

How safe is your pen

Are you worried about the security of your pension? Do you think that paying into a pension is a waste of time because you believe it won't pay out when you actually retire?

Well, have no fear! There are a number of measures that are in place to protect your pension benefits with The Pensions Trust. These are described in the rest of this article.

Whilst there are some general security issues that cover all pension arrangements that The Pensions Trust operate, there are some distinctions when it comes to specific protection for different types of pension scheme.

Your pension scheme will generally fall in to one of three types of pension arrangement:

1. a single employer defined benefit scheme (where benefits are linked to either final salary or average salary at retirement);
2. a multi-employer defined benefit scheme (where your employer participates in a pension scheme along with other employers, still with benefits linked to final salary or average salary at retirement); or
3. a defined contribution scheme (sometimes referred to as a money purchase plan where benefits are based on the size of the fund at retirement and the cost of converting this into a pension).

In case you are unsure which of the three types of scheme you are a member of, the table opposite shows which schemes fall under each of the three arrangements.

What type of pension scheme are you in?

Defined benefit multi-employer schemes

- Help the Aged Final Salary Pension Scheme
- Methodist Homes for the Aged Final Salary Pension Scheme
- Northern Ireland Charities Pension Scheme
- Sanctuary Housing Association Final Salary Pension Scheme
- SFHA Pension Scheme
- Scottish Voluntary Sector Pension Scheme
- Social Housing Pension Scheme
- The Career Averaged Revalued Earnings (CARE) Scheme
- The Growth Plan*
- The Independent Schools' Pension Scheme
- The Oxfam Pension Scheme
- Royal College of Nursing of the United Kingdom Pension Scheme
- The United Reformed Church Final Salary Scheme
- William Sutton Housing Association Final Salary Scheme
- Workers' Educational Association Pension Scheme

Defined benefit – single employer schemes

- Action for Blind People Final Salary Pension Scheme
- The Anchor Trust Final Salary Scheme
- The Arthritis Care Pension Scheme
- The Bedford Charity Pension Scheme for Non-Teaching Staff
- The Children's Society Pension Scheme
- The Christian Aid Final Salary Scheme (1988)
- Council for World Mission Final Salary Scheme
- The Edward James Foundation Pension Scheme
- The Save the Children Defined Benefit Scheme
- IndependentAge Final Salary Scheme
- The Leonard Cheshire Disability Group Pension Scheme
- Livability Final Salary Pension Scheme
- MIND (The National Association for Mental Health) Final Salary Scheme
- National Council for Voluntary Organisations Final Salary Pension Scheme
- The Royal National College for the Blind Final Salary Scheme
- seeABILITY Pension Scheme
- St Elizabeth's Centre Final Salary Scheme
- The Stonham Final Salary Pension Scheme
- The Together Trust Final Salary Scheme
- Winchester College Support Staff Pension Scheme
- YHA (England & Wales) Ltd Pension Scheme

Defined contribution multi-employer schemes

- Unitised Ethical Plan
- Flexible Retirement Plan

* Growth Plan Series 1, 2 & 3 provide defined benefits whilst Growth Plan Series 4 provides benefits on a defined contribution basis.

Assets held in trust

The Pensions Trust is set up as a trust. A trust ensures that the assets of the pension scheme of which you are a

member are kept separately from those of your employer. This means, for example, that any creditors of your employer have no legal access to your pension benefits.

A trust is a legal arrangement under which assets are held, invested and distributed for the benefit of the members (or 'beneficiaries') of the trust. This job may be undertaken by individual people (called 'Trustees') or by a company (known as a 'Corporate Trustee'). The Pensions Trust has a Corporate Trustee called 'Verity Trustees Limited'.

The Trustee is the guardian of the pension scheme assets and, as such, has a number of important duties. In particular, the Trustee must:

1. ensure that the pension scheme is run properly and that members' benefits are secure;
2. act impartially, prudently and responsibly in the best interests of all classes of membership;
3. ensure that pension benefits are calculated in line with scheme rules; and
4. exercise its powers of investment with due regard to the interests of all beneficiaries and in accordance with trust law.

In addition to the above duties, the law requires Trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of pension schemes and the investment of scheme assets.

The Pensions Regulator

The Pensions Regulator is the UK regulator of work-based pension schemes. This includes any pension that your employer makes available to you.

The Regulator's aims are to:

1. improve confidence in pensions by protecting members' benefits; and
2. encourage high standards in the way pension schemes are run.



The Regulator's top priority is to tackle any risks that may threaten members' benefits. This includes seeking to reduce the risk of situations arising which may lead to claims for compensation from the Pension Protection Fund (PPF) (see details below). In order to address these risks, the Regulator may, for example:

1. help Trustees and employers come to an agreement about levels of contributions to a pension scheme; or
2. order an employer to pay any shortfall in a scheme.

The Pensions Trust regularly communicates with The Pensions Regulator, particularly in respect of the funding plans for our defined benefit (DB) pension schemes.

Further information about The Pensions Regulator – specifically for members – can be found at www.thepensionsregulator.gov.uk/members/index.aspx

Single employer defined benefit pension schemes

If you are a member of one of The Pensions Trust's DB pension schemes, then the law protects the benefits you have built up in the past. These benefits cannot be reduced without your consent. In addition, should your employer choose to wind-up your DB pension scheme, legislation requires the employer to pay money into the scheme to enable members'

benefits to be completely secured with an insurance company. In simple terms, this will help to ensure that all future pension payments are met.

More importantly, your pension in a DB scheme is protected by the PPF if your employer goes bust or is insolvent at the time it chooses to wind-up the scheme. In this situation, the PPF will generally pay you 100% compensation if you have reached the scheme's normal retirement age, or if you have retired on health grounds (regardless of your age). In addition, people who are receiving pensions in relation to a member who has died will receive 100% compensation.

If you are receiving a pension at the time your employer goes bust, but have not yet reached the scheme's normal retirement age, then the PPF will pay you up to 90% compensation, subject to an overall cap of (currently) £28,742 a year. The same applies if you are yet to start receiving your pension.

The PPF currently pays pensions to over 30,000 people and, to date, has paid over £72 million in compensation to members of pension schemes

whose employer has gone bust. Some of the high profile companies that have gone bust recently and have entered, or are about to enter the PPF include MG Rover, Woolworths and Lehman Brothers. More information about the PPF can be found on their website at www.pensionsprotectionfund.gov.uk

Multi-employer DB pension schemes

Multi-employer DB pension schemes, such as the Social Housing Pension Scheme, the SFHA Pension Scheme and the Independent Schools' Pension Scheme, are all covered by the PPF. However, these schemes would only enter the PPF if all employers in such a scheme went insolvent, which is a very remote and unlikely event.

It is worth noting though, that a solvent employer may decide to withdraw from a multi-employer DB pension scheme. Whilst this would obviously not be good news for individuals employed by that employer – as they would not build up any future benefits in the scheme – legislation requires the withdrawing employer to pay money into the scheme equal to its share of the scheme's 'buy-out' deficit. This 'buy-out' deficit is calculated by reference to the cost of securing members' benefits with an insurance company.

Enforcing such payments from withdrawing employers helps to ensure that multi-employer DB schemes meet the pension benefits due to all scheme members over the long-term.

The Growth Plan

The Growth Plan is classed as a multi-employer DB scheme because of the way benefits have been earned in the past. Because of the number and variety of employers that participate

in the Growth Plan, the chance of all employers going bust and the scheme entering the PPF is extremely remote. However, as for the Trust's other multi-employer DB schemes, any employer that voluntarily withdraws will be required to pay its share of any shortfall and need to secure members' benefits with an insurance company,

In September 2008 we informed all existing Growth Plan members that the Trustee of The Pensions Trust had secured all Growth Plan pensions in payment (as at August 2008) via an insurance policy with Paternoster UK Ltd.

Every three months, Paternoster pays The Pensions Trust the total amount needed to provide the required number of pension payments in that quarter. Paternoster holds reserves well in excess of the level required to meet all their payments to The Pensions Trust.

Further, in the unlikely event that Paternoster could not meet its payments, the Trustee of The Pensions Trust, as the policyholder, will be protected by the Financial Services Compensation Scheme (FSCS), which covers 100% of the first £2,000 of each member's pension plus 90% of the remainder of the value of the policy. The Trustee is responsible for any shortfall between the benefits being paid and the amount provided by the FSCS.

Defined Contribution pension schemes

If you are a member of one of The Pensions Trust's defined contribution (DC) pension schemes (i.e. either the Flexible Retirement Plan or the Unitised Ethical Plan), then you will be aware that the value of your pension fund can go down

as well as up in line with the funds you are invested in. There is no protection against this type of fall in the value of your pension. Protection of your benefits in a DC pension scheme only arises where there is involvement by a company authorised by the Financial Services Authority (FSA), and that company – including funds managed by that company – gets into trouble and ceases trading.

In this situation, members are covered by the FSCS, which can award up to £48,000 in compensation to any one member where they decide that an investment company is in default and is unable to satisfy any claims against it.

Annuities

Many members who take retirement benefits from The Pensions Trust's Flexible Retirement Plan, Unitised Ethical Plan and the Growth Plan Series 4 do so via securing an annuity with an insurance company. An annuity pays a pension income for life.

If the provider of your annuity were to go bust (and to date this has not happened to any annuity providers), you would qualify for compensation from the FSCS. The level of protection is calculated as 100% of the first £2,000 plus 90% thereafter. This includes the value of the annuity, the level of any spouse's benefits, any increases to your pension and any other features you have built into the annuity.

Further details about the FSCS can be found at www.fscs.org.uk

In summary

Hopefully this article gives you some reassurance about the safety of your pension with The Pensions Trust, but if you are unsure about any aspect of what has been covered above, please contact us on 0113 234 5500.