to use throughout retirement can make it easier for you to keep track of your savings and the income they'll deliver.

4 reasons why consolidating pensions may not be right for you

1. You have a defined benefit pension

If you have a defined benefit (DB) pension, also known as a "final salary pension", consolidating usually doesn't make financial sense.

DB pensions provide you with a guaranteed income from the retirement date until you pass away. They are often generous and can help you achieve financial security when you stop working.

In many cases, the income provided is linked to inflation. So, your spending power is protected as the cost of living rises. Over a retirement that could span decades, this can be valuable and help ensure you're able to maintain your lifestyle in your later years.

Some DB pensions will have additional benefits too, such as providing your spouse, civil partner, or child with a pension if you pass away.

If you transferred out of a DB pension, you'd lose these benefits. To achieve the same benefits with a DC pension, you'd usually need to pay a much higher sum over your working life. As a result, keeping your DB pension is often appropriate when you consider the value it could provide over the long term.

If you're thinking about transferring out of a DB pension, you will usually need to receive specialist financial advice before doing so.

2. Your pension has additional benefits

Some pensions come with additional benefits that you'd lose if you transferred your savings. You should review each of your pensions before you consolidate them to ensure you don't miss out on benefits that you could make use of.

Usually, you can access your pension from the age of 55, rising to 57 in 2028. However, some pensions allow you to access your savings earlier. If you're hoping to retire early or work part-time before retirement, it means you may be able to use your pension to create an income sooner.

If you have a DC pension, one of your options when accessing your savings is to purchase an annuity. This would then provide an income for the rest of your life. The income you receive is dependent on the annuity rate, which a variety of factors could affect. Some pensions provide a guaranteed annuity rate, which could provide you with some financial certainty.

How valuable these potential benefits are will depend on your retirement plans, so having retirement goals set out can be useful, even if the milestone is still years away.

Make sure you understand the benefits you could be giving up before you consolidate your pensions.

3. You may need to pay an exit fee

If your pension provider charges an exit fee, it's important to weigh up the cost against the benefits. In some cases, the fee could be higher than the amount you'd save.

Again, whether paying a fee or not is worth it will depend on your circumstances. If retirement is just around the corner, it could mean you lose out financially when consolidating once you factor in the exit fee. On the other hand, if you still have a decade before you will start accessing your pension, paying an exit fee could be appropriate.

Before you make any decisions about consolidating your pension, you should carefully review what fees you may need to pay.

4. You could miss out on "small pot" privileges

For some people, "small pot" privileges could mean it makes sense to keep some of your retirement savings separate. Small pots are often defined as pensions with a value of less than £10,000.

There are two instances where having small pension pots could be useful:

If you want to access some of your pension and still contribute

There are many reasons why you may want to access some of your pension savings before you retire. Perhaps you want to take out a lump sum to pay off your mortgage early? Or maybe you're taking some time off to travel and want to take money from your pension, but intend to return to work?

Usually, you can add up to £40,000 to your pension each tax year while retaining tax relief. However, this could fall to just £4,000 under the Money Purchase Annual Allowance (MPAA) if you take a flexible income from your pension. So, the MPAA can significantly reduce how much you're able to tax-efficiently save for retirement.

However, you can usually access small pots without triggering the MPAA.

If the value of your pension is nearing the Lifetime Allowance

The Lifetime Allowance is the total amount of pension benefits you can build up before suffering an additional tax charge when you access your savings. For the 2023/24 tax year, the Lifetime Allowance is £1,073,100.

It covers the total value of your pensions, including your contributions, those made by your employer or other third parties, tax relief, and investment returns. So, you may need to consider how contributions and investment performance could increase the value of your pension if you're nearing the threshold.

The charge for exceeding the Lifetime Allowance will depend on how you access your savings. It is normally 55% if you take a lump sum, and 25% if you take an income any other way.

However, you can usually take up to three small pots without these counting against the Lifetime Allowance.

Keep in mind that taxation and regulation can be complex, subject to individual circumstances, and may change. If you may be affected by the MPAA or Lifetime Allowance, please contact us to discuss your options.

Do you have questions about your pensions?

If you have questions about whether pension consolidation could make sense for you, or whether you're on track to enjoy the retirement you want, please contact us.

We can work with you to help you understand how to get the most out of your pension contributions and how the decisions you make now could affect your retirement.

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Please note: This guide is for general information only and does not constitute advice. The information is aimed at retail clients only.

A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Past performance is not a reliable indicator of future results.

The tax implications of pension withdrawals will be based on your individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes, which cannot be foreseen.