

Looming pension pitfall

£50 billion of hard-earned pension funds could be in jeopardy

Recent investigations by the Centre for Economics and Business Research have illuminated a daunting predicament facing the United Kingdom's pension sector^[1]. An alarming £50 billion of hard-earned pension funds could be in jeopardy, lost within neglected accounts or dispersed amongst a myriad of forgotten pots.

In 2023, it was surmised that upwards of 4.8 million pension pots had vanished from the radar of UK citizens, with approximately one in ten workers expressing concerns over a potentially misplaced pension pot valued at over £10,000.

The forecast suggests a stark escalation, with the aggregate number of UK pension pots set to surge by 130%, from the current figure of 106 million to 243 million by 2050. This burgeoning crisis is attributed to the increasing trend of job mobility among the youth and the ripple effects of auto-enrolment. This scheme has markedly bolstered workplace pension engagement since its inception in 2012.

GENERATIONAL GAPS AND ACCUMULATION TRENDS

A detailed analysis reveals a discernible disparity across different age groups in terms of pension accumulation. Individuals below 35 years of age have, on average, accumulated more pensions (2.4) compared to their mid-career (35 to 54 years: 2.1) and senior counterparts (over 55 years: 1.7), despite having shorter employment histories^[2].

It is projected that the youngest cohort entering the workforce today will amass, on average, five pension pots by their retirement age of 68, with some individuals possibly gathering over twenty separate pensions throughout their career span. The likelihood of misplacing a pension pot is notably higher among the younger workforce – 25% believe they might have lost track of a pension, in contrast to 17% of those in mid-career and just 8% of older workers.

GOVERNMENT INITIATIVES AND INDIVIDUAL VIGILANCE

To address the escalating issue of unclaimed pensions, the government has put forth initiatives such as pension dashboards and the innovative 'pot for life' concept, aiming to alleviate the

challenges of tracking multiple pension pots. The inadvertent neglect of pensions can lead to a less secure financial standing in retirement. Maintaining meticulous records of previous employment, alongside pension provider details, requires professional financial advice.

Furthermore, frequent job changes, particularly prevalent among the younger generation, accentuate the risk of accruing and subsequently losing track of multiple pension pots. This scenario underscores the necessity for governmental support and guidance in managing pensions effectively, ensuring a robust private pension framework to support the financial sustainability of an ageing population.

SECURING YOUR FINANCIAL FUTURE

As we navigate these changing times, the importance of being proactive in managing our pensions cannot be overstated. Consolidating pensions could be a prudent strategy for those seeking to safeguard their retirement savings and ensure a stable financial future. It's imperative to remain informed and actively manage your pension portfolio. ■

READY TO SECURE YOUR FINANCES AND TAKE THE RIGHT STEPS TODAY?

Should you require further assistance or wish to explore more about securing your pension pots, do not hesitate to contact us for professional advice. Securing your financial future starts with taking the right steps today.

Source data:

[1] Analysis conducted by the Centre for Economics and Business Research, on behalf of PensionBee – a 'lost' pension pot is defined as one in which the connection between the owner and the pot is currently cut off. This doesn't mean these pension pots are lost forever, and they're likely recoverable – 19 March 2024.

[2] An average number of pension pots was created using respondents' estimates of how many pots they have. Where they were unable to provide one, we asked them how many employers they had in various time periods and multiplied that by the average pension enrolment proportion for the period. The weighted average number of pension pots of the general sample is multiplied by the number of UK adults as per ONS census data from 2021 to find the UK-wide total.

THIS ARTICLE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.