Redundancy and workplace pensions

If a member of your family is facing redundancy, they are no doubt focused on finding a new job and minimising the financial impact as much as possible. There are many decisions to make during this transitional period and finances are a key part of that.

It's important to remember that a workplace pension is an important, and often significant, part of the bigger financial picture. We've put together some key things to think about in relation to redundancy and workplace pensions.

Update any personal details

It's important that pension providers have up to date personal information - address, phone numbers, personal email addresses - so they can stay in touch with important account information.

Most of us will work for different companies throughout our careers and might have a few pension pots from former employers. Over time, it can be difficult to track these down, especially if personal data becomes out of date. If needed, the online Pension Tracing Service can help locate lost pensions.

Understand pension types

Provided that certain criteria are met – related to age and salary, for example – an employer must automatically enroll their employee in a workplace pension scheme. A member of a workplace pension plan has their own pension pot, where any contributions made by them or their employer are invested.

There are two main types of workplace pensions and it's important to understand the characteristics and benefits of a pension fund before making any decisions:

- **Defined Benefit (DB)** - a scheme that pays a retirement income based on a person's salary and how long they've worked at the company. DB schemes include final salary and career average pension schemes, which are often only available in the public sector or in older workplace pension schemes.
- **Defined Contribution (DC)** - a scheme where the amount of retirement income is based on how much was paid in by the employer, or contributed personally, and how well the investments have done. The value of the pot can go up or down depending on the investments.

Learn about the options

Every situation is different, and it is important to speak to the pension provider to fully understand all available options, costs and charges before making any decisions. It may also be helpful to seek professional advice from an independent financial advisor. Some options might include:

- **STAY** - it is usually possible to keep workplace pension benefits invested with the current pension provider who will continue to manage the money already invested and provided regular updates. In some cases, it may also be possible to maintain personal contributions.
- **TRANSFER** - the pension pot can be transferred out into a new workplace pension, or into a personal pension plan. There are some important things to consider before transferring, particularly for defined benefit pension holders.
- **INVEST** - there is the option to use part of any taxable redundancy payment to make pension contributions. If the employer agrees, it might be possible to give up some of the redundancy payment as an employer contribution to the workplace pension. This is known as a 'redundancy sacrifice'.
- **WITHDRAW -** for those closer to retirement it may be possible to withdraw money from a pension account. Many pensions allow withdrawals, from the age of 55, of up to 25% of your savings as tax-free cash. However, there are a few important things to think about before accessing benefits.

Whatever option seems most appealing, we recommend seeking financial advice to fully understand the benefits, pension scheme charges and key things to consider for your personal circumstances before making changes.

Understand insolvency

In cases where businesses become insolvent, pensions have various protections depending on their type. Defined contribution (DC) schemes are run independently of the employer, so if they go out of business pensions that have been built up will not be affected. Defined Benefit (DB) schemes are protected under the Pension Protection Fund. Find out more about what happens to your pension if your employer goes out of business.

Beware of scams

When dealing with any big financial changes it's important to be extra vigilant. Reputable pension companies should make it easy for you to establish that they are genuine and will operate strong antifraud policies. For example, Fidelity will never ask for your full PIN or online password. Check our tips on pension fraud for more information.

Pensions are a big part of our financial picture and it's important to understand the options when circumstances change.