The problem

JOHN B was coasting nicely towards retirement, secure in the knowledge that, although his earnings at a big manufacturer had been modest, he had kept up contributions to the pension scheme and there was a reasonable income to come at 65.

But with the date just a few months away, John, from Somerset, has had a nasty shock after deciphering some disturbing calculations on his most recent pension statement.

Since 1995, his salary has increased from £13,400 to £21,200. But whereas 13 years ago his pension already amounted to an annual retirement income of £3,344, it has only increased 1.3 per cent a year to £3,918.

John was made redundant by the company in 1995. His benefits were deferred.

But then he rejoined the firm three years later and restarted contributions.

"I expected my pension to be index-linked and don't understand how growth has been so poor," he told Your Money. "My retirement income is of upmost importance. How can these figures be correct?"

The solution

Real shock in pension statement

Retirement plans may not be what they seem, reports **Maisha Frost**

Picture: ALAMY

CLOSE EYE: Always read the small print in any pension literature

Control your cash

JOHN is raising legitimate questions but he is doing this far too late in the day, says independent pensions expert Nicola Downs. He believes he has had one pension but she thinks he has two separate schemes, one dating from his first period of employment and another from 1998.

The first plan was made up of guaranteed minimum pension (GMP) rights and discretionary, or excess, ones. During the time the pension pot was deferred, the two parts increased at different rates.

"John needs to check small print in his pension handbook to see revaluation rates for both parts," Downs says. "The discretionary proportion is far greater — it could be well over 80 per cent of the whole amount. But the revaluation rate is probably far less, which is why the pension has not grown as he had hoped.

"He was unaware of this split. It could even be that increases in revaluation on the excess side have not been added. He must check."

When John rejoined the company, Downs is confident he contributed to a new plan with different rules.

"According to the statement, he did not transfer the deferred pension into the new scheme.

"I fear the terms were different, such as the contribution rate from employer and employee, percentage amount of salary accrued and pensionable salary — was it basic pay plus overtime or bonuses, which are normally not pensionable?

"These are things he should have established."

Downs also rejects John's view that his scheme was index-linked.

"In deferment, the guaranteed part has increased but the excess has not, indicating it was not index-linked."

John's options are limited but he could ask the trustees why his pension has grown so poorly.

"But he may well get the answer that there are two pensions," Downs says. "The first in deferment has increases unrelated to his salary. Here the main part is excess with little or no increase. The second pension is linked to current salary but the rules are less generous."

● *Nicola Downs: 01306 881999, www.trenthaminvest.co.uk*

Act now to avoid any pain

EVEN if you are in a works pension scheme, do not assume it will deliver everything you expect, says independent financial adviser Nicola Downs.

"Employees have to read the small print," she says. "I've seen so many who have failed to understand their plan, what the guaranteed and non-guaranteed benefits components mean."

In John's case (above), his expectations might have been different if he had realised there were two plans and he had got a projection of benefits when he contributed again.

"If he knew then what he knows now, what would have been his reaction to the new deal?" she asks.

"At the very least he might have saved more or taken out another scheme to compensate for the shortfall he is facing?

"A projection of pension benefits would have been available to him a decade ago when he rejoined the company. How he must regret not getting this.

"Let this case stir other readers into action."

If you have a problem, write to Maisha Frost, Sunday Express, 10 Lower Thames Street, London EC3R 6EN or email maisha.frost @express.co.uk. Please only send copies of documents, not originals, and always include your phone number.