

I'm worried I'll lose half my pension if my provider goes bust: What can I do?

By Harvey Dorset thisismoney.co.uk Daily Mail July 12, 2024

I have a total pension value of £177,000 which is held with one provider.

Would it be safer to spread it into two providers?

If I am not mistaken, the Government will only cover £85,000 of it if something happens to my provider. F.M, via email

Safety in numbers? Experts warn that spreading your pension over multiple pots with different providers could result in the loss of some valuable benefits

Harvey Dorset, of This is Money, replies: Generally, consolidating your pension into a single pot is a good idea. By doing so, you can save a lot of the hassle that comes with keeping track of multiple pots from throughout your career and can ensure that you don't forget about one of them.

However, you are right in saying that your pension may only be protected up to £85,000 if the provider goes under, depending on the type of cover that you have.

If this is the case, and the inconvenience of having two pension pots outweighs the risk of losing your money if your provider goes bust, then it may be a good idea to spread your pension over multiple providers.

On the other hand, there are other options and benefits that may be offered by yours or other providers that would prove a wiser move.

This is Money spoke to three financial advisers to find out what the best move is when it comes to [protecting your pension](#).

Best to check: Craig Ridge says depending on your pension product, you could have no cover at all

Craig Ridge, independent financial adviser at Flying Colours replies: This is a short question with a long answer. The protection for financial products regulated by the Financial Conduct Authority (FCA) is provided by the Financial Services Compensation Scheme (FSCS).

The FSCS is independent of the Government and financial services industry, and the level of protection available to you if a pension provider fails is determined by the type and structure of the pension arrangement.

The level of protection ranges between protecting 100 per cent of the value of the pension, to no cover at all. Therefore, it's important to understand the amount of cover you have in place for your specific pension arrangements.

If your pension is structured so the provider is holding an underlying product of another provider, then there may still be some protection from the FSCS if the underlying provider fails. However, the level of protection is normally determined by the type of product held.

You should also be aware that some pensions are structured so that your pension's funds are kept separate from the company assets by way of a custodian. This means that they cannot be used to pay outstanding debts, should the provider fall into financial difficulty.

For those pension schemes which are not protected by the FSCS, you may find they are protected by the Pension Protection Fund or Financial Assistance Scheme.

Some pensions have valuable benefits that are lost on transfer and cannot be replicated with a new provider

To understand your pension protection position you should refer to the FSCS website as they have a tool which will tell you what they protect.

If they are unable to confirm the level of protection, they will provide a set of questions you can ask your provider to help you find out.

Most pension providers also provide information on the level of protection applicable to their products. Therefore, you should speak with your provider to confirm the level of protection in place.

Regarding the idea of spreading your pension pot across two providers, I'd recommend that you exercise caution. The level of cover available in the event of a provider failing is an important factor, but it's not the only one that needs to be taken into consideration.

Pensions can be complicated, and the average person doesn't know what they don't know. This is a dangerous place to be in if you're considering switching your pension.

Some pensions have valuable benefits that are lost on transfer and cannot be replicated with a new provider. Also, in certain instances where a transfer takes place and the investor is in poor health, this could lead to an increase in an investor's inheritance tax liability on death.

This is where it pays to work with a financial adviser. Their role is to simplify pensions for you. They will assess your current circumstances and future objectives fully and recommend whether you should consider transferring your pension or not.

There comes a realisation at some point in most peoples' lives where they recognise that they will be transitioning from accumulating assets and wealth to suddenly living off them (decumulation).

For most, their pension is their largest and most important asset in determining whether they're going to struggle or thrive in retirement. So, it needs to be given the level of attention it deserves.

If you are considering switching all or part of your pensions you should speak with a financial adviser as an investment in financial advice is an investment in your future financial freedom.

Safety net: Didi Ager says the FSCS may be able to step in if your provider goes bust

Didi Ager, chartered financial planner at Hargreaves Lansdown, replies: It's important to feel that your money is safe and to know where you stand with your pension savings.

All registered pension schemes in the UK will be regulated by either the FCA or The Pensions Regulator (TPR). There are strict rules governing the financial strength of companies as well as the systems and controls that pension providers should have in place to protect your investments, including segregating your assets from their own.

If your pension provider has operated within the regulatory systems and controls that they should have in place, your assets would be separate to those of the failed provider.

This reduces the possibility of things going wrong, and means your pension monies are ringfenced from the pension providers' assets and can't be used to pay their creditors.

However, if the worst happened, your pension provider went out of business and you were unable to transfer the pot to another provider, the FSCS may be able to step in and pay compensation in relation to any shortfall.

FSCS protection varies depending on the type of pension product, and there are limits to the amount the FSCS can compensate for.

The FSCS doesn't cover market risk or losses made if a company you have invested in goes bust

Safety also depends on the underlying savings and investments held in your pension. The value of 'defined contribution' pension savings will go up and down with the performance of your investments.

The FSCS doesn't cover market risk or losses made if a company you have invested in goes bust.

However, if something happened to an investment provider or bank you had money deposited with, so long as the institution was covered by the FSCS, the FSCS will normally cover 100 per cent, with a limit of £85,000 per investment firm or banking licence.

Ensure you deal with appropriately regulated firms and that you check what cover applies to your money. This will help reduce the possibility of losses down the line.

In considering whether to spread your pension across more than one provider, factors to weigh up include whether you'd lose any valuable benefits or guarantees; the administrative complexity of having more than one pension provider; and whether you might end up incurring extra charges against where you currently are.

Do you prefer having things under the same roof or would you be happy with multiple providers?

Before making any decisions, speak to your pension provider or administrator and ask how they ensure your assets are segregated from their own.

Protection: Nick Winter says a custodian will separate your funds from your provider's

Nick Winter, financial planner at Quilter, replies: Over time, our pension is likely to become one of, if not our biggest asset, there to fund the life we want when we want to hang up our boots so to speak.

So, what happens if the provider of your pension or the fund management firm that manages the assets fails?

When you invest through a reputable firm, that is authorised and regulated by the FCA, there are several safeguards to protect your money in the highly unlikely event that the provider or the manager of the assets you invest in, become insolvent.

For example:

- Your money and assets are segregated and ring-fenced from the company's own money.
- The custodians and the asset managers you are invested in provide extensive financial reporting to the regulators, so that they can be assured there are enough assets to meet their liabilities.
- If all other protection fails, you may be protected by the FSCS

What is the FSCS?

Nick Winter replies: The FSCS is the UK's statutory compensation scheme for authorised financial services firms. It is independent from the Government and the financial services industry, but it is funded by firms that are authorised by the Prudential Regulation Authority and the FCA.

It is the fund of 'last resort,' meaning that the FSCS will work with the FCA to seek other ways of maintaining customer's benefits first, for example, finding another provider to take on parts of the defaulting firm's business.

There are limits as to how much compensation the FSCS is able to provide, as this is dependent on the type of product you have.