

Pick up a pension!

There is no denying that all things pensions-related are the 'in thing' with us financial advisers at the moment. You can see evidence of this in the monthly publications that circulate in Gibraltar.

Long articles using acronyms like 'QROPS' and 'PPP' and explanations of the differences between 'Defined Benefit Schemes' and 'Defined Contribution Schemes'.

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es, this can be a bit boring; but please don't start throwing things at us. Unlike life insurance and basic level investments, pensions are very technical, with lots of rules that have to be obeyed if you are going to get the tax benefits, etc. As a result, we probably know a lot more about this subject than you do (or, indeed, want to) and it provides us with a (rare) chance to show off.

In all seriousness, however, the reality is that, just a couple of years ago, only about 20% or so of the clients who sought our advice did so on pension-related matters. By last year, this had risen to over 60%. Why the change? There are many reasons: a greater realisation that the State will not always provide; the reduction of tax relief on new life insurance policies; the increase in the amount of tax relief on pension contributions; and the ability to get your hands on your pension fund when you retire. So, will people read another article on pensions in Gibraltar - probably, no.

Are people asking for advice on pensions - yes.
To provide material for the remainder of this article, I asked our Pensions Team to provide me with details of a couple of typical enquiries to which I have provided answers. A sort of pensions 'Question Time'. Before you read them, however, the caveat - the answers to these questions should not be taken as specific advice. Why? Because we are all different. Although you may see some similarities to your own circumstances, you should always take specialist advice on all financial planning matters.

Enquiry: I work for a company in Gibraltar that does not have a pension scheme nor, I am told, any intention of settling one up. Now I have turned 40, I am concerned that I will not have much to live on when I retire. Should I start saving now and, if so, how much? I would like to retire at age 60 or earlier, is this realistic? I would add that I have some money in pensions schemes from employment in the UK. I worked for these companies for about 3 years each. Can I transfer these to Gibraltar?

Advice: To be blunt, if you would like to retire at age 60 or earlier you should have started saving for your retirement about 15 years ago. I would add, however, that you are far from being alone in leaving retirement provision relatively late. Unless you are very highly paid or are expecting to inherit a significant amount at an early age, I would suggest that you focus on retiring at 65.

I would recommend that you immediately start saving as much as you can afford into a Personal Pension Scheme. These have been available in Gibraltar since July 2008 and enable you to invest on a regular monthly or annual basis to build up a lump sum for your retirement. If you pay tax under the Allowance-Based System, you should be entitled to receive tax relief of up to 40% on the money you pay in and, under current tax rules, you can take the money out when you retire without paying any tax as 25% can be taken as a tax-free lump sum and the remainder at 0% tax.

Even though your employer seems unwilling to set up a pension scheme, you may wish to ask if they would be willing in some way to contribute

personal pension are not treated as a benefit-in-kind and are therefore tax-free whether you are taxed under the Allowance-Based System or the Gross Income Basis.

As you only worked for the companies in the UK for short periods, it is unlikely that the benefits you would receive will be significant. In theory you may be able to transfer them into a QROPS (Qualifying Recognised Overseas Pension Scheme), although this will probably only be cost-effective if the value of the pension you are seeking to transfer is significant (greater than £500,000).

Enquiry: I work for the Civil Service in Gibraltar and am in the Government Pension Scheme. I have worked 'in Government' since I left school and hope to retire at age 55. Do we need to put any money away for my retirement? What happens to my pensions when I die? I would add that my wife has only worked for short periods and never for an employer with a pension scheme.

Advice: Congratulations on being a member of one of the best pension schemes around.

Provided you complete 33 1/3 years service, you should be able to retire at age 55 with a pension equivalent to 2/3rds of the salary you were earning at retirement. This pension increases in line with inflation. Alternatively, you can opt to take part of your pension as a lump sum ('gratuity') and a smaller pension.

If you choose to retire at age 55, you should be aware that your pension will be taxed at normal rates until you reach the age of 60, from which time it will still be taxed, but at 0%. At age 65 you will also become entitled to receive your Gibraltar State Pension.

You may wish to consider saving up extra money to boost your income between the ages of 55 and 60 or 65. If so, the sooner you start the better. As a member of an occupational pension scheme, you are not allowed to start a personal

pension arrangement so you may wish to consider an alternative method such as a Savings Plan ('Life Insurance'). Under the Allowance-Based System, premiums paid into a new Life Insurance attract tax relief at 17%, which although reduced is still better than most other jurisdictions.

Put simply, when you die your pension dies with you. If you die before retirement and are still a Civil Servant, your wife should receive a lump sum equivalent to three times your salary from the Government Death in Service Scheme. This will go some way to ease her financial position. If you die after retirement, your wife's position would be more serious. To provide money for your wife if you die before her, you may wish to consider taking out a Term Assurance or Whole of Life Policy in her name, with you as the 'life assured'.

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