Blue SKY
Financial Planning

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FACTSHEET

Pension consolidation

What to consider for your long-forgotten pension pots

If you've accumulated numerous workplace pensions over the years from different employers, it can be difficult to keep track of how they are performing. The process of bringing all your pensions together is called 'consolidation'. It is often referred to as a transfer. If you have more than one pension pot, you might want to consider consolidating all of your pots into one for simplicity. You may also benefit from lower charges by doing this.

POOR PERFORMANCE

It is important to remember that you might not benefit from transferring your pensions all into one place. Long-forgotten plans may end up remaining in expensive, poorly performing funds, and the paperwork alone can be enough to put you off becoming more proactive.

WHY WOULD I WANT TO CONSIDER CONSOLIDATING MY PENSIONS?

- You'll only have to deal with one provider, which could make life simpler
- If you decide to buy an annuity when you want to take benefits, you'll only receive one payment each month (if you choose to have your income paid monthly). This can feel more familiar as it will probably mirror how your salary was paid
- If you're likely to buy an annuity, you could receive a better annuity rate as your account will be bigger, and some companies offer better rates depending on the size of your pension account

This is not an exhaustive list of the issues you should bear in mind. If you are interested in consolidating your pension accounts, you should obtain professional financial advice.

WHAT ISSUES SHOULD I CONSIDER BEFORE DECIDING TO CONSOLIDATE?

- Make sure there are no penalties if you transfer your account from one provider to another
- Some companies offer 'Guaranteed Annuity Rates', and these can provide a much higher income than today's annuity rates might offer. Any 'Guaranteed Annuity Rate' could be lost if you consolidate your pensions – you should check with your pension provider
- If you're in a final salary or defined benefit scheme, you don't need to buy an annuity because final salary pensions aim to provide a known and guaranteed level of cover. If you are in one of these schemes, stop to think about what you may be moving away from. From April 2015, transfers can now only be made from funded final salary schemes, so it is not possible to transfer out from an unfunded public sector scheme

IT COULD STILL MAKE SENSE TO CONSOLIDATE

As you approach your retirement, your pension pots may have appreciated significantly, and you may decide that any exit penalties or fees for advice represent significant disincentives to act. However, if you're unhappy with your existing arrangements and your funds are letting you down, it could still make sense to consolidate.

You may still have ten or fifteen years to go, and consolidation now gives you the added benefit of having all your money in one place for the purpose of buying an annuity or putting your money into income drawdown.

There are advantages to consolidating your pensions, but there are also pitfalls. The most suitable course of action may depend on what kinds of pension you have and how long you have until retirement.

WANT TO DISCUSS CONSOLIDATING YOUR PENSIONS?

If you're considering consolidating your pensions, it's important to weigh up the benefits and drawbacks. Pensions and tax rules are complex, and normally it is not possible to recover your original pension arrangements if you change your mind. To discuss your situation and ensure that you don't lose any valuable benefits, please contact us.