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Should I stay or should I go?

Deciding to move from a workplace scheme to a retail pension needs careful consideration, finds Maggie Williams

Summary
- Opting to leave a workplace pension generally means losing employer contributions.
- It is very unlikely that investing into a retail pension arrangement would compensate for that loss.
- There may be occasional personal circumstances when transferring to a retail arrangement makes sense.
- Education is important to help members understand the value of their workplace scheme and make informed decisions about whether to leave.

Defined contribution (DC) pension saving is based on the premise that individuals take responsibility for their own retirement planning – but then restricts them to their employer's choice of pension scheme, with the assumption that inertia will keep them saving.

And while members' lack of engagement with DC pensions is one of the industry's longest-standing bugbears, what if better engagement means that members decide their employer's scheme doesn't suit their needs? What if a well-designed advert with a quick-win cash offer to transfer to a retail scheme proves a more effective nudge to action than employer-driven communications pushing for higher contributions?

Close Brothers managing director of advice – financial education advice team, Daniel Swift, believes relatively few employees would be tempted to leave their employer's scheme for a self-managed retail pension. "Many employers work hard to put together a pension that fits their workforce needs. In general, most employees do not seem to be dissatisfied with their workplace offering."

For members who genuinely feel their workplace scheme isn't delivering, the pros and cons of whether to leave need careful consideration.

Should I stay?

Employer contributions are the most obvious reason to stay in a workplace scheme. "It is extremely unlikely that

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any wins from a retail product over a workplace pension will make up for the loss of employer contributions," says Cushon director of policy and research, Steve Watson.

Hargreaves Lansdown head of retirement analysis, Helen Morrissey, adds: "Over time, employer contributions can add up to a significant amount and truly impact how much you end up with in retirement. It's not a decision to be taken lightly."

While some employers may allow contributions into a different pension, they are not compelled to do so. Interactive Investor head of pensions and savings, Alice Guy, explains: "Although there's nothing to stop employers paying into an alternative pension, the auto-enrolment rules allow employers to stop contributing if employees opt out of their

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default workplace scheme."

Not only could members lose out on contributions, they will also need to balance up whether a retail pension offers value for money. "Workplace schemes are often low cost, as they have been negotiated by the employer with the provider with their workforce in mind," says Swift.

Morrissey adds: "Members should compare any fees they will incur with a new provider with what they are currently paying. There could be higher ongoing charges or set-up fees."

Transferring also means that investments in the workplace pension will need to be sold and then re-invested in the new retail plan. "This will take time and members could miss out on investment growth," cautions Morrissey.

A lack of investment expertise is another potential risk. "Not everyone has investment management knowledge, and this can be a danger when moving away from the employer scheme," says

Swift. "If you don't have the knowledge to make decisions, this could be a pitfall, unless you receive external advice from a trusted and qualified source."

Adding up the total value of a workplace scheme can also mean looking beyond the pension itself. There are often valuable additional benefits, including death in service cover and spouses' pensions after death, or favourable guaranteed annuity rates. Some employers will also offer ongoing perks to retired employees, such as discounts on the products they produce, that would disappear with a move to a retail pension.

Should I go?

Despite all the attractions of staying in a workplace scheme, there could be valid circumstances for considering a transfer into a retail pension, from aligning investments with personal ethics, to better options for retirement planning. "Transferring your workplace pension into a retail option can help you invest in a wider range of assets or in line with your values," says Morrissey.

Swift adds that personal circumstances may also drive a change. "If you are ill, for example, the death benefits may not fit your wishes in terms of how the funds are paid out."

He says that a decision to move into a retail scheme at retirement could also be driven by "a particular type of retirement income or specific requirements around your risk profile during retirement".

With retail pension providers investing in innovative technology and online guidance or advice, "you could also have access to better support options that help you navigate your retirement planning", adds Morrissey.

As employees get closer to retirement, consolidating small pots into a single retail product may prove more attractive than managing multiple pensions across a variety of former employers, providers and platforms.

"Employers, trustees and providers can't stop employees from leaving a workplace scheme that they feel doesn't meet their needs – but they can make sure members are aware of the full value that their pension offers"

"Consolidating older pension pots makes it easier to keep an eye on investment performance and fees and to make decisions once you reach retirement," says Guy. At retirement, savers also stop receiving employer contributions, and may feel less tied to their workplace scheme.

However, Watson cautions: "There are still important considerations, such as comparing ongoing costs and exploring any penalties involved. It's also important to check whether there is a protected retirement age or protected tax-free cash that someone might give up by transferring out of former workplace schemes."

… you've got to let me know

Even in the best quality workplace scheme, there may be employees who feel confident in managing their own finances, have weighed up the pros and cons of remaining in the scheme, and have taken an informed decision to leave.

But Swift says that for many others, good quality information is vital in helping members really assess and understand the value of their employer pension. "There is a growing interest in pensions from employees early in their career who want to know how they are invested, managed, and their future options. We find that most questions are driven by wanting education and understanding to help them make informed choices not just around pensions but all aspects of financial wellbeing."

"If you have real concerns about your current workplace pension provision, then it is worth highlighting these with your employer," adds Morrissey. The feedback could be valuable input into trustees' or an employer's review of their workplace pension provider, to help drive future improvements.

Employers, trustees and providers can't stop employees from leaving a workplace scheme that they feel doesn't meet their needs, but they can make sure members are aware of the full value that their pension offers. That includes employer contributions, flexibilities such as self-select investment options, add-on benefits and details on scheme charges over a lifetime of saving. Armed with that information, employees may find that the decision to stay or go is easier than they thought.

All or nothing?

Opting to cut all ties with a workplace pension is a brave choice. But there may be ways that employees can have the best of both worlds. "Speak to your employer first as some employers will still contribute to your pension even if you opt out and pay into a different scheme," recommends Guy.

Even if that doesn't appeal to your employer, Guy adds: "If you can afford it, one option is to pay the minimum amount into your employer's scheme and pay extra on top into an alternative pension."

"Some workplace schemes offer the ability to partially transfer so you retain the workplace scheme and manage existing funds elsewhere, but this needs careful consideration," adds Swift.

Written by Maggie Williams, a freelance journalist