Drewberry

Making sense of

pension consolidation

COVER excellence AWARDS

Protection Review FINALIST 2014

Protection Review FINALIST 2015

Rated 4.9 / 5 by our clients on the independent review site Reviews.co.uk

REVIEWS

Welcome to Drewberry

Drewberry Wealth is a thriving advice business that aims to guide clients through every stage of their financial lives. We have a passionate team of financial planning experts in our London and Brighton offices, each of whom is focused on making a difference for our clients.

Tom Conner
Director

We set out to provide the highest levels of customer service in our industry and have more five-star reviews than virtually any other adviser in the UK. No less than 98% of our clients say they’d be happy to recommend us.

We run one of the top-rated personal finance websites in the UK and are frequently quoted as experts in our field by the national press.

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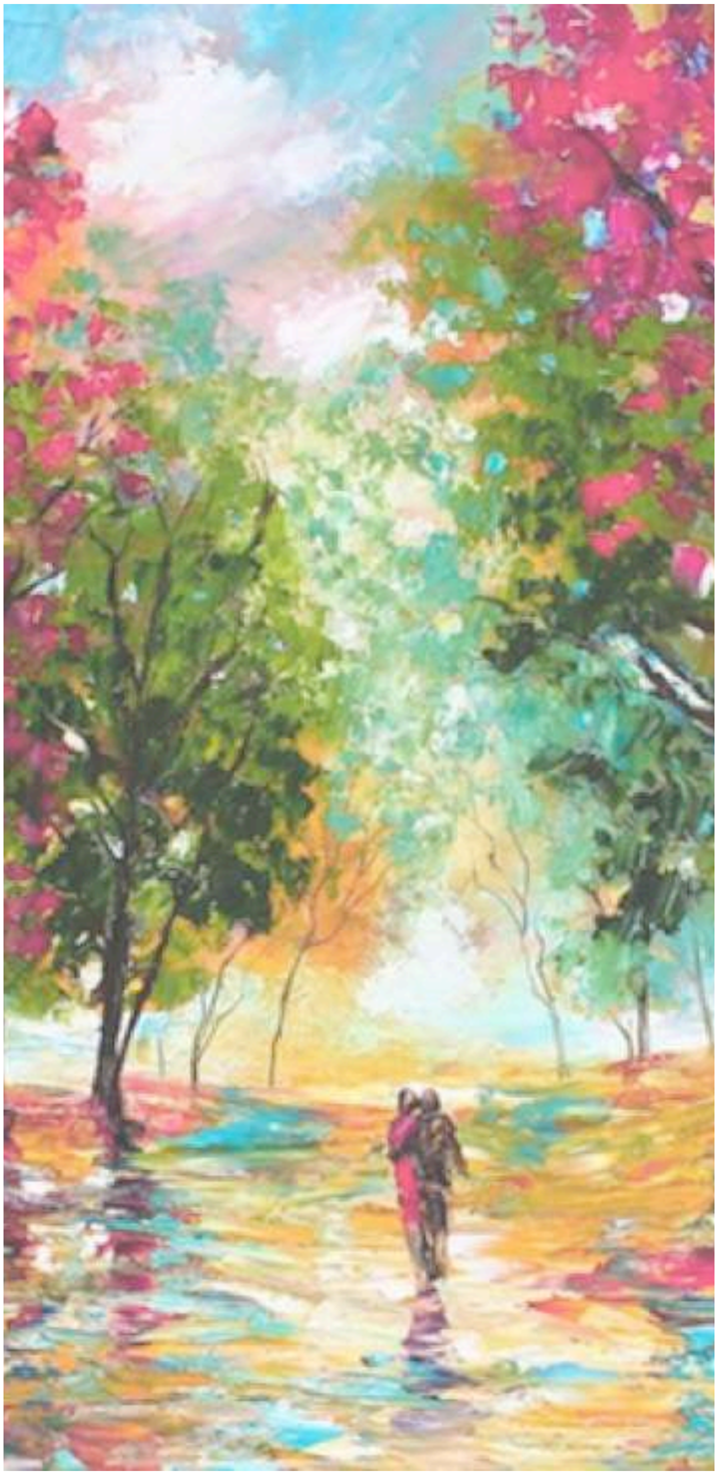

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Making sense of pension consolidation

How Drewberry can help

At Drewberry Wealth we have experts in all aspects of pension investment and planning.

Because we analyse your pension assets alongside your future income needs, your financial ambitions and those of your family, we can create modern, flexible pension arrangements that are tailor-made to your unique needs.

Unlike a great many financial advisers, Drewberry Wealth is fully certified to conduct pension transfer business and, thanks to our expertise, we're often asked to provide our views on all aspects of pension planning to the national press.

Whatever your circumstances, we can help ensure that you make the most of your hard-earned pension savings

This can include:

- Locating and valuing all of your pension savings;
- Consolidating your existing pension arrangements into one cost-effective portfolio that's invested to optimise returns within your risk tolerances;
- Analysing if a pension transfer would be in your best interests based on the latest transfer value, your attitude to risk and your other retirement assets;
- Creating and managing modern income drawdown solutions that are individually tailored to your unique circumstances; and
- Building an efficient programme of pension savings that makes the most of your pension allowances including 'carry forward'. (This is especially important for higher earners who may now have lost a large part of their annual pension allowance).

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Getting a grip on your pension

It's almost 30 years since the arrival of the personal pension but there are still far too many Britons who've simply failed to engage with the idea of retirement planning

Currently, there's around £3 billion languishing in the two million or so lost private pensions that the UK pension industry knows about. Meanwhile, millions more Britons continue to pay high charges on older-style personal pension contracts or are stuck in work-related schemes that seriously limit their investment choices.

The simple truth is that the great majority of us still know a lot more about what our homes are worth than what's happening to the money that we're planning to live on for the last 40 or so years of our lives!

All this means that a great swathe of Britons could be far better off in retirement if they take the time to consolidate their various pension savings into one modern, streamlined pension portfolio.

Bringing it all together

The average Briton has 11 different jobs during their lifetime. This means that some of us could have accumulated a dozen or more different pension contracts over the years.

Depending on when you started work, some of these could even be 'gold-plated' final salary pension schemes, which are currently worth more in terms of transfer values than at any point in their history.

There are some 6.75 million[1] or so Britons who are lucky enough to have deferred final salary pension rights of some kind and the transfer values now being offered for these have never been higher.

[1] Royal London, data correct as at March 2015. Sources: Purple Book (December) 2015 & LGPS Annual Report 2015.

Consolidating your pension: the benefits

There are a number of attractions to consolidating your existing pension savings into one modern portfolio

The first major attraction is that it's an opportunity to track down all of your various pension savings from across the years and to put them somewhere you can see them all at a glance.

In most cases, this will reduce the charges you're paying on your pension – charges that inevitably diminish your savings year after year.

Consolidate to accumulate

Moving to a modern pension wrapper such as a self-invested personal pension (SIPP) will also increase the investment choices on offer.

This should help boost returns over time while enabling you to monitor performance and adjust your positioning far more easily than if your pensions are gathering dust in a range of different old contracts.

Investing your pension pot as a single portfolio will also be much more efficient in terms of diversification and managing the risks to which your savings are subject. You're also likely to generate a higher level of income by investing your pension pot as a single portfolio.

Lastly, it also means that, when the times comes, you'll be much better positioned to take advantage of modern pension options such as income drawdown or the rights conferred by the new 'pension freedoms' introduced in 2015.

Consolidating your pension: the benefits

Time to transfer

In most cases, consolidating your pensions into one lean portfolio that's invested in line with your financial ambitions and your personal risk tolerances will mean you need to transfer your existing pensions into a new pension wrapper such as a SIPP.

Ask a professional…

"Don't just settle for the first pension adviser you find. Talk to a few to find one that you feel you can work with. You could find yourself working alongside them for years as they'll be best placed to review your pension regularly and to help you build it into an asset that will last for the rest of your life and beyond."

Remember pension transfers, especially transfers from final salary pensions, are a complex and nuanced process. So much so, that's it's now a legal requirement to seek professional advice (for which you'll pay a fee) on any final salary pension transfer of over £30,000.

Transfers from money purchase arrangements such as older personal pension arrangements are more straightforward.

Show me the money (purchase)

In most cases, a more modern pension wrapper such as a personal, stakeholder or self-invested personal pension (SIPP) will offer lower charges and a far wider array of investment choices. So you'll be better off putting all your old pensions into one easy-to-manage portfolio.

The situation is a little more complex if you're transferring old-style pension arrangements (such as retirement annuity contracts), as these may include additional benefits such as a guaranteed annuity rates. The value of these promises will need to be calculated before making any decision about a transfer.

In either event, it makes sense to find a qualified adviser to explain your options and illustrate how charges and investment performance will impact your pension pot.

They can also take care of all the paperwork along the way.

You can work out how much your future pension pot might be worth, how long it will last and whether you're likely to leave any of it behind for your loved ones with Drewberry's free Pension Pot Calculator.

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Understanding pension transfers

A transfer could prevent your pension savings from 'going to seed' in expensive old contracts with limited investment choice

There are numerous different types of pension contract that can be 'cashed in' and transferred to a more modern personal pension arrangement.

These include stakeholder pensions, personal pensions (and SIPPs), retirement annuity contracts (RACs), additional voluntary contribution plans, executive pension plans (EPPs) and pensions that might already be in income drawdown.

Importantly, the list also includes any old work-related schemes you might have belonged to over the years including money purchase and final salary arrangements.

Don't fly solo

There are a number of things to keep in mind when considering transfers of this type although probably the main one is not to attempt the exercise without a reliable professional adviser.

Very few of us know enough about the pension regime to make it worth attempting such an exercise on our own.

And without a professional adviser you'll have no recourse should you find that, for whatever reason, your pension choices aren't appropriate for your needs.

Understanding pension transfers

There are two main kinds of pension transfer that can be used to consolidate your existing pension savings.

Transfers from money purchase (defined contribution) schemes

For those with existing money purchase arrangements, such as personal pensions or workplace schemes, the new 'pension freedoms' coupled with the opportunity to reduce charges and improve investment options mean that there's never been a better time to review your existing arrangements.

To these investors, the new rules present a great opportunity to bring all their existing pensions together into one, easy to monitor portfolio that can be managed from a single screen.

It also positions them to take advantage of important pension options such as income drawdown or the ability to pass along their accrued pension wealth to their chosen beneficiaries in the most tax-efficient way.

Transfers from final salary (defined benefit) schemes

The impact of the new pensions freedoms is greater still for those with deferred final salary scheme rights. Historically, the 'best advice' for the great majority of those with final salary benefits has always been to keep their pensions where they are.

This is because final salary pensions promise to deliver an income for life that's based on your final salary and years of service and that's often linked to inflation. Not only are these arrangements generous by today's standards, the investment risk that accompanies the provision of this income resides with your former employer, not you.

This explains why they've often referred to as 'gold plated'.

However, the combination of the new pension freedoms introduced in 2015 and the highest final salary transfer values of all time, mean that a far greater number of those with final salary scheme benefits could now find themselves better off by transferring to a money purchase arrangement.

There are 6.8 million Britons with a deferred final salary pension. The easiest way to learn whether your old scheme is offering a good deal on a potential transfer is to use [Drewberry's Final Salary Calculator].

The risks of a pension transfer

It's important to keep in mind that transferring pension benefits from a previous employer's scheme comes with some risks

The grass isn't always greener

Final salary pensions are nicknamed 'gold plated' for a reason. They promise to pay a fixed (often index-linked) lifetime income with your former employer bearing all the risks.

The combination of the new pension freedoms and the record transfer values that are now on offer have tipped the scales for many people, but whether a transfer of a final salary pension makes sense for you will depend on your circumstances.

The same is true for those who may be considering a transfer of old-style personal pensions. Some such schemes offer valuable additional benefits such as guaranteed annuity rates. This means you need to be sure of what you might be giving up before proceeding with any transfer.

Likewise, many older pensions that offered access to 'with profits' funds may still include some (albeit modest) measure of guaranteed returns.

Sting in the tail…

On top of this, there can sometimes be exit or transfer penalties to consider, which will reduce the value of your pension pot.

Even so, the long-term nature of a pension means that the opportunity to benefit from lower on-going charges will usually make it worth suffering transfer penalties in the short term.

Finding the right wrapper

There are a number of options for those who want to consolidate their old pensions into one modern pension wrapper

For those old enough to have accrued a number of different pension entitlements, in most cases a modern self-invested personal pension (SIPP) will make the ideal 'wrapper' in which to consolidate your retirement savings.

Thanks to healthy competition, SIPPs tend to be highly competitive when it comes to charges.

Other options

You could also consider a personal or stakeholder pension.

Stakeholder pensions are held out to be the cheapest pension wrapper with charges that are kept low by law. In reality, some SIPP contracts can be just as competitive on charges.

Even so, stakeholder contracts generally offer a scaled down version of the investment choice and flexibility offered by SIPPs.

Importantly, they're also the only type of pension contract that can't refuse to accept a pension transfer. (This may prove useful, as a number of major SIPP providers have now made it clear that they'll only accept transfers that are accompanied by an adviser recommendation in favour of the transfer).

The simple rule is to make sure you're not paying extra for additional investment freedoms (such as share trading or commercial property investment) that you don't need.

Finding the right wrapper

You may not need another new pension contract if one of your existing policies:

- Will accept transfers;
- Is competitively priced;
- Offers a decent range of investments; and
- Allows you to make use of modern flexi-access drawdown.

Transfers to your current employer's scheme

Many people will also have the option of transferring their old pension savings into their current employer's workplace pension scheme.

It's a useful way to keep your pension pot in one place and it might offer lower charges than a private pension arrangement.

Whether you transfer to your new company scheme or to a personal pension arrangement of your own, the Drewberry Pension Pot Calculator can show you how much your pension will be worth in the future, the income it will deliver and how long it's likely to last.

Talk to a Drewberry Wealth adviser today on 0208 432 7333

Nice work, if you can get it…

In the unusual event that your employer offers a final salary scheme that's still accepting transfers, your transfer value could be used to buy additional years of service. This is an increasingly rare but highly effective way to accrue a secure pension entitlement.

This can be a very efficient way to build up your pension pot during what's called the 'accumulation' phase.

Ask a professional…

"Your pension arrangements are as individual as you are. That's why you need to find an adviser who can show you all the options and who can build a portfolio that's tailor-made to your needs."

However, you may find that, in order to take advantage of the pension freedoms and options such as flexi-access drawdown, you still need to conduct a transfer from your work scheme when it comes time to draw your benefits.

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Making lemonade…

Recent years have seen the self-invested personal pension (SIPP) evolve to become the ideal way to turn a selection of old pensions into a sparkling new portfolio

If you're looking for a way to bring all of your various pension savings together into one low-cost, tax-efficient wrapper that you can manage from a single screen, then a SIPP is probably the answer.

SIPPs can include an enormous range of investment funds, ETFs, individual share holdings and property assets as well as more esoteric investments (such as derivatives, currencies, gold or other commodities) if the need arises.

The 'do-it-yourself' option

It helps to think of a SIPP as a 'DIY' personal pension.

Like any sort of pension, you make contributions during your working life and the 'pension pot' you build up can then be used to provide you with both income and tax-efficient lump sums from the age of 55.

Making lemonade…

In reality, the differences between a SIPP and a standard personal pension are relatively small. SIPPs can include a far wider range of investments than a personal pension but they still require you to decide where and how much to invest and to ensure that you're contributing enough to meet your financial ambitions down the road.

This is really no different to a personal or workplace pension although these generally offer default investment options for those unwilling or unable to select their own funds.

Remember, with a SIPP or a personal pension you need to reclaim higher-rate tax relief via your tax return or by contacting HMRC directly. Additional-rate taxpayers must claim via their tax return.

Keeping costs contained

What you pay each year for your SIPP will depend on how often you trade or make use of the other chargeable services offered by your SIPP provider.

However, in general, a SIPP is likely to cost far less each year than a collection of 'old-style' personal pensions that are run by insurance companies.

Choosing your investments

There's limited benefit in transferring your old pensions into a SIPP unless you can then invest your pension pot in a way that's suited to your financial ambitions.

Fortunately, advisers like Drewberry Wealth offer ready-made SIPP portfolios that are made up of the best performing professionally managed funds in their sector. Such portfolios are designed to optimise the level of return you can expect for a level of risk that suits you.

They can provide a great leaping off point for those who are uncomfortable picking their own funds or for those who want to delay picking up the reins on their portfolio until later down the road.

The 'Top 5' reasons to consolidate

1. It can put a lifetime of pension savings into one easy-to-access portfolio

There are over two million lost pensions in the UK and probably three times as many that have been left to 'go to seed' in expensive old-style pension contracts with limited investment choice.

Consolidating your pensions is the first step to finding any lost pension rights you may have and putting them all where you can see them

2. Diversification and freedom

By consolidating your pensions into a modern pension wrapper like a SIPP you can invest far more freely and diversify your investments in line with your personal risk tolerances.

Unlike many old-style personal and work-related pensions, the investment choices within a SIPP aren't restricted to a list of preferred or in-house funds offered by the pension provider.

A decent SIPP will allow you to pick and choose from a galaxy of professionally managed funds and to invest directly in shares, commercial property and more esoteric investments (subject to certain rules).

3. Lower on-going charges

The advent of the stakeholder pension and growing competition between SIPP providers has forced the charges on modern pension contracts to new lows.

This is significant as the cost of investment, dealing and contract charges are the single largest drag on long-term investment returns.

4. The chance to take advantage of the new 'pensions freedoms'

Consolidating your pensions into a single, low-cost portfolio within a modern pension wrapper means you'll be able to take advantage of the latest pension freedoms such as flexi-access income drawdown or the ability to draw tax-efficient lump sums whenever the need might arise.

5. The chance to improve investment performance

Naturally, pooling your pension savings into one well-diversified, low-cost portfolio that can access the best funds in the market greatly increases the likelihood of improved investment returns.

Similarly, you're likely to generate a higher level of income from a single portfolio than if your savings are spread across a number of different 'old style' personal pensions.

Drewberry Wealth regularly updates all of its 'Making sense...' guides to ensure that we offer only the most up-to-date information available. We've taken every care to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, at the date of publication: 12 June 2017.

The information contained in this guide does not constitute advice and Drewberry Wealth accepts no liability for any use you may choose to make of it. We always recommend that readers seek professional advice before taking any major financial decision.

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