Action Time for Pensioners (Particularly Brits)

AND ANYONE ELSE WHO HOPES TO RETIRE ONE DAY!

My last article on pensions drew a response from a member of a group representing a couple of hundred British retirees living in Indonesia who are affected by a curiously British form of discrimination. The issue he raised highlights the plight of this group but the wider implications should be of concern to all pensioners and anyone who plans to retire one day. But first let's take a look at this particular anomaly.

Imagine you are British and decided to live in Indonesia when you retired in the late 70's. If you had faithfully paid all your National Insurance contributions, you would have been entitled then to an income of around GBP 10 per week. But that is the amount you would still be receiving today, now the equivalent of around Rp.140,000 a week or Rp.600,000 a month. The same would apply had you moved to any one of over 120 countries. Yet had you moved to countries not on that list, as diverse as the US, Barbados or Spain you would now be enjoying the current UK based pension of GBP 102.15 per week.

Had you retired to Australia you would suffer the same frozen pension as in Indonesia but at least the government there would provide some additional support rather than allow you to descend into abject poverty. Understandably this is a sore point in Australia as around a quarter of a million UK pensioners affected by the policy worldwide live there.

WHAT IS THE PROBLEM?

Under regulation 3 of the Social Security Benefits Up-rating Regulations British pensioners who retire to any one of over 120 countries, including many in the Commonwealth, have their rightful state pension frozen. Meanwhile, those who retire to other countries have their pension uprated annually, just as though they never left the UK. This curious policy currently affects the lives of over half a million British pensioners.

These actually represent no more than 4% of approximately 12 million pensioners but successive governments have steadfastly resisted bringing them into line on the grounds of cost. The issue has been brought to the courts but while they have acknowledged the injustice they have concluded this is a political issue and not a judicial one.

Imagine if a financial institution were to sell a private pension plan to an individual and then told him they were reducing his benefits if he chose to live in any one of 120 listed countries. That financial institution and its executives would probably be given a rough ride by politicians.

WHAT CAN AFFECTED PENSIONERS DO ABOUT IT?

There is actually an organisation, the International Consortium of British Pensioners (ICBP) which has arranged an online petition that can be signed by going to the website: **http.bit.ly/BritPensions**. Also check out **http://www.pension-parity-uk.com** and **www.epetitions.direct.gov.uk**

A direct approach to the MP representing a person's last constituency will also help to convey the message. I can also provide the contact details of a group representative living in Bali if anyone wishes to become more directly involved or be updated on developments.

A return to the UK is a solution in desperate cases. But it is not that easy for someone who has lived overseas for much of his working life. Many have a local wife and even young families. Imagine if large numbers of such families decided to move to the UK. The fact is the country saves a large amount of money when pensioners move overseas since the cost of social services, healthcare and long term care is likely to far exceed the cost of pensions.

SHOULD OTHER NATIONALITIES BE CONCERNED?

While the issue raised affects a relatively small group, the matter of a comfortable retirement or even just surviving in retirement affects all westerners. The position is a little different for most Asians where strong family support ensures the survival and care of the elderly, although even here things are changing and employers will need to adjust. The situation is more critical in the case of expatriates because many no longer contribute to state schemes and are unlikely to have any active occupational schemes. Even these cannot be relied upon; many companies are no longer able to sustain the crippling costs of such schemes. American Airlines, which has just entered bankruptcy, is proposing to abandon its pension scheme. Others are likely to follow.

WHAT ARE THE SOLUTIONS?

The first priority is to make a realistic assessment of what income would be required to provide an acceptable standard of living in retirement.

Let's say you determine you can live comfortably on a pension of US$3,000 a month in today's money. Assuming an annual return on assets of 5% (close to current annuity rates at 65) you would need to have income-generating assets of $720,000 to produce this monthly income. You would need to revise both the $3,000 and the $720,000 upwards each year in line with inflation until the year you retire. Even then at some point after retirement you will have to start dipping into your capital (not possible with an annuity) to preserve your monthly purchasing power. If you have unexpected large expenses such as medical care you could see your capital diminishing at an alarming rate.

The ideal objective is to accumulate sufficient assets to ensure that the return on investments is significantly higher than the income being drawn so that the capital value continues to grow.

HOW CAN THIS OBJECTIVE BE ACHIEVED?

The situation is eased if you can expect at least one source of regular income in retirement such as a state pension (preferably unfrozen!), and ideally an occupational pension related to final salary (although unlikely if you have worked overseas most of your life). If you have cash that you can turn into an annuity this would guarantee you a fixed income for life.

All the above provide the comfort of a regular income. But they also have one thing in common. They die with you, or there may be only limited provision for a surviving spouse.

To build up wealth that has the potential to grow and which will become part of your estate upon death you should be looking at the following:

- One or more private pension plans (investing in a wide range of assets such as stocks, bonds, gold and other commodities).
- An offshore portfolio bond (again with a wide range of assets).
- If you hold a frozen pension (not state) in the UK it may be possible to convert it to an approved QROPS which can provide a regular income and also become part of your estate upon death.
- Real estate, investment property etc (valuable asset but beware of possible illiquidity and maintenance costs)
- Forestry products (trees, biofuels etc.)
- Structured bank products (linked to financial markets but with capital guarantees). Typically take five years to maturity.
- Short term asset-backed lending (funds that that pay high returns for loans to farmers, developers, law firms etc.) Many opportunities now exist in this area since banks have become reluctant to lend.

It is important to diversify and not put all or most of one's eggs in one basket.

THE CALL FOR ACTION IS FOR EVERYONE

While the headline theme has been the plight of British expatriates whose pensions have been unfairly frozen we all need to address the reality of a future that could be bleak without proper planning and early action. In Bangkok recently I was taken aback to see a westerner begging on the sidewalk alongside local beggars. I hope it was not a sign of things to come, but we have to accept that the days of counting on others to take care of us are disappearing. We have to take ownership of our own destinies. ■

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