

# PENSION CONSOLIDATION

*Mitigating lost investment opportunities, exposure to undue risk and higher costs*

Most people, during their career, accumulate a number of different pension plans. Keeping your pension savings in a number of different plans may result in lost investment opportunities and unnecessary exposure to risk.

However, not all consolidation of pensions will be in your best interests. You should always look carefully into the possible benefits and drawbacks and, if unsure, seek professional financial advice.

## **KEEPING TRACK OF YOUR PENSION PORTFOLIO**

It's important to ensure that you get the best out of the contributions you've made and keep track of your pension portfolio to make sure it remains appropriate to your personal circumstances. Consolidating your existing pensions is one way of doing this.

Pension consolidation involves moving, where appropriate, a number of pension plans – potentially from many different pensions' providers – into one single plan. It is sometimes referred to as 'pension switching'.

**Pension consolidation can be a very valuable exercise, as it can enable you to:**

- Bring all your pension investments into one easy-to-manage wrapper
- Identify any underperforming and expensive investments, with a view to switching these to more appropriate investments
- Accurately review your pension provision in order to identify whether you are on track

## **WHY CONSOLIDATE YOUR PENSIONS?**

Traditionally, personal pensions have favoured with-profits funds – low-risk investment funds that pool the policyholders' premiums. But many of these are now heavily invested in bonds to even out the stock market's ups and downs and, unfortunately, this can lead to diluted returns for investors.

It's vital that you review your existing pensions to assess whether they are still meeting your needs – some

with-profits funds may not penalise all investors for withdrawal, so a cost-free exit could be possible.

## **FOCUSING ON FUND PERFORMANCE**

Many older plans from pension providers that have been absorbed into other companies may have pension funds which are no longer open to new investment – so-called 'closed funds'. As a result, focusing on fund performance may not be a priority for the fund managers.

These old-style pensions often impose higher charges that eat into your money, so it may be advisable to consolidate any investments in these funds into a potentially better performing and cheaper alternative.

## **ECONOMIC AND MARKET MOVEMENTS**

It's also worth taking a close look at any investments you may have in managed funds. Most unit-linked pensions are invested in a single managed fund offered by the pension provider and may not be quite as diverse as their name often implies. These funds are mainly equity-based and do not take economic and market movements into account.

## **LACK OF THE LATEST INVESTMENT TECHNIQUES**

The lack of alternative or more innovative investment funds, especially within with-profits pensions – and often also a lack of the latest investment techniques – mean that your pension fund and your resulting retirement income could be disadvantaged.

## **SIGNIFICANT EQUITY EXPOSURE**

Lifestyling is a concept whereby investment risk within a pension is managed according to the length of time to retirement. 'Lifestyled' pensions aim to ensure that, in its early years, the pension benefits from significant equity exposure.





Then, as you get closer to retirement, risk is gradually reduced to prevent stock market fluctuations reducing the value of your pension. Most old plans do not offer lifestyling – so fund volatility will continue right up to the point you retire. This can be a risky strategy and inappropriate for those approaching retirement.

Conversely, more people are now opting for pension income drawdown, rather than conventional annuities. For such people, a lifestyled policy may be inappropriate.

### **CONSOLIDATING YOUR PENSIONS WON'T APPLY TO EVERYONE**

The potential benefits of consolidating your pensions won't apply to everyone, and there may be drawbacks to moving your pension plans – particularly so for certain types of pension. It is therefore vitally important to carefully consider all aspects of your existing pensions before making a decision as to whether or not to consolidate.

As well as whether the total size of your pension funds make consolidation viable, issues to take into account include whether your existing pensions have:

- Loyalty bonuses
- Early termination penalties
- Guaranteed annuity rates
- Integrated life cover or other additional benefits
- Final salary pension benefits

*The value of the investments in your pension fund can go down as well as up. Early investment losses can be particularly difficult or even impossible to recover. If your investments fall in value, you may need to reduce the amount of income you withdraw from your fund. If your investments fall in value, or fail to grow sufficiently, you may not be able to withdraw as much income in future. Although endeavours have been made to provide accurate and timely information, Goldmine Media cannot guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough review of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions.*

### **PROFESSIONAL FINANCIAL ADVICE YOU CAN TRUST**

Many people during their career may accumulate a number of different pension plans, and maintaining these separate plans can be laborious and complicated, leading to lost investment opportunities, exposure to undue risk and higher costs. To find out how we could help you, please contact us for further information.