HB Dobbin
FINANCIAL PLANNING

CONSOLIDATING YOUR PENSION POTS INTO ONE

What you need to know.

During your working life, you may want to find out exactly how much you have in your pension savings so you can start managing them more effectively.

But if you've worked for several different employers over the years, you might have built up quite the collection of different pension pots and schemes. You may have a personal pension, especially if you have been self-employed before, which can make evaluation a hassle.

Consolidating your pension pots into one could be the solution for you. Working out whether you should combine all your pension pots will depend on a range of factors, including the type of pensions you have, how much they are worth and how well they are managed.

WHY YOU SHOULD COMBINE YOUR PENSION POTS

There are a wide range of reasons why you might want to consolidate your pensions.

First, you may be able to save money by combining pensions.

Every pension pot you have will be managed separately, having its own annual management fees as a result. Some of these may be higher than others.

Combining your pots into the one with the smallest management fees can reduce this kind of waste very effectively.

Second, you can nurture better growth for your pension savings through consolidation, especially if you notice that one of your pots has routinely outperformed all the others.

Of course, you need to remember that past performance does not guarantee good performance in the future, so make sure to talk to an expert as you usually would when investing.

And of course, it's easier and more convenient to keep track of your savings if you keep everything in one pot.

After all, 'checking' a pension fund means more than just checking the balance each year. You will also want to make sure you're invested in the right fund for your risk profile, which will change as you get nearer to retirement.

It also ensures that you never forget or lose a pension pot, whether it holds a large or small amount of money.

ARE THERE REASONS NOT TO COMBINE YOUR PENSIONS?

Typically, consolidating your pensions can be a wise move, but there are some circumstances in which it isn't necessarily the best option.

For instance, consolidating might not be in your best interest if one or more of your pensions are final salary pensions.

Otherwise known as 'defined benefit', these pensions provide a guaranteed income for life, which is extremely valuable during uncertain times.

The income would not be affected by stock market falls, provided the scheme remains viable, and you should be protected against scheme failure by the pension protection fund.

Therefore, they are valuable pension pots with guaranteed benefits that you might want to think twice about getting rid of. If a pension with these benefits is worth more than £30,000 it is a legal requirement to take advice before you can transfer it.

The same is true for pension schemes with a guaranteed annuity rate (GAR), which may enable you to buy an annuity with a much higher annual income than you would otherwise be offered.

The trouble is that it often isn't clear on your pension documentation whether or not you have a GAR, but your adviser should be able to easily check for you. There are also other valuable 'safeguarded' pension benefits which your adviser can check for.

Lastly, if you're thinking about combining your pension pots into one, you need to know whether there are any penalties for transferring.

To do this, check to see whether your pension's transfer value is the same as its current value. If it is lower, this may be because there are penalties for transferring. Your adviser can check the nature of the penalties and whether they can be removed.

PENSION DASHBOARDS

Fortunately for people who want to better understand all the savings they hold in a variety of pots and schemes but don't want to transfer, pension dashboards may be able to help in the future.

They are back on the agenda following the publication of draft legislation from the Department for Work and Pensions and proposed rules by the Financial Conduct Authority.

The dashboards aim to bring together an individual's entire pension data in one place, in a similar way to online banking.

They will allow savers to access a real-time total of all their pension savings, hopefully helping them plan more effectively towards securing a comfortable retirement without having to consolidate their pensions.

And, with all your data in one place, no pension schemes will go lost and forgotten as you develop your career.

However, the first generally accessible pension dashboard won't be available until mid-2024, while the rest won't be rolled out until at least 2026.

WHERE AND WHEN YOU CAN COMBINE YOUR PENSION POTS

If you have decided to combine your pension pots, you need to know where and when exactly you can transfer your money.

First, you can usually transfer pensions to another pension provider, whether that's a new employer's workplace pension or a personal pension you've set up yourself.

Second, you can typically transfer your pension pots at any time before you begin taking money from them, although there may be restrictions in some cases. Sometimes, you can transfer even after you've started taking money from a pension.

HOW TO CONSOLIDATE YOUR PENSIONS

First, find out your transfer value, which is the amount you have in your pension pot. You can do this by contacting your scheme administrator or pension provider, who will provide:

- your transfer value
- details of any extra benefits you built up under the scheme
- any exit charges that might apply
- information that your new scheme will need if you transfer

To start the process, you need to apply to the pension scheme that you want to transfer to, which is usually done online.

Your new potential provider will then contact your current one to arrange the transfer. For defined benefit and safeguarded pensions worth more than £30,000, you will have to take advice before being allowed to transfer.

In some cases, your existing provider or scheme administrator may need you to send them forms to help them check what they need before they begin the transfer and avoid any delays.

If you transfer to a new pension scheme, your administrator or provider must move your pension across within six months from the start of the transfer process, assuming all the necessary steps have been taken and the documentation is in place.

Talk to us about your retirement