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The benefits of combining your retirement savings and transfers from UK pension funds

Over time, investors often end up unintentionally owning retirement savings products with lots of different providers. Also, when changing jobs, an easy option is to leave your pension benefits to accumulate in your previous employer's sponsored pension scheme. It is critical that you make considered and sensible financial decisions about what you do with any accumulated retirement savings. Regardless of how many accounts you have and where they are held, you can benefit from consolidating your money in one place.

Leaving retirement savings with different providers can undermine your wealth
While it is important to keep saving for retirement, the unintended consequences of having built up benefits in various places without a clear and coordinated investment strategy can be that you unknowingly undermine your wealth. This can happen through duplication of holdings, inappropriate diversification and additional fees.

Why should you combine your retirement savings?

1. A comprehensive investment strategy will help you get the most from your retirement savings
It can be very difficult to maintain an overall retirement planning strategy that meets your needs when your assets are held in several places. Having all or most of the money you have accumulated for retirement with a single administration provider can help you develop a comprehensive retirement plan that reflects your goals, timing and risk tolerance. This does not mean taking on more investment risk – even with consolidated administration, you are able to diversify between investments.

Note that although your money may all be with one administrator, you may still have several different product accounts, so it is important that the administrator is able to provide a consolidated view of investments across accounts.

2. Administration is less complicated
Your financial adviser and asset manager can help you manage the initial hassle of combining your savings. This process is partly dependant on the fund you are transferring from and can take some time to complete. However, once the process is complete, keeping track of and administering your investments will be less complicated, e.g. you would have a single online log-in and you would receive consolidated statements, showing holdings across all accounts, instead of trying to keep track of multiple account statements from a variety of sources.

Transfers from a UK registered pension fund
If you have a UK registered pension and you are living outside the UK, or if you intend to leave the UK, you can transfer your benefit to any approved Qualifying Recognised Overseas Pension Scheme (QROPS).

What requirements do you need to meet to transfer?
- You will need to be a non-UK tax resident for five tax years. (A tax year runs from 6 April to 5 April).
- You need to have a private pension as opposed to a state pension.
- Your pension must be more than £20 000 (although this amount varies per scheme and if it is under this, you can usually top it up).
- You must not have taken an annuity on your pension.
- If your pension is a final salary scheme, you must not have taken payment yet.

Tax implications on the UK end
- The transfer to a QROPS is not subject to tax unless it exceeds your lifetime allowance – currently £1 650 000 (2008/2009 tax year) and will rise to £1 850 000 by 2010/2011.
- The value of pension rights transferred in excess of this will be taxed at 25%.

Tax implications in South Africa
South African legislation specifically deals with pension plans (whether local or abroad), and clearly states that you have no tax liability, either capital gains tax (CGT) or income tax, if you repatriate any funds from a QROPS into South Africa.

When you receive an income from the pension product you selected on transfer, the income payments will be included in your annual income on which you will pay income tax.

3. You are better able to identify and plan for any gap in your retirement savings
By consolidating your investments, you can critically assess how on track you are to retiring with enough money.

Be aware of cost implications
You might be able to reduce the cost of maintaining multiple retirement accounts. Some investment platforms charge low or sometimes no fees to serve this purpose. However, when deciding whether to combine your retirement savings you need to be aware of and take into account any exit penalties that could be imposed, as well as fees or commission and reinvestments costs, as these could affect the value of your retirement saving.

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