



ROSE
Financial Planning

Pensions: Now you see them, now you don't!

Regarded as the greatest disappearing trick of all time or alternatively the biggest robbery, exceeding the Great Train Robbery and the Brinks Matt bullion heist?

I am talking about the vast sums of money that have been plundered from company pension schemes.

Both the UK financial press and television have commented on the perilous state of some major company pension schemes. Sainsbury, for example ran up a deficit of £650 million and Royal Mail an unbelievable figure of £5.5 billion.

You may be wondering how things could have gone so wrong, especially since pension schemes were supposed to be fully protected after the Robert Maxwell pension scandal. A number of factors, over the last 25 years or so, have resulted in the current situation.

Years ago companies, big and small, were encouraged by the Government to set up pension schemes for their employees and these employees were also encouraged to join such schemes and put in their own contributions. Things went well and later on companies found that their pension schemes were in surplus so the bosses decided to reduce contributions or take a contribution holiday, after all they had new employees joining who would not retire for more than forty years. Plenty of time to top up the fund.

The scheme actuaries, those financial wizards who formulate life expectancy tables, assumed that the average male would live to age 75. However, improving health, better diet and medical advances meant that these assumptions were out of date as people were, on average, living 10 years longer. The result of this is that pension schemes now have to continue to pay pensions to retired members for a further 10 years or perhaps more and that money is not in the pension pot. Pension schemes normally purchase the benefits for retiring members as they arise and very often nothing is set-aside for employees who are several years away from retirement.

When a company goes out of business what happens to the pension fund?

There are rules in place for scheme trustees to follow and these determine what benefits are payable and to whom. The first priority for the trustees is to secure benefits for all retired employees. This may use up all the available money in the pension scheme! If you are still an employee at that time you may get nothing at all, even if you have been there for 40 years. The same would apply if you had left the company and not uplifted your benefits.

So, if you are concerned about your pension benefits, what should you do?

My advice is the same as it always has been; you **MUST** review all your retained pension benefits. You may have benefits from more than one employer. This is quite common as many people work for several employers before they reach retirement age. As a result they may have 3 or 4 or more different pensions. You need to contact your various scheme trustees and obtain

current statements on your expected pension. You also need to know if the scheme contributions are up to date and if your employer has reduced the benefits in any way. You should ask for an open market transfer value quotation. This could help you if you want to consider taking your benefits earlier than the normal retirement age. Remember that the new pension rules allow you to take benefits from age 50 although this increases to 55 from 2010.

Even if your benefits are totally secure do you know how they will be treated in Spain? No doubt you will have the option of taking a tax-free lump sum at your retirement date. Tax-free in the UK yes, but if you are already a resident in Spain then up to 60% of the payment could be taxed as income in Spain, another disappearing slice from your pension.

If you are already a resident here you should know that Spain has a very favourable tax treatment for annuities (called renta vitalicia). This is where your scheme trustees pay a lump sum to an insurance company in return for a guaranteed income payable for your lifetime. In Spain part of the annuity is payable tax free according to a set scale, which rises to 80% at age 69+. Can you get confirmation from your scheme trustees that they did indeed purchase an annuity? Get it and you will save tax.

Of course some people are in the fortunate position that they worked in teaching or the civil service and as a result they have a pension guaranteed by the Government. They can enjoy a happy retirement on an index-linked pension.

However, I recommend that everyone else with pension benefits, either in payment or still to commence, takes action to look out all their old pension plans or benefit statements and have them reviewed by a qualified pensions adviser.

Taking no action could see more of your pension benefits “disappearing”!!

See www.rosefp.com or call 0034 677 874 948.