

Unite your old pensions

Outline

A report published by the Pensions Policy Institute in October 2024 estimates that more than £31 billion of consumer pension assets are ‘lost’, with 3.3 million pots not matched to their own-

ers. This factsheet explores how to trace old/lost pensions, and explains why combining them into one plan often delivers considerable financial and non-financial benefits.

Tracing old or lost pensions

Most people change jobs several times over the course of their career, and they usually join a new pension scheme with each move. According to the Department for Work and Pensions, people in the UK work for 11 employers on average during their working life, while a quarter work for more than 14 employers.

Pension schemes typically supply annual statements, so reviewing your old paperwork, if you have it, is a good place to start. Those who have a personal pension can contact their provider. For those with workplace pension schemes, contacting your former employer is usually the first step.

Many people leave old pensions untouched, and may even forget about them as they move on to their next role, or change addresses and lose touch with annual correspondence from providers. Pen-

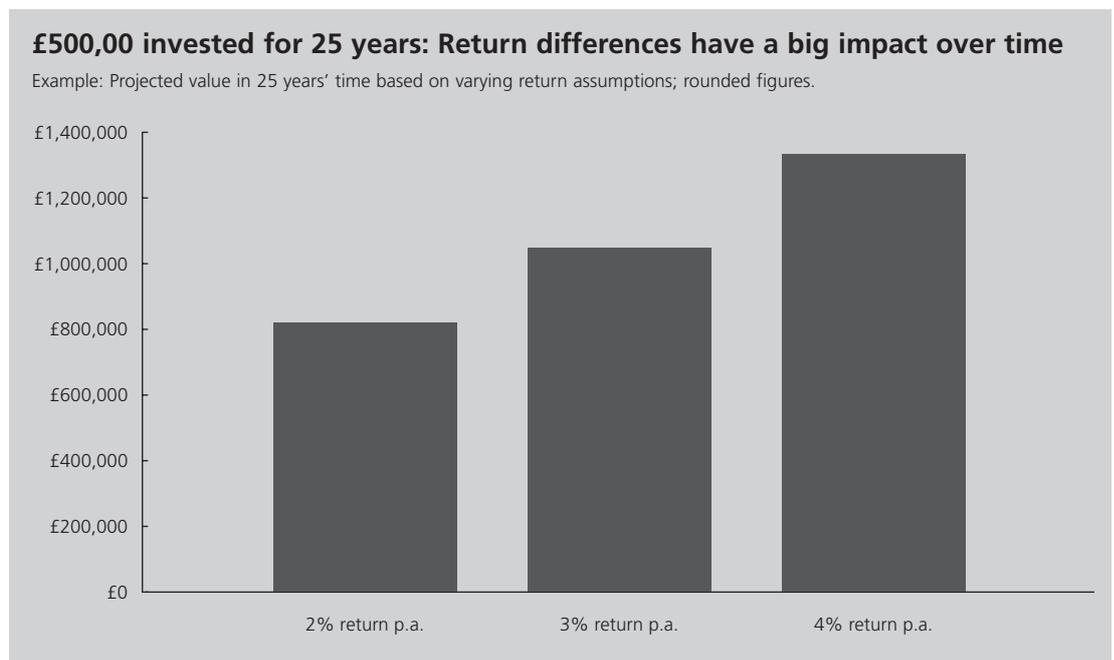
The government’s Pension Tracing Service can also be used to help you track down provider contact details for an old workplace or personal pension scheme. To use the free service you can visit www.gov.uk/find-pension-contact-details.

Getting the right asset allocation

Returns naturally vary from year to year as markets go up and down. But as a general rule of thumb, long-term returns will depend on the level of investment risk taken. Older workplace pensions are likely to have differing asset allocations, some of which may not suit your investment aims. For example, one or more pension pots could contain an overly defensive asset split. Combining pensions into one consolidated plan allows you to take the level of risk that’s right for you.

If you can afford to take more risk, your pensions have greater potential to grow. A 1% difference in expected return could mean missing out on tens or hundreds of thousands of pounds in the long run, as the chart below shows.

Conversely, if you’re approaching retirement and looking to reduce your investment risk, having one consolidated pension plan allows you to easily address your asset allocation.



Combining pension pots will also typically allow you to access a wider range of investment options

than those that are available with many workplace schemes.

Increased control and easier administration

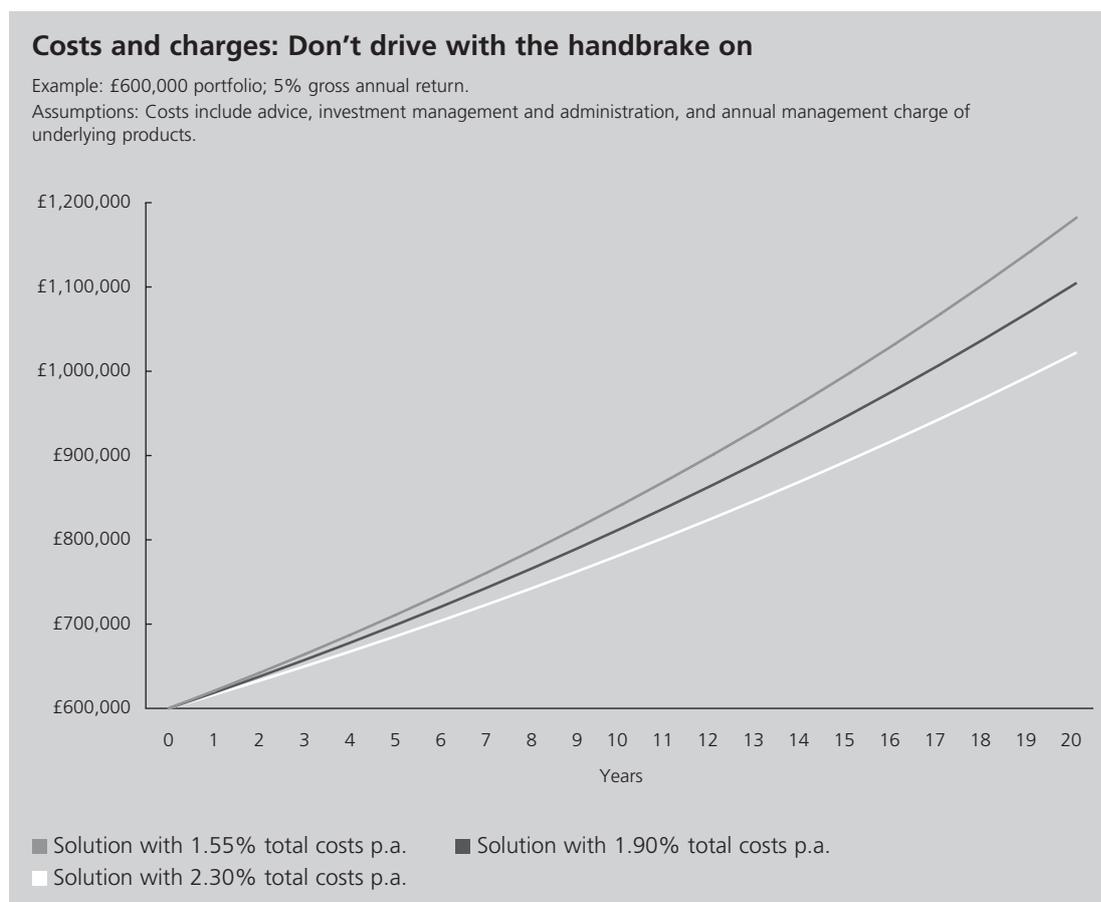
Having your pensions all in one place means less paperwork (annual pension statements from providers), which lessens the administrative burden that results from multiple schemes. Combining your pensions could also give you greater buying

power should you wish to use your pension assets to purchase a lifetime annuity. It's also far easier to track how your investments are performing, and consequently to ensure that your retirement provision goals are being met.

Reduce costs and charges

Management fees eat into returns. By combining your pensions, you may be able to save a substantial amount on administration charges/fees, and increase long-term returns through the effect of compounding (the 'snowball effect'). Just a small percentage difference in annual charges can have a major impact on your overall returns over a long

period of time. The chart below highlights the effect higher charges can have on an investment portfolio. After 20 years there is a £160,000 difference between the lowest-cost solution with annual fees of 1.55%, and the highest-cost solution with 2.30% fees.



Ease of access/ flexibility

Older pension schemes are typically less flexible when it comes to accessing your money when you hit retirement age. Schemes established before 2015, when pension freedoms for defined contribution plans were introduced, may not offer flexi-access drawdown.

older pension (or pensions) in order to benefit from income drawdown.

Flexi-access drawdown allows you to take 25% of your pension as a tax-free lump sum once you reach pension age (this is currently 55, but will rise to 57 from April 2028). You can leave the rest invested and draw from it as and when you require. You may be better off transferring out of an

People who are still working often use flexi-access drawdown to access the tax-free cash at 55 and pay off a mortgage/loan, without touching the taxable element. Drawing from the taxable element, in combination with your current wage, could mean a higher income rate tax threshold (40% for higher rate taxpayers, or 45% for additional rate taxpayers). Flexi-access drawdown also allows you to vary year-to-year income for tax efficiency, which purchasing an annuity does not.

What to watch out for

Combining your pensions won't be the right option for everyone. There are a number of things to look out for, which may mean you're better off staying in your existing pension scheme/schemes. These include:

Existing benefits – Previous workplace schemes may have valuable benefits, including guaranteed annuity rates (plans offering guaranteed annuity rates are typically from the 1980s and 1990s, when rates were much higher than they are today); scheme-specific lump sum protection (that

may entitle you to more than the standard 25% tax-free lump sum); or a protected pension age that allows access before you turn 55.

Exit fees – Many people will be able to save money on administration charges by uniting their pension plans, but you should weigh up the difference between your annual cost savings on administration fees against the cost of exit fees. Exit fees depend on your provider, but can be large in certain circumstances.

Checklist

- Have you traced all your old pension schemes?
- Are asset allocations in your pension pots in line with your investment horizon/goals?
- Are you able to easily track how your investments are performing?
- Can you combine your schemes to cut down on excessive costs/charges?
- Do your older pension plans offer flexi-access drawdown/ease of access?
- Do your older plans have any valuable benefits that you would lose out on if you transferred out of them?

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