Case Study

Plan Money

Title: Pension consolidation

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I am 36 years old and have a Stakeholders Pension with Standard Life which has a current value of approx £13,000, at present I contribute £50 a month towards this. I found out about two years ago that I also have a small pension with the Civil Service, I worked for them for nearly five years before I married and left in 1999.

I recently decided to find out how much they would give me if I was to transfer my Civil Service Pension to my Stakeholders Pension. The letter I received from the Civil Service detailed my current pension calculations, which is index linked so will go up in the future. My pension is currently worth £1,274.11 per year plus I would also get a lump sum of £1,913.25 at age 60. The sum they have offered me to transfer to my Stakeholders Pension and close my Civil Service pension is £5,958.81, I have 3 months to decide, after which I would have to reapply for another calculation.

While this seems a nice lump sum of money to add to my Stakeholders Pension, when I worked the figures out it might not be such a good idea. I can't claim my Civil Service Pension until I am 60, but if I was to live until I was 80 I would be receiving around £24,000, at today's value. I feel I would be better off leaving my Civil Service Pension where it is, but would appreciate any advice to make sure I am making the right choice.

It is the additional benefits which also require consideration and not just the potential investment performance and on this basis your instincts are right because it is highly unlikely that you would receive the same level of benefit by transferring your Civil Service pension to your Stakeholder pension.

Detailed analysis will necessitate several technical comparative calculations, however; as a simplistic example: based on annuity rates today, a 60 year old female non-smoker would need a fund in the region of £41,000 to secure an RPI index-linked pension of £1,274 per year in today's terms. [A smoker would need a lower fund of £31,000].

As well as the fact that this example is based on an equivalent pension in today's terms only, other reasons why it may be inadvisable to consolidate the pensions is because it is likely that your Civil Service pension will automatically include a spouses benefit. This means that should you be married at the time of receiving your pension benefit, a proportion of the pension would automatically continue to be paid to your husband should you predecease him. This is a benefit which would be available under your Stakeholder pension however the annuity level would be decreased if such a benefit were to be selected. Furthermore, your projected pension benefits are not directly linked to investment performance but they would be under the Stakeholder.

Likewise, your Stakeholder pension can also pay a lump sum but this would leave a lower fund from which the annuity would be purchased.

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