

Pension Transfers: Risks, Benefits, and Considerations for UK Savers

You've spent decades building up your pension, and now you're ready to take control of your future. The thought of transferring it for more flexibility and investment options is thrilling, but it can also feel overwhelming.

You know one wrong move could cost you significantly. That's where [pension claim consulting](#) comes into play.

In this article, we'll break down the risks, benefits, and important considerations of pension transfers to help you navigate your options confidently.



Photo by Andrea Piacquadio: <https://www.pexels.com/photo/man-in-black-suit-holding-banknotes-and-credit-card-3831185/>

What Is a Pension Transfer?

A pension transfer involves moving your retirement savings either to a new provider or a different plan. It's common when people change jobs or want better investment options.

For example, you might move from a workplace-defined benefit plan to a personal pension. While this can improve how you manage your savings, it requires careful planning beforehand.

Benefits of Pension Transfers

Pension switches can also allow you to have more authority and management of your retirement finances. More importantly, it is important to have more choices, especially when choosing the type of investment.

Another advantage is more flexibility in taking out your pension. Some workplace pensions may limit how you can withdraw your money. But with something like a SIPP, you could take out money when you need it. This is helpful if you want to withdraw lump sums during retirement.

More so, pension transfers save time in case there is a need to merge a few pensions. Having moved from job to job over the years, you probably have a number of pension pots created with different providers.

Putting these in one location can ease the [management of retirement funds](#). It's simpler to manage all your savings as one big amount instead of several smaller amounts held in different accounts.

Risks of Pension Transfers

Nevertheless, pension transfer has its downsides, too, and it is correlated with risks. The most important risk out of them is the risk of losing guaranteed benefits offered by your pension scheme.

If you have a defined benefit pension, when you transfer to a defined contribution scheme, you forfeit all retirement income expectations. The worth of your pension becomes dependent on the performance of the investments that you have made.

This could mean that less money than was anticipated found its way to you due to the unfortunate performance of your investments.

It also needs to be noted that in most situations, pension transfers involve very high costs. For instance, exit fees, advisor charges, and even installation costs are often associated with the new pension scheme whenever one transfers his or her pension to a different provider.

There are also threats associated with active management. When one takes a pension forward and invests the funds into an equities-based strategy, the value of the opened-source pension pot can be adjusted.

Investing can generate higher returns, but that also adds to the level of risk, especially when one is nearing retirement. Depending on the appreciated value of financial assets at some future point in time, many retirees could be disappointed and exhibit difficulties in adjusting to their situation.

Key Considerations Before Making a Transfer

Source: [Pexels](#)

Maintaining your current scheme or looking to transfer out of a pension should also be addressed through your wide financial goals and personal circumstances.

The first thing you should answer is: Why do you want to transfer your pension in the first place? Is it because better investment options are available, costs are lower, or maybe there is more convenient accessibility to the funds?

Knowing the reason behind the transfer will assist you in

evaluating if proceeding with the transfer is worth the possible dangers one may encounter.

You ought to analyze your risk appetite even further. Moving from a defined benefit pension to a defined contribution plan has risks.

Your income isn't guaranteed anymore. If you like certainty, this may not suit you. You won't need to worry about investments in a defined benefit scheme. Staying might be the safer choice.

The Role of Mis-sold SIPPs and Compensation

A key risk with pension transfers is being mis-sold a SIPP. Mis-selling occurs when you're told to invest in options that are too risky. These investments might not match your needs. This can cause serious issues.

If it happens, you could get compensation. The Financial Services Compensation Scheme (FSCS) and the Financial Ombudsman Service (FOS) can help. They protect people who were mis-sold a pension.

Recently, the FOS ordered the troubled SIPP provider Liberty SIPP to compensate SIPP investors. [Liberty SIPP entered administration](#) to protect creditors, including former customers.

The Bottom Line

Pension transfers have both good and bad sides. You should think carefully about your choices. Moving your pension can give you more control, but it also brings risks. You might lose guaranteed benefits or pay higher fees.

Before deciding, think about your retirement goals and how much risk you can handle. Also, look at your current finances. Don't be afraid to get advice from a professional who can help you.