

Everything you need to know about pension consolidation

What is it? How does it work? And should you consider it?



KILLIK & Co

Pension consolidation

If you are trying to invest effectively for your retirement, managing multiple pension pots can sometimes feel overwhelming.

If you have changed jobs several times throughout your career, you might have accumulated workplace pensions scattered across various providers, and you may also have a *Self-Invested Personal Pension (SIPP)*.

Building wealth for your future retirement goals relies heavily on how well you monitor, evaluate, and adjust your pensions to navigate your changing financial situation. As such, keeping track of different providers, investment options, and retirement benefits can make the process more complex.

This is why many investors today consider pension consolidation.

Pension consolidation offers a solution to simplify your retirement planning while potentially improving your financial outcomes. Whether you are a young professional planning early for the future or nearing retirement age, consolidating your pensions could be a valuable step in optimising your retirement savings strategy.

The following pages will reveal everything you need to know about pension consolidation, from what it is and how it works, to the potential benefits and key considerations involved. We explain why the decision to consolidate should not be taken lightly, and how getting professional advice can save you time, money, and ensure you feel confident about your retirement planning decisions.



What is pension consolidation?

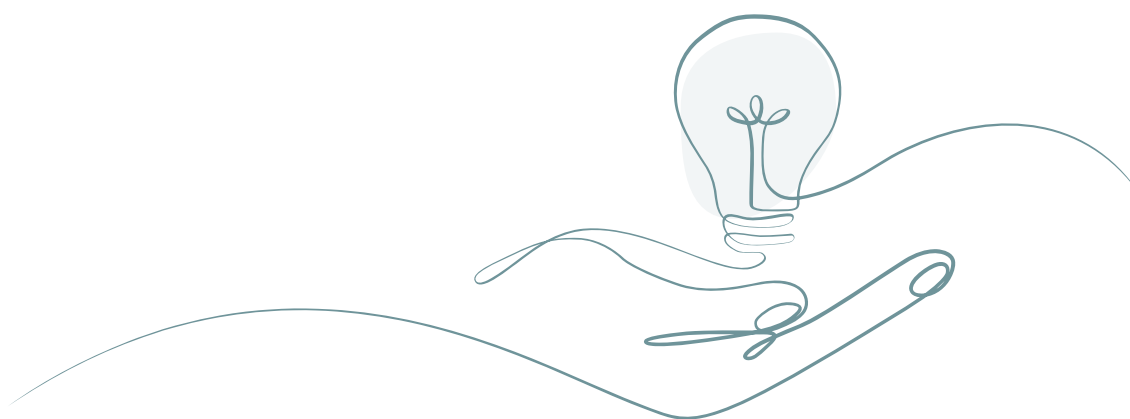
Pension consolidation is the process of combining multiple pension pots into a single pension scheme – typically a SIPP. This means transferring the accumulated funds from various pensions and providers into one centrally managed account.

The main purpose of pension consolidation is to give you greater control and oversight of your retirement savings, where you can more efficiently track your investments and wealth with no need to juggle numerous pension accounts.

You can consolidate several types of pensions, including:

- ✓ Workplace pensions from previous employers
- ✓ Personal pensions
- ✓ Existing SIPPs from different providers

However, it is crucial to understand that not all pensions can or should be moved. Government pension schemes, such as the State Pension, cannot be consolidated. Final salary schemes – also known as defined benefit schemes – typically cannot be transferred without professional advice. If the Cash Equivalent Transfer Value (CETV) of a final salary pension scheme is over £30,000, seeking financial advice is a legal requirement. These schemes offer guaranteed income based on your salary and years of service with that employer, and can provide valuable guaranteed benefits that are extremely rare in today's pension landscape. As such, any considerations for consolidating these pensions should involve financial advice.



How does pension consolidation work?

The process for consolidating your pensions involves several key steps. That being said, when working with **experienced providers like Killik & Co**, much of the administrative burden is handled on your behalf:



Step 1: Gathering information

The first step is to gather comprehensive information about all your existing pensions that you want to consolidate. Ensure you locate your pension statements, understand the terms and conditions of each scheme, identify any special benefits or guarantees, and note any potential exit fees or transfer restrictions.



Step 2: Professional assessment

Before proceeding with consolidation, it is highly recommended that you have your unique situation professionally assessed by an Adviser. Our **Wealth Planning team** provides tailored advice based on your individual requirements, helping you determine the most beneficial strategy for transferring your pension funds into a SIPP to save for retirement. This assessment considers things like your existing benefits, investment goals, retirement timeline, and more.



Step 3: Choosing your new provider

If you have not already, the next step is to select your SIPP provider to consolidate into. You want a provider that meets your investment needs and preferences, offering a diverse portfolio of investment options, a high level of support and advice, competitive fees, and an established provider reputation and regulatory standing.



Step 4: Initiating the transfer

Once you have decided on what you would like to transfer, your new provider will contact your existing providers to begin the transfer process. Our Wealth Planning team can ensure a seamless transfer that is enacted on your behalf, where we handle most of the paperwork and arrange the transfers with your existing pension providers. The timeframe for pension consolidation will vary based on your unique circumstances, the types of pensions being transferred, and the responsiveness of the existing providers.

Things to consider before consolidating your pensions

Before consolidating your pensions, there are several important factors to carefully consider that can ensure you make the right decision for your financial future:

1. Your retirement goals and timeline

Consider how pension consolidation aligns with your overall retirement planning objectives. As with any financial decision, pension consolidation should only be considered if it will help you build your wealth more effectively for retirement, given your future goals, financial circumstances, the retirement lifestyle you desire, or plans for early retirement, for instance.

2. The type of pensions you have

Different pensions come with varying benefits and restrictions. As mentioned earlier, avoid consolidating defined benefit or final salary schemes without special consideration and regulated advice from a professional; these schemes often provide valuable guarantees that cannot be replicated in a SIPP.

3. Existing benefits and guarantees

Before transferring any pensions, conduct a thorough review of any valuable benefits attached to the scheme, and evaluate whether you will be in a better or worse position if you transfer out. These could include guaranteed annuity rates, enhanced death benefits, or special investment options, for example.

4. Transfer fees and charges

Some pension providers impose exit fees when you transfer your pension elsewhere. Ensure you have calculated how much these charges will amount to across all the pensions you plan to consolidate, as they range from nominal administration fees to substantial percentage-based charges.

5. Withdrawal rules and flexibility

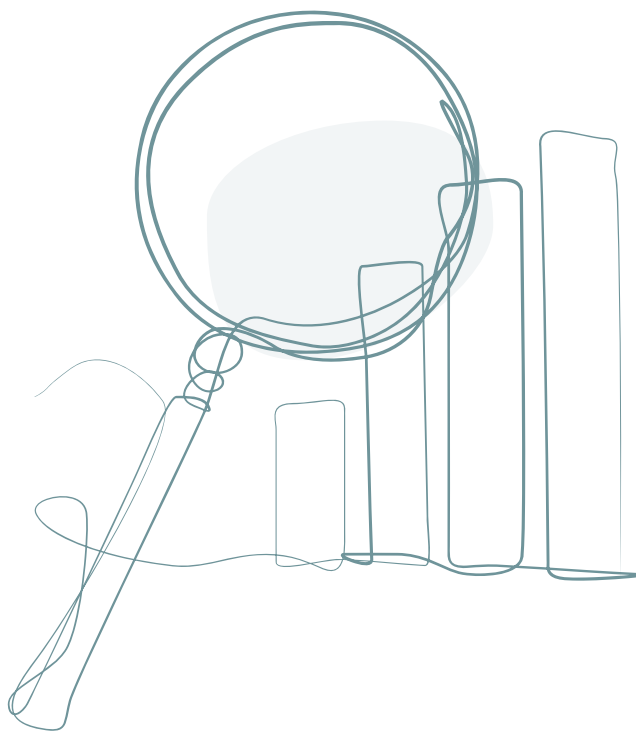
Before consolidating into a new SIPP, review the varying rules about how and when you can access your pension benefits. Some schemes may have restrictions on partial withdrawals or specific rules about how benefits can be taken. Understanding the withdrawal rules for both your existing and new SIPP accounts can help you know exactly what options are available to you.

6. Passing on your SIPP as an inheritance

Inheriting a SIPP follows different rules compared to other types of pensions, and this is something to consider when it comes to passing on your SIPP to your beneficiaries in the future. For instance, a SIPP may allow you to pass the pension directly to a beneficiary, whereas other pensions may only allow for the fund value to be paid out directly to the beneficiary, incurring substantial tax. It should also be noted that the 25% tax-free cash option is not available with an inherited pension, and any funds withdrawn will be taxed as income. Also, if you die before age 75, any withdrawals your beneficiaries make will typically be tax-free, but after age 75, any withdrawals are subject to Income Tax at the marginal rate.

7. Investment transfer options

When consolidating pensions, you will need to decide whether to transfer existing investments "in specie" (meaning you transfer over the actual investment) or to sell them and transfer the funds in cash. When you consider the current economic environment and potential market movements, staying invested throughout the transfer process can have a significant impact on your wealth, rather than removing your position and re-investing after the transfer has occurred. However, it is not always possible to transfer in-specie, and pension companies frequently run their own version of funds which are non-transferable. As such, guidance from an Adviser who *understands the markets* is key.



Is pension consolidation worth it?

The value of pension consolidation depends on your individual circumstances and what position you are likely to be in should you transfer your pensions over. There are several potential benefits and drawbacks to consider:

Benefits of pension consolidation

- **Simplified management** | *Managing one pension* instead of multiple schemes can significantly reduce administrative complexity. It also allows you to track your investments more effectively and more closely monitor market movements when your funds are held in one account. You will also receive a single annual statement, deal with one provider for all queries, and have a clearer overview of your total retirement savings.
- **Broader investment opportunities** | A key advantage of consolidating into a SIPP is that you typically gain a much wider range of investment options compared to traditional workplace pensions. Rather than being limited to a small selection of funds, you can create a personalised investment portfolio with diverse assets tailored to your objectives.
- **Greater retirement flexibility** | Consolidating into a SIPP can generally offer *more flexible withdrawal rules* when you reach retirement. You can typically take benefits as a lump sum, regular income, or a combination of both, which offers greater control over the timing and amount of withdrawals, so you can plan more tax-efficiently for retirement.
- **Death benefit opportunities** | You can potentially pass on your SIPP to beneficiaries in a more tax-efficient way, depending on several factors. Your adviser will work with you or your beneficiaries to determine when to start withdrawals, taking into account things like your age at death and any significant tax implications.
- **New provider benefits** | Your new SIPP provider can offer you different benefits than your existing pensions, which may put you in a better position. For instance, many SIPP providers offer preferential rates and services to clients with larger pension pots, as well as access to exclusive investment opportunities.

Potential drawbacks of pension consolidation

- **Transfer penalties and costs** | Some pension providers impose exit fees that can be significant, particularly for older policies or those with market value adjustments. Make sure you evaluate whether these costs outweigh the benefits of consolidation, especially for smaller pension pots. Also, the ongoing costs of SIPP's can vary greatly and can be much higher than other types of pensions.
- **No performance guarantees** | While a SIPP offers greater investment choice, there is no guarantee that your consolidated pension will perform better than your existing arrangements. The value of your investments can go down as well as up, and you could get back less than you have invested.
- **Loss of return options** | Once you have transferred your pension or even started the process, your previous provider is not obligated to take your funds back if you change your mind. This highlights the importance of the initial decision and the value of professional advice.
- **Increased responsibility** | The greater investment choice in a SIPP also brings about greater responsibility for making investment decisions. While this can benefit engaged investors, it can prove daunting for the less-experienced or those who prefer a more hands-off approach. However, working with a *Wealth Manager* can help you navigate this increased responsibility effectively, since you can choose to delegate control over the day-to-day decisions making to your professional, in line with your agreed objectives.

Ultimately, whether pension consolidation is worth it depends on your unique financial circumstances, including your existing pension types, investment preferences, retirement timeline, and risk tolerance.

When should you consider pension consolidation?

There are several circumstances that can make pension consolidation a particularly beneficial consideration.

If you have multiple small pension pots – maybe as a result of changing jobs frequently and accumulating several small workplace pensions – consolidation can be valuable. Combining these pension pots into a larger SIPP can help you avoid the higher proportional charges that come with smaller workplace pensions.

You may also find that your existing pension providers offer limited investment options, since many workplace pensions offer only a restricted range of investment funds. Therefore, you might want to consider seeking greater investment flexibility or access to specific asset classes by consolidating into a SIPP.



Many investors are also starting to plan for their retirement early, rather than waiting until they are approaching retirement age. Regardless of how far in the future you plan to retire, pension consolidation can make planning and decision-making much simpler. For instance, it is easier to assess whether your current pension pot is sufficient for retirement and to plan your withdrawal strategy when everything is in one place.

Seeking an expert Adviser when consolidating your pensions

Professional advice is invaluable when considering pension consolidation.

An experienced Adviser will thoroughly assess your unique financial situation and provide tailored recommendations that factor in all aspects of your circumstances.

Your Adviser will conduct a comprehensive review of your existing pensions, including the benefits, charges, investment options, and any special features or guarantees tied to them. They will also ensure any consolidations benefit your broader financial situation, including other investments, your income, expenditure, and long-term retirement goals.

Not only that, but the advice process does not end with consolidation. Your Adviser will provide ongoing advice to support your transition into the new SIPP, as well as help you make the most of your new investment opportunities. This includes regular reviews of your investment strategy and market movements, rebalancing your portfolio where needed, and adjusting your approach to navigate life changes as you move closer to retirement.

The goal is to work closely with an Adviser to provide a long-term financial plan that continues to align with your evolving requirements, all the way up until retirement and beyond, not simply to just consolidate.



Start consolidating your pensions today

As we have discussed, pension consolidation can simplify retirement planning while potentially improving investment outcomes.

By combining your existing pensions into a single, well-managed SIPP, you can gain greater control over your retirement savings, access better investment options, and benefit from more flexible withdrawal rules.

However, the decision to consolidate into a SIPP is not right for everyone. You must carefully consider every key component of your financial situation and assess how pension consolidation might impact your position.

If you are considering pension consolidation, *Speak to a Killik & Co Adviser today* to explore the right strategy for your retirement planning and make informed decisions about your financial future.





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