Should you move your money?

Few people have a job for life these days and neither do they keep all their savings with one provider. This has had an impact on our retirement savings. Rather than having a single pension pot, most of us now have a number of different company pension schemes and private pension plans.

So should those approaching retirement consolidate these savings plans? Below we look at the factors you should consider before deciding whether to move your money.

Reasons to move

There are a number of good reasons to consolidate your pension accounts. However do not switch any pension plan without first checking what benefits you might lose (see next page for more details).

- **Poor performance**

  There's no escaping the fact that many older personal pensions have performed dismally for investors.

  This is a particular problem for many older 'with-profits' pensions. Many insurance companies have now closed these funds, and sold them on to other managers. Most are now invested very cautiously to ensure that these funds can afford the expensive guarantees that were given to some investors back in the 1980s and 1990s. In many cases this has had a disastrous effect on their investment performance.

  But poor performance isn't just a problem for with-profits pensions. Investors should check how all their pensions are performing. If returns are minimal then it may make sense to switch, so your retirement savings can continue to grow – though of course no-one can guarantee future investment returns.

  In addition, charges on new pension plans are often far cheaper than these older-style pensions which can also impact returns.

- **Access to flexible withdrawals**

  At retirement, some pension schemes and companies may restrict the amount you can take as a tax-free lump sum, forcing retirees to take the rest as an annuity. Some older company pension schemes might even restrict the amount of tax-free cash you can take to less than the 25% usually available. In order to take advantage of the new pension freedoms – essentially allowing people to withdraw cash from their pension funds as and when they choose – investors may need to transfer these older pension schemes to a new scheme.

  WARNING! These pension funds may be more restrictive, but some may be more valuable than you think (see overleaf). By transferring you could miss out on other benefits including a guaranteed income in retirement. Always seek advice before transferring out of any company pension.

- **Easier administration**

  By consolidating a range of pensions it is easier to see how much your retirement savings are worth and ensure they are invested appropriately. Savers need to think about how much of their retirement savings are invested in higher-risk shares, and how much is in lower-risk investments, such as bonds and cash. These have lower potential returns, but tend to be less volatile.

  If you are looking to take an income from your pension fund this too can be easier to manage if it is all in one account.

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Reasons to stay put

Despite these advantages you shouldn't automatically consolidate all your pension funds. Before authorising any transfer think carefully about whether you stand to lose the following benefits (or other benefits). If you are in any doubt always seek financial advice.

- **A salary-linked pension**
  Most public sector pensions and many older company pension schemes promised staff a retirement income linked to their earnings, rather than the vagaries of the stock market. Even if you only worked for this company for a few years these pensions can still be extremely valuable. Get an up-to-date valuation of what this will pay out, then how much it would cost to buy a similar income with a private pension scheme. Most people will be better off sticking with these generous pensions. Never move out of a salary linked scheme without getting advice first. If your pension is worth more than £30,000 you will have to take advice before you will be allowed to transfer it. Many providers will not accept any transfer from one of these schemes unless you take advice.
- **An inflation-proofed pension**
  Many company pensions promise to raise your retirement income each year, often in line with inflation to varying degrees. Again this is a valuable benefit that is expensive to replace in the open market.
- **Exit penalties**
  Some personal pensions may charge hefty penalties if you transfer or cash them in before your selected retirement date. Find out what penalty, if any, would be charged (ask for a current transfer value which will take this into account). Factor this into any decision. Are the returns or cost savings you'd get elsewhere likely to cover this loss?
- **Pension guarantees**
  Some older personal pensions offer valuable benefits, such as a guaranteed annuity rate. When these were sold annuity rates were much higher than they are today, so this pays a more generous retirement income. In addition, some pension contracts offer minimum growth rates, or guaranteed 'penalty-free' periods. Make sure you know what benefits are attached.
- **Extra tax-free cash**
  Some older pensions written before 2006, mainly company pensions, can pay out tax-free cash using a different formula than the common 25% of a fund. In some cases these can pay out a lot more as a result. Except in limited circumstances, you can lose this benefit if you transfer from the pension.

REMEMBER: Many people may want to consolidate a number of their pension schemes, but always seek expert advice on company pensions – particularly those that pay a salary-linked pension.

Important Information

This information is not investment advice or a recommendation for any particular product, service or course of action. Pension and retirement planning can be complex, so if you are unsure of the suitability of a pension investment, retirement service or any action you need to take, please speak to your financial adviser. The value of investments can go down as well as up and you may get back less than you invested. Eligibility to invest into a pension depends on personal circumstances and all tax rules may change. With pension products you will not be able to withdraw money until you reach age 55.

What to do if you need help?

If you want to discuss your retirement options please speak to your financial adviser.

Alternatively Pension Wise is a free and impartial government service that helps you understand your pension options and is available online, over the phone or face to face. Find out more at **pensionwise.gov.uk**

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