

10 ways to secure a platinum pension

The collapse of Lehman Brothers and the market turmoil raise fears for the security of every scheme, writes Jennifer Hill

HOW safe is your pension scheme? The question might never have crossed your mind, but the collapse of Lehman Brothers with a potential black hole in its final-salary pension fund shows that even gold-plated plans are far from guaranteed.

It might have to call on the Pension Protection Fund (PPF), which caps compensation at about £28,000 for those who have reached 65; less for those who haven't.

So high earners with seemingly generous final-salary schemes could stand to lose tens of thousands of pounds per year if their company goes under.

Here, we look at what pension savers can do to ensure they achieve their goals.

1 KNOW YOUR FINAL SALARY SCHEME

Payouts from public-sector final-salary schemes are cast-iron: the government is unlikely to go bust. However, company-scheme sponsors such as housebuilder Taylor Wimpey are under particular pressure.

The deficit in the Taylor Woodrow pension scheme has risen by more than 150% to £162.5m in the past three years, while the shortfall in its George Wimpey scheme has risen by 45% to £215m.

Total deficits of the 200 largest final-salary schemes now stand at £22 billion, Aon Consulting said. Despite that, two-thirds of firms plan to contribute less to pension funds next year.

Check your company's annual report and accounts for its pension scheme's funding or write to the trustees for a summary.

2 KNOW YOUR PROTECTION

Members of final-salary, or "defined benefit", schemes in the red when their companies go under

— as is possible with Lehman — stand to lose at least 10% of their pension fund if they are still working or have retired early.

The PPF pays up to 100% of benefits to members over their scheme's normal retirement age, and 90% to those below that, including those who have taken early retirement (unless for ill health).

However, this is subject to a maximum of almost £28,000 at 65. Compensation falls with age, so if you are 50 when your employer fails, the most you will get is about £21,000, at 55 £23,000 and at 60 £25,000.

Ros Altmann, a pensions consultant, said: "Of all the companies that have gone into the PPF, Lehman is the most likely to have people affected by the cap. There are several cases of people who've taken early retirement and thought their benefits were safe, but face falls of up to three-quarters."

If you are in a money-purchase occupational pension scheme — also known as "defined contribution" plan — your funds are ring-fenced from your employer.

People with personal pensions, such as stakeholder and self-invested personal pensions (Sipps), could claim for 100% of the first £2,000 and 90% of the rest from the Financial Services Compensation Scheme (FSCS), if the insurer were to go under.

3 CONSIDER UNLOCKING FINAL SALARY BENEFITS

If you have concerns about your employer's likelihood of survival and its final-salary scheme is poorly funded, you could think about transferring your benefits out, especially if you're hoping for pension payments of more than the PPF compensation cap.

However, it's not for everyone. Rashpal Bhabra at the consulting actuary Watson Wyatt said: "Transferring to a personal



Terry Clarke, 64, has secured a 'platinum' retirement for him and his wife Christine, 62, by maximising pension contributions and other tax breaks such as Isas, during his career in teaching and IT. Clarke, from Cheam, Surrey, has been retired for 12 years, and is drawing an income from a Sipp with adviser Hargreaves Lansdown.

Are you on target?

How much you need to save monthly for the type of retirement you want*	Saving start age	Silver Income £25,000 or more Required fund £500,000	Gold Income £50,000 Required fund £1m	Platinum Income £80,000 Required fund £1.65m
	20	£417	£833	£1,417
	30	£750	£1,500	£2,416
	40	£1,375	£2,750	£4,500
	50	£3,333	£6,666	£11,083

*Assumes net growth figure of 4% pa (7% growth less 3% inflation), annuity rate of 5% and a retirement date of 60
SOURCE: Killik & Co

pension policy means taking on investment and other risks which would otherwise have to be borne by the employer.

"It's quite possible that by taking a transfer value, the proceeds will buy a smaller pension at retirement than not only the scheme pension, but also the pension that the PPF would provide."

Those aged over 50, especially deferred members — those who have accrued pension benefits, but no longer work for the company — could unlock their entitlement to 25% of their fund as tax-free cash if they are worried their employer will go bust.

4 DIVERSIFY PENSION ASSETS

You could contribute a lump sum or make regular payments into a personal pension rather than a final-salary scheme. You can pay in as little as £25 or up to 100% of earnings, subject to a cap of £235,000 per year.

This cap includes benefits accruing in other pension pots, so ask your occupational-scheme administrator for an assessment of the value of contributions.

"The beauty of this is that it's in your name and has nothing to do with your employer," said Malcolm Cuthbert at the

The pay-off

The Pension Protection Fund pays up to 100% of benefits after retirement. For those yet to retire, or in early retirement (except for ill health), it pays up to 90% with a cap of nearly £28,000 at 65. If 50 when an employer goes under, the most you get is around £21,000.

financial-services firm Killik & Co. Think, too, about building up other assets and making use of all tax breaks. You can shelter up to £7,200 a year in Isas, £3,600 of which can be in cash — £14,400 per couple.

"If you want a round-the-world cruise you have the flexibility to draw down the money," said Stefan Wissenbach at the financial planner Wissenbach Group.

5 THINK LONG-TERM

When Lehman filed for bankruptcy, markets wiped £9 billion off the 200 largest privately sponsored pension schemes. That might appear alarming, but if you have 10 years or more until retirement, don't panic. "Investments work in cycles and losses will be recouped over time," said Jerry McLoughlin at Punter Southall Financial Management.

6 KNOW YOUR GOALS

Most retirees no longer have a mortgage or children's education costs to meet and often spend more on holidays and leisure pursuits. The first step in retirement planning is deciding realistically what sort of lifestyle you want, how much income you would need to fund it and how much you therefore need to save (see table).

7 START SAVING EARLY

The figures in our table might look high, but compound interest — interest on interest — means they are achievable if you start early. A 20-year-old aiming for retirement at 60 would have to save £833 a month. Someone starting saving 30 years later, at 50, would have to fork out eight times more — £6,666 per month.

8 LET YOUR EMPLOYER PAY

Employers with defined-contribution schemes pay an average 6% of workers' salaries into the fund. Workers have to pay in a typical 4% of salary — £960 on an average salary of £24,000 for a total contribution of £2,400, which makes the figures look more achievable. Those who don't join a company scheme could miss almost £69,000 in company contributions over 43 years, Punter Southall said, buying an annual income of £7,032.

9 GET GRANDPARENTS TO HELP

Up to £3,600 per year can be saved in a pension tax-free on behalf of children. Stashing away the maximum every year from birth to 18 would yield a pension fund of £1.31m at 60. That is almost twice as much as the £659,000 pension pot that would accrue if you saved £3,600 per year for 42 years from age 18 to 60, said Axa Sun Life.

10 MAXIMISE CONTRIBUTIONS

If your savings do not come up to scratch, the solution is to save more, said financial planner Towry Law. Most company money-purchase schemes offer the chance to make additional voluntary contributions.

These are mostly cheaper than a separate personal pension and can help to build valuable pension guarantees. Many AVC funds are ring-fenced from insolvency.