

# WHY AND HOW TO CONSOLIDATE PENSIONS

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In recent years more and more people are taking their pension planning into their own hands and transferring to SIPPs or Self Invested Personal Pensions.

Hargreaves Lansdown launched its SIPP in 2002 and now has more than 146,000 clients managing their own pensions, with thousands more joining every year.

So what is all the fuss about? Why are so many people taking the DIY approach and transferring to SIPPs? How do you get started? How do you actually go about the business of managing your pension yourself and what are the pitfalls to look out for? To help answer those questions I am joined by Alex Davies, Director of Pensions at Hargreaves Lansdown, and Mark Dampier, Head of Research.

But before we get into the nitty-gritty, let's take a look at one client's experience.

Debbie Niven from Newbury, Hampshire, a married mother of three, took out a Hargreaves Lansdown SIPP just over two years ago.

"After I had my children and returned to work, I moved from job to job, doing part-time roles and then working back up to full-time. Along the way I gathered a few work pensions. It was all a bit fragmented and I decided to have them all under one roof. I already used Hargreaves Lansdown for my ISAs, so I went online and opened a SIPP with them, then arranged for all my other pensions to be put into that.

It was very straightforward to transfer to Hargreaves Lansdown. I went on to the website, downloaded an application form, and filled in the details of the pension funds I already had. Hargreaves Lansdown contacted the companies and sent more paperwork for me to sign. That's about as easy as it was, really.

The online system is very easy to use. I like the fact I can view all my investments and move my money into different funds if I am not happy with the way one is performing. I can use Hargreaves Lansdown to get the information about various funds. Before I had to wait for a paper statement from my old pension providers. Now everything is at my fingertips and I can access it any time, day or



SIPP client Debbie Niven

night. All in all I am very happy with the service because I feel very confident my funds are there, they are well looked after, and it's easy to see what's going on."

**This transcript is not personal advice based on your circumstances. If you are unsure about the suitability of an investment contact us for advice.**

## IMPORTANT INFORMATION

The Vantage SIPP is for investors happy to make their own investment decisions, without advice. If you are unsure the Vantage SIPP is right for you, please contact us for advice.

Investments fall in value as well as rise so you could get back less than you invest. Neither capital nor income is guaranteed.

Please remember pensions are long-term investments to fund your retirement; you cannot normally access your money before 55. When you do, up to 25% can normally be

taken as tax-free cash with the balance being made available to provide a taxable income.

Most people can contribute as much as they earn to pensions. A £50,000 annual limit (reducing to £40,000 in 2014/15) and a £1.5 million lifetime allowance (reducing to £1.25 million in 2014/15) also apply. These limits can be affected by other factors.

Whilst the tax benefits we refer to are those that currently apply, they can change over time and their value will depend on your circumstances.

Before you decide to transfer a pension

please ensure you understand how the transfer will be made. Unless otherwise agreed the transfer will be made as cash. Remember you will be out of the market while the transfer takes place. This may work in your favour if the market falls, but if it rises you will not benefit from any growth while you hold cash. Some pension companies levy exit fees or a Market Value Reduction (MVR). You should also check you will not lose a valuable guaranteed annuity rate, guaranteed investment return or any other benefit. Please make sure you will benefit from transferring.

**Q: So Alex, why are more and more people like Mrs Niven taking the opportunity to consolidate their pensions and managing them themselves?**

**Alex Davies:** I think there are lots and lots of people like Mrs Niven, people who suddenly get to a point in their life, a pivotal moment, when they think 'I really need to sort out my pension'. Like Mrs Niven, they generally have got a few pensions dotted around the place: a few old work pensions, a few personal pensions, lots of different statements with lots of information. Probably a lot of it doesn't actually mean much, so it's very hard to find exactly where your money is invested, how it's performing or anything meaningful about it, such as what you are likely to get when you retire.

So people are deciding to consolidate their pensions into SIPPs such as the Hargreaves Lansdown SIPP. Why? Well, you have got much more control. With a SIPP you can see everything in one place: you get 24-hour online access so you can get statements whenever you want, you can change investments whenever you want, you can always see exactly what your pension is worth, and where it is invested. In fact, I was on holiday in Spain recently, sitting on the beach and changing my pension investment. You have much more control, which is really important because it's going to provide you with an income for perhaps a third of your life.

Also a SIPP gives you much more investment choice. A lot of traditional pensions can have limited choice and sometimes these investments don't even perform very well. With a SIPP you can invest in thousands of funds from the best fund managers, shares, investment trusts, and you can put your money into cash when you want. There are choices available whatever your circumstances, whatever stage of life you are at, whatever the state of the economy.

**Q: Mark, do you have anything you want to add to what Alex mentioned?**

**Mark Dampier:** Obviously I agree with Alex. As I'm older, I have had all that before: different pension pots. In fact, if we see it in a wider context, taking into account funds and shares, you have just masses of paperwork. One of the things I always say to people is that you can talk about funds until you are blue in the face, but you have actually got to be able to manage the investment first. So it's the logistics which are really the first step. If you haven't got any logistics, no backroom office, you cannot run your investment portfolio properly, be it a SIPP, an ISA or anything outside a tax wrapper. So that's the most important thing, and that's what the HL SIPP

and Vantage platform enable you to do: to run your investments properly with minimal fuss and minimal amount of paperwork.

**Q: Alex, traditionally SIPPs are thought of as pretty expensive and only for sophisticated investors. Is that still true today? And are there any individuals for whom a SIPP probably isn't suitable?**

**Alex Davies:** I think lots more people can have a SIPP than many think. It's not that complicated to manage your own pension. For example, we will send you a regular newsletter with ideas of where to invest, and you can read the business sections of the papers.

If you are not going to take any interest in your pension whatsoever and you are going to make no decisions about the investments, then probably a SIPP isn't for you.

However I would say ignore your pension at your peril. If you want to get a good pension, whether you manage it yourself or have an adviser, you need to take an interest and you really do need to understand where it is invested.

Answering the other question, traditionally SIPPs were expensive, say, 15 years ago: they had high fixed costs to set the plan up and high ongoing costs. Today most SIPPs are no more expensive than a personal pension. For instance, with the Hargreaves Lansdown SIPP there is no initial set-up charge, no fixed annual fees and you can contribute from as little as £50 per month.

**Q: And for people who aren't necessarily that sophisticated as an investor?**

**Alex Davies:** You definitely don't need to be a rocket scientist or hedge fund manager.

**Mark Dampier:** I think sophistication is not really what it was about. The initial SIPPs needed a lot of money because of the high costs. The minimums really were £200,000 or £300,000 to make it economic in the first place, and not many people already have a pension of £300,000 or £400,000. But now you can start a SIPP with as little as £500 or with a regular premium. You could never do that 15-20 years ago. That's the big difference I think.

**Q: Mark, I have decided I want to transfer my three previous pensions, worth a total of, say, £50,000. How should I go about investing them?**

**Mark Dampier:** Yes, that's always tricky at first. There are a number of points you have got to decide on: first of all, are you going to

use funds or shares? I think most people will probably choose the funds route and for £50,000 they probably want to look at 5-10 funds, no more. Then they need to decide or realise their time to retirement. If you are 25 you have probably got another 35-40 years before retirement so your portfolio would be very different from someone who is going to retire in about 5 years. You need to look at risk and reward very carefully. Actually I think most people make bad decisions: they think their pension should be low risk. In reality, if you are 10, 20+ years away from retirement, you could afford a lot more risk. If you are 25 and 30, you really should be thinking of things like Asia, smaller company funds in the UK, that type of thing. Don't worry about the volatility. You will get some but it could work for you in the long run, particularly if you have got the courage to invest at the low points. At any time when you see the stock market on the News at 10 because £50 billion has been wiped off, don't bury your head in the sand. If you are 25-30 years old and you have got money, start putting some in. That will see you doing really well in the future, because you will be buying lots of cheap units.

**Q: And in terms of managing my own pension, is there sort of a guideline in terms of how regularly I need to be changing my funds?**

**Mark Dampier:** I think the big mistake people make with funds is looking too often. The danger is you make emotional decisions – for instance in the News at 10 scenario where you see stock markets in death throes (the press love that sort of stuff) – and sell out at just the wrong time. You probably need to look at funds once a month or every 6 months. It also depends on how specialised your funds are. For instance, if you are going to buy an oil fund, that will require you to be a bit more careful than if you bought a very general UK fund or something like the Lindsell Train Global Equity fund. Those are the sort of investments you could put away in your bottom drawer and really not worry about for a long time.

**Q: Alex, what sort of pension do people typically transfer and is there any that people should definitely not transfer?**

**Alex Davies:** Typically people are transferring old personal pensions, retirement annuity contracts, AVCs, free-standing AVCs. Generally speaking, you would be unwise to transfer a final salary scheme, because usually the benefits you are going to get are much better.

Generally our advice would be not to transfer a final salary scheme and we do not actually allow you to transfer without advice.

**Q: So are there any other factors or considerations I need to be thinking about?**

**Alex Davies:** You need to check that you are not going to lose any valuable guarantees or benefits by transferring. Some old plans, for instance, have guaranteed annuity rates - 9% or 10% per annum - which you just won't get if you transfer to another pension. You have to look at these guaranteed annuity rates, though. Sometimes they are quite restrictive: they require you to retire on a certain date, take an income in a certain way and pass the income on to your spouse on your death in a certain way. However, generally you are very lucky to have guaranteed annuity rates. You also need to look out for things like guaranteed growth rates. Some companies will offer you maybe 4% guaranteed growth a year and you have to decide whether you would be able to get better growth in another pension, such as a SIPP, or you would be better off staying where you are.

**Q: Can you tell me a little bit more about drawdown? If I was to transfer a drawdown plan into a SIPP would it work in a very similar way?**

**Alex Davies:** You can transfer a drawdown plan and lots of people do that. Many old drawdown plans can be quite expensive. If you want to transfer a drawdown plan and manage it yourself, you really have to understand what you are doing; drawdown is complicated.

**Q: Are there any other differences between a SIPP and a personal pension?**

**Alex Davies:** You have to remember a SIPP is a type of personal pension so the main parts of a SIPP are exactly the same. In terms of the tax relief, for instance, you get up to 45% tax relief when you contribute; when you retire you can take up to 25% tax-free cash and then you can either buy an annuity or go into income drawdown.

**Q: So are there any differences with regards to death benefits?**

**Alex Davies:** The death benefits are the same as any personal pension and depend on whether or not you have taken retirement benefits and your age. If you have not taken retirement benefits, your SIPP can be passed on to someone you nominate when you start your SIPP or any time later. If you are under 75, it is passed on tax free. If you are 75 or over, a 55% tax charge applies or it can be passed on tax free if used to provide a taxable income for your spouse/dependants.

If you have taken retirement benefits by buy-

ing an annuity, it depends on the options you chose.

One option is for your spouse/dependants to continue receiving an income. If you are in income drawdown, your SIPP can be passed on minus a 55% tax charge. Or it can be passed to your spouse/dependants with no tax charge if used to provide a taxable income.

**Q: We often get people who are in their 60s asking: "I am quite close to retirement, I have only got a couple of years left, is it really worth me transferring?" – what would you say to them?**

**Alex Davies:** If they are not going to lose any valuable guarantees or benefits or have to pay any excessive penalty, which means they can never make it back, then there is a huge advantage of having everything in one basket as you come up to retirement. For instance, if you want to buy an annuity you only need to deal with one provider and one annuity broker, not with a ream of different companies. If you want to go into drawdown you can seamlessly transfer from a SIPP into a drawdown plan, because it is effectively the same plan. There are lots of benefits. It makes life easier at retirement.

**Q: So if I have decided I do want to transfer, what's the process? Does it take a certain amount of time and how long will I be out of the market for?**

**Alex Davies:** It's a pretty easy process: fill in a simple form after reading all the important facts and key features and we will do pretty much the rest of the work for you: we will request the information from your current provider and you will just need to sign that. Typically a transfer will take 4-6 weeks. Most transfers from a personal pension to a SIPP will come as cash and you will probably be out of the market for about 5-7 days, but it could be longer in some cases.

**Q: Are there any last tips or thoughts that you want to leave our viewers with, starting with you Alex?**

**Alex Davies:** I would encourage you to go and look in your filing cabinet and see what you have got. We do get people coming to us and saying "Oh, actually I have found this pension here, this pension there". I have got a client who recently found about £135,000 worth of pension he didn't know about; another £90,000; It happens all the time.

**Mark Dampier:** There is another point I would make. Pensions sound very boring. People spend hours and hours talking about their houses, but actually your pension could be worth as much if not more than your

house. I am surprised at how many people don't really seem to know or care about what their pension is, where it is, or what it is doing. If they took as much care of their pension as their house they would all be retiring much earlier. You can potentially retire at 55, but you can only do that if you put something away in the first place and look after it. Look after it like your house.

## ESSENTIAL FACTS about consolidating pensions

- ✓ Check you will not lose valuable benefits or guarantees or incur excessive fees
- ✓ We charge no transfer-in fees
- ✓ Most types of pension accepted
- ✓ Just complete one simple form – we do the rest of the transfer work
- ✓ Specialist Helpdesk in Bristol on 0117 980 9926

**Win 1 of 50 iPad minis worth £269**

**Transfer your pensions to a Vantage SIPP by 29 May to qualify.**

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