



Legacy Pension Arrangements 2024/25

Client Briefing

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AON

Managing Legacy Pensions

The introduction of Automatic Enrolment now means all employers have to provide workers with a pension scheme. Research tells us employees have an average of six jobs over their working life and “Generation Y” (those born after 1986, also known as millennials) are likely to have around 12 jobs in their careers. This means some employees, who take no action with their pensions, could end up with multiple pension arrangements by the time they reach retirement. So how can people make sure they keep track of all the pensions built up over what could be a 40-year period?

Keeping Track

Pensions Dashboards

The 2016 Budget saw the Government announce a commitment to create Pensions Dashboards, which, in very simple terms, will be an online system where individuals view all of their pensions. There will be multiple dashboards operated by different providers, including a non-commercial dashboard from the Money and Pensions Service. The intention is for all pension providers and administrators to supply pension data, so an individual can log in and see the value of all their pensions accounts in one place, including state pension entitlement. This would remove the need to keep personal records.

Since the announcement, the Government and the pensions industry have been working to deliver this commitment. The project has suffered delays but it is proposed all pension schemes will now have to connect to the system by late 2026.

Government Pension Tracing Service

Until such time as Pension Dashboards are fully operational, individuals will have to keep track of their own pensions to ensure they are aware of where all their pension money is invested.

If you are not sure if you had a pension with a previous employer or you know you did but can't remember any details, the Government offers a free-to-use tracing service which can help you track down “lost” pensions.

To use this service, you will need to know the name of the employer who provided the pension you are trying to trace.

Options when all Pensions are Located

Once you have located all your pensions, you should remember to keep any pension providers updated with your contact details.

It might also be helpful to ensure the pension providers are advised of any changes to your death benefit nominations so in the event of your death the right people can benefit from your pensions.

For some pension schemes, simply informing your employer of a change of address may not be effective because not all employers inform the pension provider. Therefore, it is prudent to always check any address changes are recorded with your pension provider.

Pension Tracing Service Contact Details:

Web address: www.gov.uk/find-pension-contact-details

By phone (Monday to Friday, 8am to 6pm): 0800 731 0193 or +44 (0)191 215 4491 (outside the UK)

Postal address: The Pension Service 9, Mail Handling Site A, Wolverhampton WV98 1LU

Pension Consolidation

Many people choose to consolidate their pensions by transferring one or more of their legacy pensions to their current workplace pension. Whilst this can, in many situations, be advantageous, it shouldn't be carried out just for the ease of having "all pensions in one place". This is because you might lose valuable benefits or preferential terms on the benefits when they are transferred. Therefore, if considering consolidating a legacy pension into another arrangement there are various factors to be considered.

Type of Pension

Broadly speaking there are two types of pension schemes:

- **Defined Contribution** (also known as Money Purchase) schemes where the benefits at retirement are dependent upon the value of the pension "fund" you accumulate.
- **Defined Benefit** schemes where the pension benefit is calculated based on the length of time you were a member, your salary whilst a member and the rate the scheme allows you to build up benefit (known as the accrual rate).

Defined Benefit Schemes

These schemes (often referred to as DB or Final Salary schemes) will provide you with a largely guaranteed pension income in retirement calculated based upon the factors mentioned above. There is no personal pot of money as such, rather a promise of a future benefit which the scheme trustees are legally obliged to provide and which is paid for out of scheme funds. The scheme provides an income based upon membership history which, upon leaving the scheme, is typically increased in line with inflation (and occasionally by more) meaning there is no risk to the scheme member of the benefit reducing in value due to investment performance.

Such a guarantee is incredibly valuable and therefore, to protect scheme members, the Government has introduced legislation earmarking these as "Safeguarded Benefits" and stipulating that, if the value of safeguarded benefits within the scheme is in excess of £30,000, then regulated advice from a suitably qualified advisor is legally required before any transfer to an alternative pension scheme is permitted. It is the responsibility of the trustees of the scheme holding the safeguarded benefits to check such advice has been taken.

Additionally, there are some DB schemes which are designated as unfunded DB schemes, which means there are no designated scheme funds to pay the benefits as the Government undertakes to pay the cost of benefits members are entitled to. Examples of unfunded schemes (although this is not an exhaustive list) are the NHS Scheme, The Armed Forces Scheme, The Teachers' Pension Scheme and the Civil Service Pension Scheme. Transfers out of unfunded schemes are not permitted and therefore, if you have benefits within an unfunded scheme, you cannot consolidate them into another scheme.

Defined Contribution Schemes (DC)

These schemes do not provide you with a guaranteed pension (although confusingly they can provide some guarantees relating to retirement income or investment return) and the value of the pension you will get is dependent upon the amount of pension fund you accumulate. These funds can usually be transferred to an alternative pension arrangement however, before making a decision to consolidate your pensions, it is important you consider various factors.

Factors to consider when Transferring DC Pensions

Transfer Penalties

Most modern workplace pensions will allow you to transfer the fund you have to an alternative DC pension without penalty so the amount you see within one pension will, upon transfer, be the amount you see invested in the receiving scheme. However, some older pension contracts have terms and conditions which state that, in the event of transferring the funds before your stipulated retirement age, a penalty will be applied to the fund you have accrued. This means less money will be invested in the scheme receiving the transfer than you had invested in the original pension.

The presence of a transfer penalty doesn't automatically preclude transferring funds or make it unadvisable to do so, as it may still be advantageous to transfer when considering some other factors. However, you should always check whether a penalty would be applied before initiating a transfer and then assess the advantages of transferring, taking account of any such penalties.

Guarantees

Some pension contracts provide guarantees which would be lost in the event of a transfer. These can take various forms such as providing a guaranteed increase to the fund each year or offering a certain level of pension from the fund accrued at the point of retirement (sometimes in the form of guaranteed annuity rates). Alternatively, the scheme may offer loyalty bonuses once you have invested for a certain period which could enhance your pension fund at no cost to you. Also, some may include a protection allowing access to benefits earlier than the normal minimum pension age of 55 (increasing to 57 in April 2028) including maintaining age 55 as a minimum pension age beyond April 2028.

As with transfer penalties, the presence of guarantees or loyalty bonuses does not preclude a transfer, as the benefits of these may be offset by the

benefits offered by the scheme you transfer the funds to. However, you should ensure before any transfer is actioned you know whether your pension offers any guarantees.

Charges

A range of charges can apply to pension contracts, but most modern workplace pension schemes will only have one charge (known as the Annual Management Charge or AMC), which is usually expressed as a percentage. This is the percentage of your fund deducted to pay for the pension provider's service to administer and manage your pension policy.

In very simplistic terms, the lower the AMC you pay, the less is deducted from your pension fund. Therefore, all other things being equal, this should result in a higher pension fund value at the point of retirement.

If you are planning to consolidate pensions you should assess the charges you pay in both the ceding and receiving arrangements.

Example of the potential benefit of lower charges on retirement fund values

Investment Period	Annual Management Charge		
	0.25%	0.50%	0.75%
5 years	£25,124	£24,832	£24,541
10 years	£31,687	£30,945	£30,219
15 years	£39,963	£38,563	£37,210
20 years	£50,400	£48,057	£45,818

- These figures are for illustrative purposes only to demonstrate the benefit of lower fund charges and are not guaranteed (source: Aon).
- The figures are the final pension fund accrued based upon £20,000 invested for the investment periods stated with the AMCs charged each year assuming 5% per year investment return.

Entitlement to Tax-Free Cash Lump Sums

Pension legislation permits individuals to take an element of their DC pension pot as a tax-free lump sum, known as a Pension Commencement Lump Sum (PCLS). Under current rules the maximum PCLS is 25% of the value of the pension fund built up, up to a maximum, in total, of £268,275.

Under legislation in place before April 2006, some pensions provided an entitlement to PCLS of more than 25%.

If you have pension funds which originated from certain types of pre-April 2006 pension plans, you may be entitled to a PCLS of greater than 25% of the fund. If you subsequently transfer benefits to an alternative registered pension arrangement, this entitlement could be lost and therefore, you should always check whether this applies before transferring.

Some individuals with certain forms of protection may have a protected Lump Sum Allowance higher than the standard £268,275. There is a

separate Aon Client Briefing document on this topic although it is a complicated area so advice may be required.

Investment Options

A wider range of investment choices doesn't mean you will get better investment returns, just as having fewer choices doesn't mean you will get lower returns. This is because the value of your DC pension fund is not guaranteed so can go down as well as up.

However, when considering consolidating your pensions you need to ensure the scheme you are transferring money into has suitable investment choices for you based upon your age, proximity to retirement, the amount of risk you are prepared to take and the level of volatility you are comfortable with.

Retirement Options

The points to consider above are all aspects which can impact the value of the pension fund you may build up in the lead up to retirement. In addition to these, you should also consider whether the pension you are consolidating your other fund or funds into has suitable retirement options to meet your requirements.

For example, if you are planning to draw your retirement income directly from your pension fund (via income drawdown), then consolidating all your pensions into one which doesn't offer this facility would mean you will need to transfer again at retirement in order to be able to do this. Of course, if retirement is a number of years away this consideration may be of little importance to you in comparison to the other factors detailed as you can transfer to another scheme closer to retirement.

Please note: This content is provided for information purposes only and is not intended as financial advice or a recommendation. If you are in doubt as to how to proceed you should seek appropriate professional advice.

If you are at all uncertain about making any decisions to do with your finances and benefits, please take advice. You can seek guidance on finding a Financial Adviser on the Money Helper website here: www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser

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