Warning on tax-free cash

Members of more than one pension scheme could miss out, says Skandia

By Tony Bonsignore

Occupational pension scheme members hoping to consolidate plans could limit their entitlement to tax-free cash if they pick the wrong provider, Skandia has warned.

The warning is aimed at clients who have more than one scheme in place, and so may have a higher tax-free cash entitlement than they would under a single scheme. In many cases clients will be entitled to take more than the 25% allowed in single schemes.

However, many clients will be unaware of their entitlement, Skandia warns. And they may lose their full entitlement if they consolidate with a provider that does not offer multiple schemes, such as personal pensions, Sipps and occupational schemes.

The company estimates that up to 16 million members of occupational pension schemes in place before A-Day could be affected.

Nick Bladen, pensions marketing manager at Skandia, said the potential dangers in consolidating plans underline the need for advice.

'There is huge potential for advisers to ensure their clients achieve optimum tax efficiency,' Bladen said.

Nicola Downs, an adviser at Trentham Invest in Dorking, said: 'In a recent case, a client had set up an executive pension scheme before A-Day and wanted to transfer in SSAS funds under block transfer regulations.

'On the larger fund there was entitlement to 65% tax-free cash. By ensuring the larger fund was transferred first, this extra tax-free cash was protected.

'As a result, the client retained more than £70,000 in tax-free cash, as well as the standard 25%. It was clearly important to ensure that the details of the transfer were considered in depth. The amount saved was substantial.'

Downs: optimising client investment