Summary
- The complex pensions landscape of the past has resulted in myriad legacy products.
- Many current savers will have legacy products as an important part of their retirement savings.
- Lost pots, high exit fees and opaque charging structures are all issues with legacy products.
- Consolidation is often a good option, but won't work in all cases.

The ghosts of pensions past

Maggie Williams considers the current impact of legacy pension products on both the industry and savers alike

In Dickens' *A Christmas Carol,* Ebenezer Scrooge is terrorised by The Ghost of Christmas Past – a figure that "fluctuated in its distinctness: being now a thing with one arm, now with one leg, now with 20 legs, now a pair of legs without a head, now a head without a body; of which dissolving parts, no outline would be visible in the dense gloom wherein they melted away".

Anyone faced with legacy retirement savings products from the late 90s and early 2000s might be tempted to offer a similar description of pensions past. A cat's cradle of different workplace and personal pension products were sold by advisers and providers ranging from major, household names to single operators, some of whom would not get within touching distance of the standards required of current regulated pensions advisers.

Subsequent pensions bills have gradually brought accessibility, consistency and better governance to pensions, particularly in the workplace DC sector. Other changes, such as the Retail Distribution Review (RDR), have reshaped the adviser and provider community supporting retirement savings. Today's streamlined, auto-enrolled world is a far cry from the tangled workplace pensions web of 20 years ago.

But pensions, we all know, are a long-term investment. The products that were sold and the money invested in them several decades ago are still an active part of many current employees' pension plans. Anyone aged 55 today could have pensions savings reaching back 35 years or more.

For fortunate savers, the majority of those savings will be in workplace defined benefit schemes. But in an era long before auto-enrolment, others had to make their own pension arrangements using retail savings products such as with-profits funds, or contributed to bespoke DC-style workplace schemes such as Executive Pension Plans (EPPs) and Group SIPPs (Self-invested Pension Plans) set up by an adviser for a handful of (usually executive) staff.

The past two decades have also seen a period of significant consolidation amongst DC providers. Life insurer-run group personal pensions (GPPs) have gained scale as their owners acquired other insurers and merged their GPPs. Smaller specialist pension providers have exited the market, and many advisers who set up small-scale bespoke arrangements like EPPs have either been acquired or closed their pensions business in the wake of RDR.

Opening up closed-books

A lengthy roll-call of providers might have been consigned to history, but the pensions they sold live on. Some will be part of a current financial services company that manages legacy arrangements alongside active pensions, while others will be held by 'closed book' providers.

In its *Fair treatment of long-standing customers in the life insurance sector* thematic review of March 2016, the FCA found £153 billion in closed-book products (including insurance, as well as pensions) belonging to 9.4 million customers across a sample of 11 firms. The average value of a personal pension policy in the sample was £23,000.

"Many people now have assets in legacy arrangements," says Buck head of DC and wealth, Mark Pemberthy. "Workplace pension charges have fallen significantly over time and some legacy schemes can now appear very uncompetitive. There have also been great improvements in investment solutions and other features in current DC schemes, in response to legislation changes like freedom and choice, which legacy schemes haven't always adopted."

One obvious answer to the problem is to simply transfer any legacy arrangements into a current workplace DC scheme. However, being able to consolidate into a current workplace scheme depends on whether the receiving scheme allows transfers in, and whether transferring out of a legacy arrangement really does represent the best course of action. "Check for penalties and any valuable guarantees that would make transferring a bad outcome," cautions Pemberthy.

"High exit fees are often the biggest barrier to consolidation," says PensionBee head of corporate development, Clare Reilly. While the FCA has put pressure on closed-book providers to cap costs and charges at a maximum of 1 per cent, Reilly says that there are still excessive fees attached to some products: "We still see exit fees of over 50 per cent of the total pot from some providers."

PensionBee estimates that around 35 per cent of legacy pensions have an exit fee attached and, although excessively high fees are relatively unusual, Reilly says the impact of them is significant. "They add to the perception that pensions are complicated and lead to paralysis as people don't know what to do for the best."

In addition to exit fees, Reilly adds that it can be difficult to accurately calculate annual management charges (AMCs) to decide on whether or not to move a legacy pension. "Transfer packs *[from legacy schemes]* are as much as 30-40 pages long. Even a highly-skilled person with experience can struggle to work out what the fees are – so for someone with no experience, it is almost impossible. We have seen customers faced with both high ongoing AMCs and high exit fees. That makes it very difficult for them to understand what the best thing is to do."

Wealth at Work director, Jonathan Watts-Lay, says that consolidating legacy arrangements into a new personal pension pot at-retirement can be beneficial, particularly for drawdown. "If you want to use drawdown then it makes sense to consolidate smaller DC pots with one provider." But, he cautions, members need to carefully evaluate charging structures. "Even older workplace DC scheme might have lower charges than a private pension, so keeping money in multiple legacy workplace schemes may still be a better option than using a private pension until you get to retirement."

A hybrid approach

Arguably, one of the biggest forms of legacy pensions are closed defined benefit (DB) schemes. For many closed DB scheme members, the best approach is to simply stay in the scheme and receive their pension in retirement. However, more unusual structures such as hybrid DB/DC schemes, or additional voluntary contribution (AVC) sections that allowed employees to make top-up payments into a DC-type arrangement within a DB scheme might require further investigation.

Watts-Lay says that deciding how to make the most of savings held in hybrid schemes or AVCs will depend on the individual scheme and its rules. "Sometimes AVCs can be consolidated into another open DC scheme, but it's important to understand how the link works between the AVC and the main DB scheme. That link will be scheme-specific and can be really tricky to understand fully.

"It's not as simple as a pure DC scheme where you have a fund value with associated pricing and charging that can be transferred into another scheme. With hybrid schemes, there might be other benefits that you are giving up as well and it's important to understand those fully."

Losing the pot

Perhaps the most significant issue with legacy pensions is that employees simply forget that they have them. Closed-book provider Phoenix Group Customer director, David Woollett, says that since 2016, the company has traced 2,380 unclaimed policies worth nearly £13 million. "Savers need to ensure that they don't lose track of older pensions that they are not contributing to. That means keeping their provider informed of any change of address."

Pemberthy adds that the risk of forgetting about older pensions means that they are not included in employees' retirement calculations. "That leads to ineffective retirement planning, which must include all pension benefits to be of real value. Employers should make sure that all employees have access to appropriate tools that will help them view their assets in one place and not just focus on the current workplace arrangement."

Watts-Lay says that schemes are beginning to appreciate the importance of offering employees advice that looks at collective pension savings, rather than being restricted to their current scheme. "More trustees and employers are saying 'we want a service for our members that helps them understand the benefits of that particular scheme, but also takes into account their other assets going into retirement.'"

The ultimate solution to keeping track of legacy pensions and eliminating the spectre of pensions past should be the pensions dashboard. "People should then be able to easily view all of their pension information in one place, and in time this could even see the end of the industry-wide issue of lost pension pots," says Woollett.

Pensions dashboard(s) alone won't solve the problem of complex documentation and opaque fee structures attached to many legacy products. Continued pressure from the FCA, access to appropriate financial advice, and a transparent, forward-looking pensions regime using simple savings structures and consistent tax relief will help to ensure that today's savers are not faced with the ghosts of pensions past once they reach retirement.

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