# FINANCE UPDATES

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CAMPBELL & McCONNACHIE

chartered financial planners

# TRACKING AND CONSOLIDATING YOUR PENSIONS

Should you transfer or consolidate funds?

Around £19.4 billion has not been claimed in 1.6 million lost or forgotten pension pots, according to the Association of British Insurers (ABI). On average, that's about £13,000 per pension pot.

The ABI claims providers are attempting to reunite people with their lost pension plans by sending letters to their address, but just one in 25 notify their provider when they move home.

This makes it more difficult for those affected to track down their lost pension pots. Other than notifying your provider when you relocate, what else can you do to track lost pots?

## KEEPING TRACK OF YOUR PENSIONS

You may have a number of pensions that you have lost track of over the years, particularly if you've moved house since signing up with them or changed jobs.

Even if you do not want to consolidate your pensions into one pot, it's really important housekeeping to make sure that each scheme has your current details.

Don't wait until it's time to draw your pension to get in touch with your provider. Your pension fund could be losing value because of high charges or poor performance and you won't even know about it unless you're in contact with them.

Through the Government's pension tracing service, you can enter the name of your former employer and receive contact details to reunite you with your lost savings.

To use the scheme, you will need your National Insurance number, date of birth, and other information to prove your identity, such as when you worked for the employer, or the address you had at the time.

Don't be put off if you haven't got all of these details – providers are used to helping people trace their pensions with incomplete information. But the sooner you act, the easier it will be.

## FIND OUT KEY INFORMATION

The most important thing to understand is whether or not your pension is a defined benefit scheme.

Defined benefit schemes mean you are guaranteed a certain pension value (usually a percentage of your final salary) when you eventually retire.

In most cases, it is a bad idea to withdraw from these schemes because the scheme has to pay you the amount you're entitled to, regardless of what happens to the underlying funds.

Your old employer or scheme may approach you about a buyout of your entitlement to a pension. You may get offered a temptingly large sum of money to agree to it, but always seek independent advice before committing to anything.

If your pension is not a defined benefit scheme, the amount you get at retirement depends on how much you have saved and how much the fund has grown.

With that in mind, you need to know the following about each of your schemes:

- What management charges are being levied?
- How is the fund performing?
- Are there any exit charges to move your pension elsewhere?
- Will you lose any additional benefits or guarantees to your scheme by moving it?

## ANNUAL FEES AND OTHER CHARGES

Your pension provider will charge an annual management fee, which can be a fixed fee or a percentage of the value of the pot, or a combination of these.

It's a requirement for modern workplace pension schemes to have low charges for their default funds, but older schemes may have higher costs.

It's also not uncommon for fees to be low while you are actively contributing to the scheme only to increase once you stop, which is one potential reason to move money from an old scheme into one you're still contributing to.

There may be additional charges for services, such as switching funds within your pension scheme.

## FUND PERFORMANCE

Pension schemes are required to inform you about how your fund performs. Despite various efforts to simplify these disclosures over the years, they can still be hard to interpret.

Remember that pension funds can fluctuate in value, particularly at volatile times like these, and the aim is for long-term growth.

So, if you are looking at the performance of funds up to spring 2020, it is likely that most will have taken a hit because of the stock market crash triggered by COVID-19. However, this doesn't necessarily mean the fund is badly managed or will provide a poor return in the long run.

Fund performance and charges should be looked at together and what sounds like a small difference has a big impact over time.

For example, if you have £10,000 in a fund with a 4% return and a 2% charge, the value of that pot is just over £12,000 after 10 years. On the other hand, if the fund has a 5% return and a 1.5% charge, that pot will be worth just over £14,000.

## EXIT CHARGES

In most cases, company-provided pension schemes that were started in the 1970s, '80s, and '90s, come with large exit charges if you want to move your money elsewhere.

These charges might outweigh savings in management fees, as they are often calculated on the basis of future management charges that you are due to pay if you stay in the scheme.

Exit fees are capped from the age of 55, so it may make sense to revisit this decision the closer you get to retirement.

Most new schemes do not have these charges, following a ban put into place by the Financial Conduct Authority.

New rules mean that platform exit charges, for those platforms that levy them, will soon be banned as well.

## OTHER BENEFITS

It's possible that one or more of your existing schemes may offer other useful benefits, such as the ability to draw down more than 25% of your pension pot tax-free.

Or you might be lucky enough to have a guaranteed annuity rate built into the pension contract, in which case it's unlikely to be in your best interests to leave the scheme.

We can help you review your existing pension arrangements to see if they are delivering the best set of benefits for your personal circumstances.

## TO CONSOLIDATE OR NOT?

There is no one-size-fits-all answer to this question. The decision will depend on your existing pensions and any high charges, whether investment or administration.

If you move some or all of your pensions to a different scheme, you may be able to achieve a better return and/or lower fees. You'll also find it easier to manage your pension in future.

On the other hand, pension schemes (particularly older ones) can come with hidden benefits and painful exit costs, so any decision to move money out of a plan should be taken carefully.

The earlier you take steps to maximise your pension fund earnings, the better the return. Don't let your hard-earned cash languish in low growth, high-fee pension funds.

## IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to change in the future. Pensions eligibility depends on individual circumstances and pension benefits cannot normally be taken before age 55.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation. You should not make any pension decisions based on its content.

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