FREE

AES INTERNATIONAL

EXPAT PENSIONS:
The Ultimate Guide

The
THREE TRICKS
an offshore salesman could use
TO RUIN YOUR RETIREMENT

Expat pensions: the ultimate guide

Your retirement years can be some of the happiest of your life. You have saved and worked hard to reach the point when you can relax and put all of life's little worries behind you.

However, there are many pitfalls and dangers which can hamper your retirement dreams and unfortunately many people more than happy to relieve you of your hard- earned cash.

I'm referring to unscrupulous offshore product vendors and the tricks they regularly use to take away everything you have so they can enjoy their life with your money.

Trick #1 – Transfer into an offshore investment bond

One of the most costly and common recommendations international advisers make is to transfer your pension into an offshore investment bond.

The adviser is likely to tell you that by doing this you'll have more control over your money and will be able to invest it more freely. They may even say there are tax benefits because these schemes are based in lower tax jurisdictions such as the Isle of Man or Ireland.

In reality, moving your pension into an offshore investment bond without fully understanding how these often opaque investment platforms are commonly used could cost you serious money in hidden commissions and charge. Wrongly used, these vehicles will erode your pension and fill your adviser's back pocket. Worse still, there's usually no way back, as transferring out of these schemes can be extremely costly.

Offshore investment bonds can be a helpful saving tool if you are based in a high tax jurisdiction, but, dependent on the manner in which your adviser uses them, may make no sense as a place to put your pension savings as they will most likely restrict access and will potentially have heavy charges. The only reason many international advisers would want you to transfer your money is because they can make tens of thousands of pounds in commission. That's your pension money being paid to them.

Trick #2 – Transferring your money just to get a hefty commission

There are plenty of good reasons why you may want to transfer your pension. If you're planning to retire overseas, it could make financial sense to take your pension out of the UK and use an overseas pension called a Qualifying Recognised Overseas Pension Scheme.

However, there are many advisers who do not fully understand the implications of moving a pension overseas, whether that is the tax implications or even simply the benefits you will lose or gain.

By transferring your pension, regardless of whether this is the right decision for you, the adviser can make a seriously big commission. This is your pension money going into his pocket.

What's more, many overseas advisers are simply not qualified to give you advice on your UK pension. The UK's financial regulator, the Financial Conduct Authority, recognises this and has stipulated that only those authorised to do so can offer transfer advice on UK pensions - you can check our authorisation and what it looks like on the FCA website.

You wouldn't use an unqualified doctor, dentist or even car mechanic, so why risk your financial future on an unlicensed adviser? An inappropriate transfer could seriously damage your financial wealth. Make sure your adviser is qualified, and their firm regulated, before taking any advice.

Trick #3 – Toxic investments paying high commissions

Another reason advisers may be keen to transfer your pension into an opaque investment vehicle or another pension scheme, is so that they can fill your pension portfolio with toxic investments that pay lots of commission.

The last thing you want to do with your pension as you approach retirement is put it into high-risk investments which could potentially lose you all of your money.

Of course the silver-tongued salesman isn't going to tell you that. They want you to invest in funds which will pay lots of juicy commission. They're more likely to talk about "guaranteed returns" and "safe bets". And once you have made the investment and it has gone wrong, the likelihood is they will be nowhere to be found as, once they've cashed in the initial commission cheque, you're of no interest to them.

Just remember to ask yourself "what is this adviser getting out of me making this investment? Why is he so keen?". Remember the old adage: if it looks too good to be true, it probably is.

How to protect yourself from these tricks

In this guide we will give you all the facts and information you'll need to help you protect yourself and your pension from these tricks.
This guide is aimed at both British expatriates with pension schemes in the UK and who are planning to retire abroad, as well as those currently living in the UK but who are also considering retiring abroad.

It is also for UK "non-doms" who have permanently and definitely left the UK but still have pension benefits there.

The guide is split into three parts. Part one is for those with a "money purchase" pension scheme such as a personal pension, stakeholder pension, self invested personal pension (SIPP) or an additional voluntary contribution plan. These pensions are also collectively known as defined contribution (DC) schemes and this is how we will largely refer to them throughout for ease.

Part two is for those who have a final salary pension – also known as a defined benefit (DB) scheme.

If you aren't sure what type of pension you have, ask your pension provider or contact us using the form at the back of the guide and we will assist you.

Part three offers some guidance on how you may want to structure your pension portfolio for investment purposes. We also highlight some very costly and common mistakes people make which can seriously affect their retirement income.

Pensions can be very complex and it is important that you seek independent advice from a qualified and properly licensed financial adviser before making any decisions. Please contact us using the form at the end of this guide if you would like to speak with one of our award winning team.

James McLeod
Head of Pensions

Part one – DC schemes

Part two – DB schemes

Part three – investments

Part one – for those with defined contribution (DC) schemes

In this first part of the guide we will set out exactly what options are available to you, if you have a defined contribution pension scheme and are planning to move abroad, or are already abroad and have pension assets left in the UK.

There are three main choices:

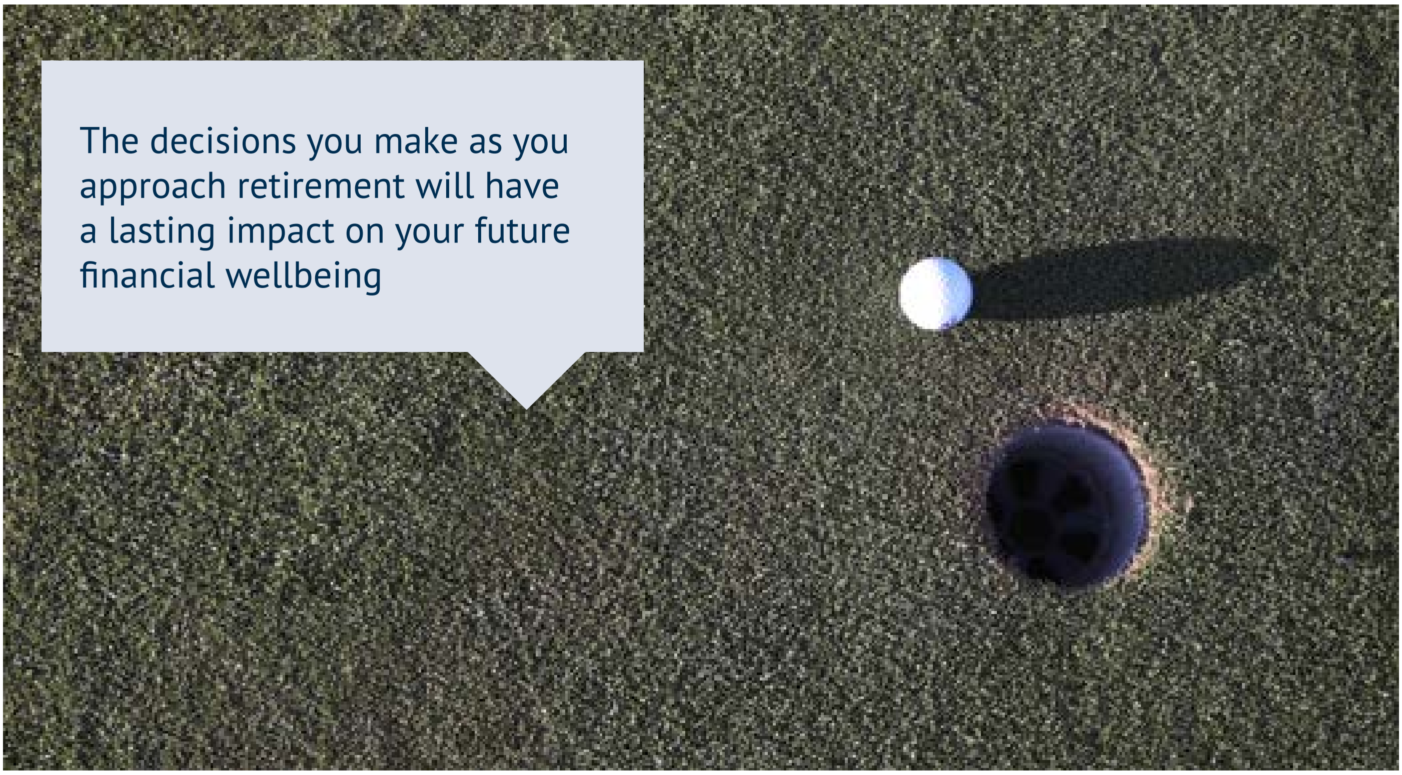
1. Leave the pension in the UK and purchase an annuity
2. Leave the pension in the UK and enter "pension drawdown"
3. Move the pension outside of the UK into a scheme known as a QROPS

1. Buying an annuity

An annuity is a traditional pension arrangement; one which is becoming less common now that the Government has granted people more flexible access to their pensions – more on this later.

An annuity purchase is a one-off transaction in which an individual's entire pension savings, minus any pension commencement lump sum (sometimes called a tax free lump sum), are exchanged for a contractual arrangement that guarantees an income for life.

Before you purchase an annuity, you are allowed to



– and should – shop around using what is known as the Open Market Option to see what rates of income are available and to see if you can get a better deal than that offered to you by your existing pension company.

If you do decide to take this route, make sure you thoroughly research your options as the difference between the available rates of income can be considerable.

The table below shows the incomes offered by different insurance companies for a pension of £250,000, after £62,500 tax-free cash (25%).

	ANNUAL INCOME	COMPARED TO TOP QUOTE
Canada Life	£10,582.44	–
Hodge Lifetime	£10,449.89	-1%
mgmadvantage	£9,814.92	-7%
Prudential	£9,663.12	-9%
Legal & General	£9,636.48	-9%
Aviva	£9,482.04	-10%
Standard Life	£9,019.80	-15%

Assumptions

Date of birth:	26/03/1950	Annual increases:	None
Postcode:	YO23 1BW	Guarantee period:	None
Pension purchase value:	£187,500.00	Payment frequency:	Monthly
Tax free cash:	£62,500.00 (25%)	Payment timing:	In arrears
Spouse's pension:	Single Life	Date of quote:	26/03/2015
Enhanced:	No		

Higher rates of income are available for a wide range of health conditions and even for being a smoker, so make sure you fully understand your options before you commit to buying an annuity.

For instance, in the above example, someone slightly overweight, who smokes 10 cigarettes a day, with high blood pressure and high cholesterol could receive a maximum income of £12,537.24 (as at 26/03/2015).

It is also important to note that, generally speaking, the annuity dies with the policyholder so there is no option to pass on any benefits on death. There are some exceptions though:

- A joint life annuity will allow you to pass annuity benefits onto a spouse on death
- Choosing a "guaranteed period" where your income is assured for a certain number of years even if you die before the period ends. If this were to happen the income would then be paid to your beneficiaries for the rest of the guaranteed term
- Using an annuity protection lump sum. If you die before a certain age, which is pre-agreed with your provider, the fund value, minus any income already taken, can be paid to your beneficiaries.

Before buying an annuity, you are allowed to take up to 25% of your pension as a tax free lump sum. However, it is worth bearing in mind that this will decrease the amount of annuity income you will then receive for the rest of your life or the amount you will then be able to pass on to any beneficiaries.

If you decide to buy an annuity, do not forget that the income will be subject to your marginal rate of UK income tax before it reaches your account.

2. Pension drawdown

In pension drawdown, your pension fund remains whole and you take an income from it.

Because your pension remains invested you are able to continue to grow its value – or at least slow the impact of taking an income – once you have begun retirement.

Drawdown is much more flexible than an annuity. With drawdown you are able to change the amount of income you would like to take at any time and the frequency. You are also able to pass on benefits after death. This can be passed on without being taxed if death occurs before the age of 75.

Before commencing drawdown, you are allowed to take up to 25% of your pension as a tax free lump sum.

Drawdown is an attractive option as it gives people flexibility over how much income they take. Also, if the underlying investments perform well, they can offer some protection against inflation.

It is worth noting that drawdown carries more risk than an annuity option because there is no guaranteed income and the value of your pension may fall.

As with an annuity, by leaving the pension in the UK, it will be subject to UK income tax at the normal rates.

New pension flexibility – what does it mean?

The UK has just undergone the biggest shake-up of its pension rules since the pension regime was introduced in 1921, with wide-sweeping changes granting people unprecedented access to their pension savings.

From 6 April 2015, UK pension holders can access as much of their fund as they like, as often as they like, from age 55.

There are of course some considerations to bear in mind as, although you will be able to access your pension cash much more freely, you will still have to pay tax on any withdrawals.

Under the new rules, you could decide to take your entire pension as a cash lump sum. But if you do this, only the first 25% will be tax free, with the remaining 75% taxed at your highest marginal rate of tax.

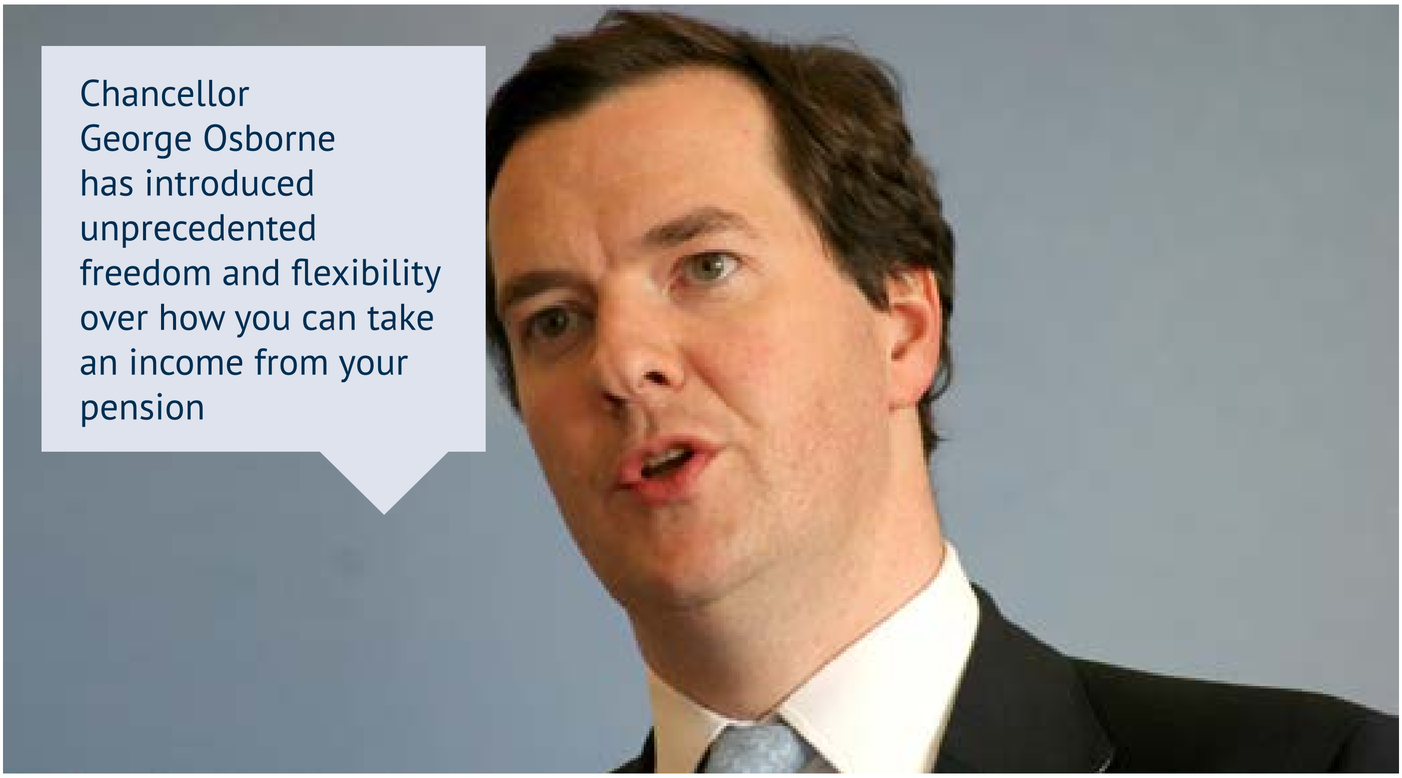
You are also free to decide how much and how often you would like to receive payments from your pension.

Before you reach the age of 75, or before what is

Consider this before entering drawdown

Before entering drawdown you may wish to transfer your existing pension provisions into a self invested personal pension. There are four main reasons why this may be beneficial to you:

1. Consolidate all existing pension provision into one scheme to make it much easier to manage
2. Ability to invest your pension much more freely than many other pension schemes will allow
3. Work with an adviser/advisory firm who can help you plan your retirement income or your inheritance
4. In some circumstances greater flexibility in regards to beneficiaries



known as a benefit crystallisation event, you will be able to take lump sums out of your pension each year, with the first 25% tax free.

After age 75, or a benefit crystallisation event, you will be taxed on each withdrawal at your highest marginal rate as you withdraw the remaining 75%.

The most important thing to remember is that the new pension flexibility rules mean you can decide how much and how often you would like to withdraw cash but that it is still subject to income tax.

The rules also mean you will have more choice in how you use your money to support your retirement. For example, you could invest in a buy-to-let property or even start a new business venture.

3. A Qualifying Recognised Overseas Pension Scheme (QROPS)

QROPS were introduced in April 2006 and allow people to transfer their pension to another country if they decide to move outside the UK.

It is really important to know that QROPS are only suitable for those who intend to leave the UK permanently and who are also prepared to completely cut financial ties with the UK.

There are a very wide choice of QROPS available, with trustees based in a number of different jurisdictions. Each jurisdiction has different tax levels and rules which will impact the amount of tax you pay on your pension and how this is managed.

Tax saving tip

You don't need to reside in the same country as your QROPS.

Ask your financial adviser which QROPS jurisdiction will work best with where you want to retire.

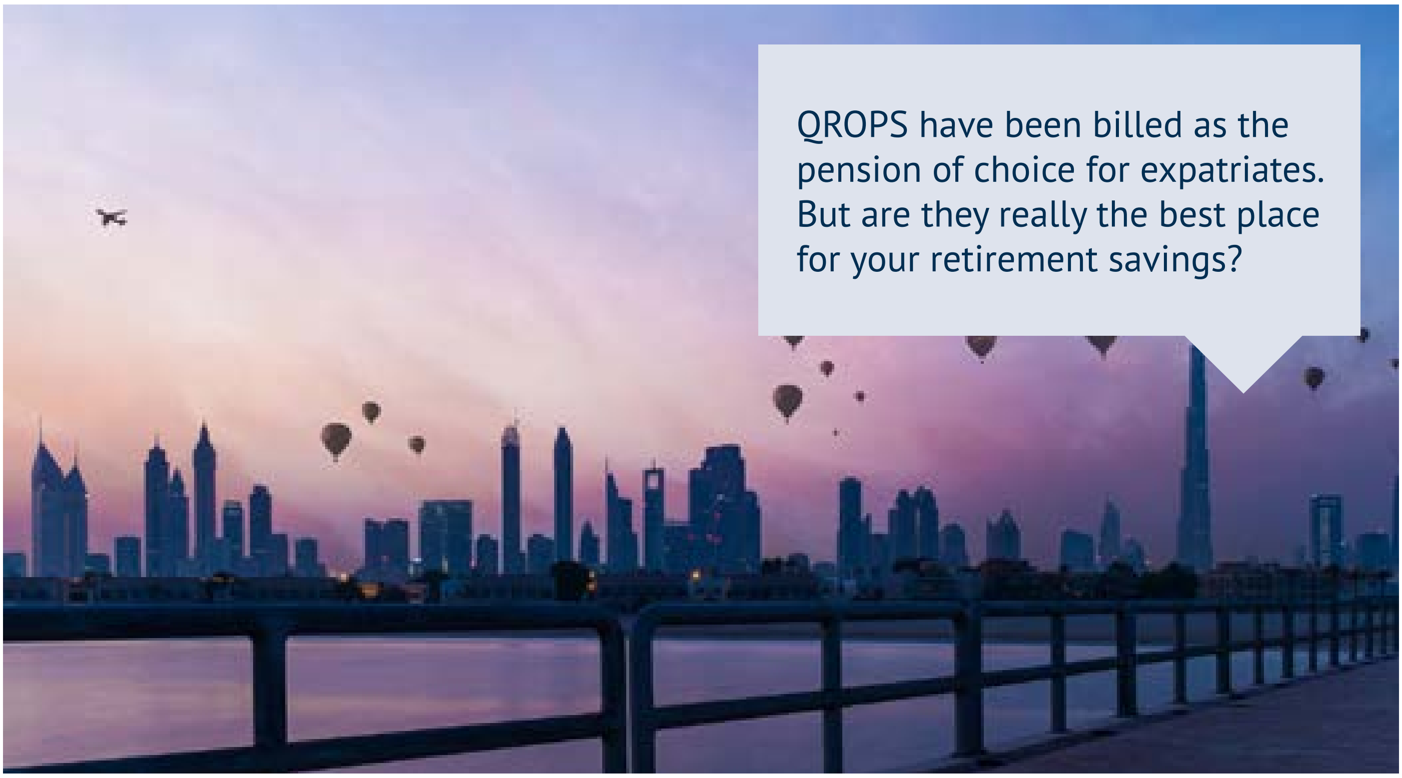
You could save lots of money in tax!

At the end of this chapter we give an example of how transferring your DC scheme into a QROPS could work in practice.

There are a number reasons why moving your pension into a QROPS could make financial sense. One of the biggest reasons is because you could pay much lower rates of tax.

Here are three big tax advantages a QROPS can offer:

1. Income is not subject to UK tax at source



therefore allowing low/no taxation depending on jurisdiction and country of residence

2. For those with larger pensions, a QROPS transfer is a benefit crystallisation event and can ring-fence monies against taxation as/when exceeding lifetime allowance

3. No tax on passing on benefits post age 75, which is significant considering current life expectancy rates.

In addition, QROPS will usually allow a slightly wider range of investments than those available within a SIPP. One popular investment made by people through their QROPS is into residential property, something not permitted within UK pensions.

At retirement, you are still able to take a tax free lump sum – the amount of which depends on the scheme you use.

However, at the time of publishing this guide, only QROPS based within the EU are able to offer clients access to 100% of their pension as with the new flexibility rules in the UK. Most QROPS will still stipulate that at least 70% of the fund's value must be used to provide an income for the life of the beneficiary.

At a glance: QROPS vs. SIPP

	QROPS	SIPP
Investment flexibility	Almost full autonomy over investment decisions	High flexibility but still some exclusions such as residential property
Tax	Income either taxed at source or taxed as per rules of country one resides in, depending on QROPS jurisdiction and what tax agreement is in place between that country and the UK	Taxed at marginal rate
Death benefits	No tax – fully protected both pre and post age 75	Protected pre 75; subject to taxation post 75
Lifetime allowance	No Lifetime allowance, transfers-in count as a benefit crystallisation event	£1.25m
Flexibility	70% of pension must be used for income	Full pension flexibility from April 2015

In practice – transferring from a DC pension into a Maltese QROPS

Mr Shepherd had three occupational personal pension schemes which had a combined value of £950,000. At age 50 he emigrated to Spain, took pension transfer advice and transferred to a Maltese QROPS.

One of his primary concerns was having more control over what he invested his money into, given there were only a limited range of options available through his current schemes. By working with a financial adviser he was able to place his money into a wide range of funds with an aggressive attitude to risk. It was also much easier to monitor within one scheme.

When the funds were transferred it counted as a benefit crystallisation event, meaning that he did not exceed the current lifetime allowance of £1.25m. This allowance is due to be reduced to £1m in 2016 and as his pot grew substantially beyond this limit by age 55, the decision to transfer into a QROPS saved tens of thousands of pounds in tax.

At age 55 he decided to use his entire pension for income as he had other cash savings and used only around 3% per annum.

He passed away at age 77 with around £500,000 left in his pension but, even though he had passed his 75th birthday, because he was in a QROPS he was able to leave this money to his children, completely tax free.

Part two – for those with defined benefit (DB) schemes

Here we will set out exactly what options are available to you if you have a defined benefit (DB) pension and are considering moving abroad. There are essentially three main options:

1. Leave the pension in the UK in its existing DB arrangement
2. Move the pension into a self invested personal pension
3. Move the pension outside of the UK into a QROPS

1. Leave the DB scheme where it is

Defined benefit schemes can be very generous and offer people a guaranteed income for the rest of their lives. If you are very close to your retirement date and are not keen on investing your money, it may be best to leave your money where it is.

In order to understand whether this is the best option you need to make sure you fully understand how your pension works.

Here are some questions you can ask your DB pension provider to help you decide:

- How much is my income?
- At what age do benefits commence?
- What are the spousal or civil partner benefits?
- Are there any dependents benefits?
- Can I take a pension commencement lump sum?
- How is the income indexed?
- What is the current funding level?
- What is the cash equivalent transfer value?

Once you know the answers to these questions, you will be in a much better position to speak with one of our financial advisers who can help you decide which option is right for your retirement.

2. Transfer to a self invested personal pension (SIPP)

By transferring your DB scheme into a SIPP, you will have much more freedom in terms of what you can do with your pension savings, partly because of the new pension flexibility rules introduced in April 2015.

One of the main benefits of using a SIPP is the investment freedom you will have over your money. Because you are free to choose from a wide range of investments, such as shares and investment funds, you can help protect your income from inflation and even continue to build your pension pot once in retirement.

Consider this before transferring

If you do decide to transfer from a DB scheme into a DC scheme you will be giving up a contractual promise of income.

You will have access to a fund of physical money and therefore investment risk and no guarantee of income.

Another attraction of transferring to a SIPP is having greater control over your retirement date. It may be that, due to government changes, your retirement date has been pushed back five or even 10 years. With a SIPP, you can begin taking benefits from age 55.

If you do decide to transfer into a SIPP you will then be able to use income drawdown to take your pension benefits. If you were to select this option, you could take an income from your pension, while leaving it invested.

Another major benefit of transferring into a SIPP is the additional death benefits available. Before age 75 – or when a pension is crystallised – the pension benefits can be passed on without tax to anybody. After crystallisation or age 75, benefits can still be passed on, but will be subject to the new beneficiary's marginal rate of tax.

Most DB schemes will offer some benefits for spouses, but at much reduced rates, usually 50%. Some will also offer dependents pensions but these are very low, usually around 10% or 20% for children up to the age of 23, the minimum age permitted by law - and many schemes' dependant's benefits are more restricted.

New pension flexibility – what does it mean?

By transferring into a SIPP, you will also be able to take advantage of the new pension flexibility rules in the UK. This means you can access your entire pension from age 55.

The UK has just undergone the biggest shake-up of its pension rules since the pension regime was introduced in 1921, with wide sweeping changes granting people unprecedented access to their pension savings.

From 6 April 2015, UK pension holders can access as much of their fund as they like, as often as they like from age 55.

There are of course some considerations to bear in mind as, while you will be able to access your pension cash much more freely, you will still have to pay tax on any withdrawals.

Under the new rules, you could decide to take your entire pension as a cash lump sum. But if you do this, only the first 25% will be tax free, with the remaining 75% taxed at your highest marginal rate of tax.

You are also free to decide how much and how often you would like to receive payments from your pension.

Before you reach the age of 75, or before what is known as a benefit crystallisation event, you will be able to take lump sums out of your pension each year, with the first 25% tax free.

After age 75, or a benefit crystallisation event, you will be taxed on each withdrawal at your highest marginal rate as you withdraw the remaining 75%.

The most important thing to remember is that the new pension flexibility rules mean you can decide how much and how often you would like to withdraw cash but that it is still subject to income tax.

The rules also mean you will have more choice in how you invest your money. For example, you could use the money to invest in a buy-to-let property or even start a new business venture.

3. A Qualifying Recognised Overseas Pension Scheme (QROPS)

In some ways a QROPS is similar to a SIPP as it will provide you with much greater investment freedom and the option to move forward your retirement date.

However, as well as these two very clear benefits, by using a QROPS, you will move your money outside of the UK for tax purposes which could be very beneficial, particularly if you are living or going to live in a low tax environment.

It is really important to note that QROPS are only suitable for those who intend to leave the UK permanently and who are also prepared to completely cut financial ties with the UK. Indeed, for some wishing to change domicile by cutting all UK ties, it may be essential to transfer revenue benefits out of the UK.

There are a very wide choice of QROPS available, with trustees based in a number of different jurisdictions. Each jurisdiction has different tax levels and rules which will impact the amount of tax you pay on your pension and how this is managed.

At the end of this chapter we give an example of how transferring your DB scheme into a QROPS could work in practice.

There are a number reasons why moving your pension into a QROPS could make financial sense. One of the biggest reasons is because you could pay much lower rates of tax.

Here are three big tax advantages a QROPS can offer:

1. Income is not subject to UK tax at source therefore allowing low/no taxation depending on jurisdiction and country of residence

2. For those with larger pensions, a QROPS transfer is a benefit crystallisation event and can ring -fence monies against taxation as/when exceeding lifetime allowance

3. No tax on passing on benefits post age 75, which is significant considering current life expectancy rates.

In addition, QROPS will usually allow a slightly wider range of investments than those available within a SIPP. One popular investment made by people through their QROPS is into residential property, something not permitted within UK pensions.

At retirement, you are still able to take a tax free lump sum – the amount of which depends on the scheme you use.

However, at the time of publishing this guide, only QROPS based within the EU will be able to offer clients access to 100% of their pension as with the new flexibility rules in the UK. Most QROPS will still stipulate that at least 70% of the fund's value must be used to provide an income for the life of the beneficiary.

What is a QROPS?

QROPS were introduced in April 2006 to allow the free movement of pensions, as per EU law.

The rules allow people to move the trustee ownership of their pensions to another country if they decide to move outside the UK.

QROPS are registered with HM Revenue & Customs and regulated by the local pension regulator in the jurisdiction they are based.

You do not need to live in the same place as your QROPS is based.

QROPS gone wrong – a word of caution

Planning to retire in Thailand or the Philippines?

If you transfer your pension into a QROPS you must make sure you get professional advice from a qualified financial adviser who understands the full tax implications of moving your pension.

This is because, while moving your pension outside of the UK can usually save you money, this isn't always the case.

Take the popular QROPS jurisdiction of Malta for example. At the beginning of 2015, Malta had what are known as "double taxation agreements" (DTA) with 68 countries. If there is an agreement in place it means you will only be taxed once – in the country you are resident in.

However, if there is no DTA in place, then you could end up paying income tax twice. This would be the case in Thailand and the Philippines – both popular retirement jurisdictions. If you were to move there and had transferred your pension to a Maltese QROPS, it could end up costing you up to 35% tax at source PLUS possible further taxes in the jurisdiction you live.

Always seek professional advice from a qualified adviser.

At a glance: QROPS vs. SIPP vs. DB scheme

	QROPS	SIPP/INCOME DRAWDOWN	DB SCHEME
Tax	Income either taxed at source or taxed as per rules of country one resides in, depending on QROPS jurisdiction and what tax agreement is in place between that country and the UK	Taxed at marginal rate	Taxed at source as per UK marginal rate
Retirement date	From age 55	From age 55	Most DB schemes will begin paying income at age 60 or 65 (access can be brought forward but normally with a 5% per annum charge)
Investment flexibility	Almost full autonomy over investment decisions	High flexibility but still some exclusions such as residential property	None
Death benefits	100% of benefits passed to next of kin on death, free of IHT	In most cases, the pension can be passed on tax free or subject to income tax at the beneficiaries' marginal rate	Scheme dependent, but will usually only allow benefits to be passed on to a spouse (usually with a heavy deduction)*

*See earlier mention of dependant's pension

In practice – transferring from a DB pension into a Maltese QROPS

United Arab Emirates resident Mrs Fletcher decided to transfer out of her defined benefit scheme into a Malta based QROPS.

She was 54 at the time of the transfer and was able to begin taking benefits the following year at age 55 – 10 years earlier than the DB scheme she transferred out of would have allowed.

When she began retirement, Mrs Fletcher took a pension commencement lump sum of 30%, 5% more than is allowed in the UK. Mrs Fletcher was able to take this amount because she had lived outside of the UK for more than five years and because the QROPS rules stipulate that only 70% of the transfer value must be retained to be used as a retirement income.

Over the next 10 years, Mrs Fletcher took an income worth 5% from her portfolio each year and, with her investments growing at around 5% per year too, her pension remained in good shape.

Unfortunately, Mrs Fletcher passed away shortly after her 65th birthday but, because she transferred out of the DB scheme into a QROPS, she was able to leave the remainder of her pension to her husband, completely free of tax.

Part three – investing for retirement

One of the most important things to remember is that your retirement savings have taken you a lifetime to build and, while you will still want to invest, you cannot afford to lose significant sums of money. You will not get another chance to build your pension savings.

There are unscrupulous advisers out there who are more than happy to take your cash and to invest it into high risk, high commission funds, which often fail. The only winners in these cases are the advisers who are paid vast commissions and will then disappear as soon as there is trouble.

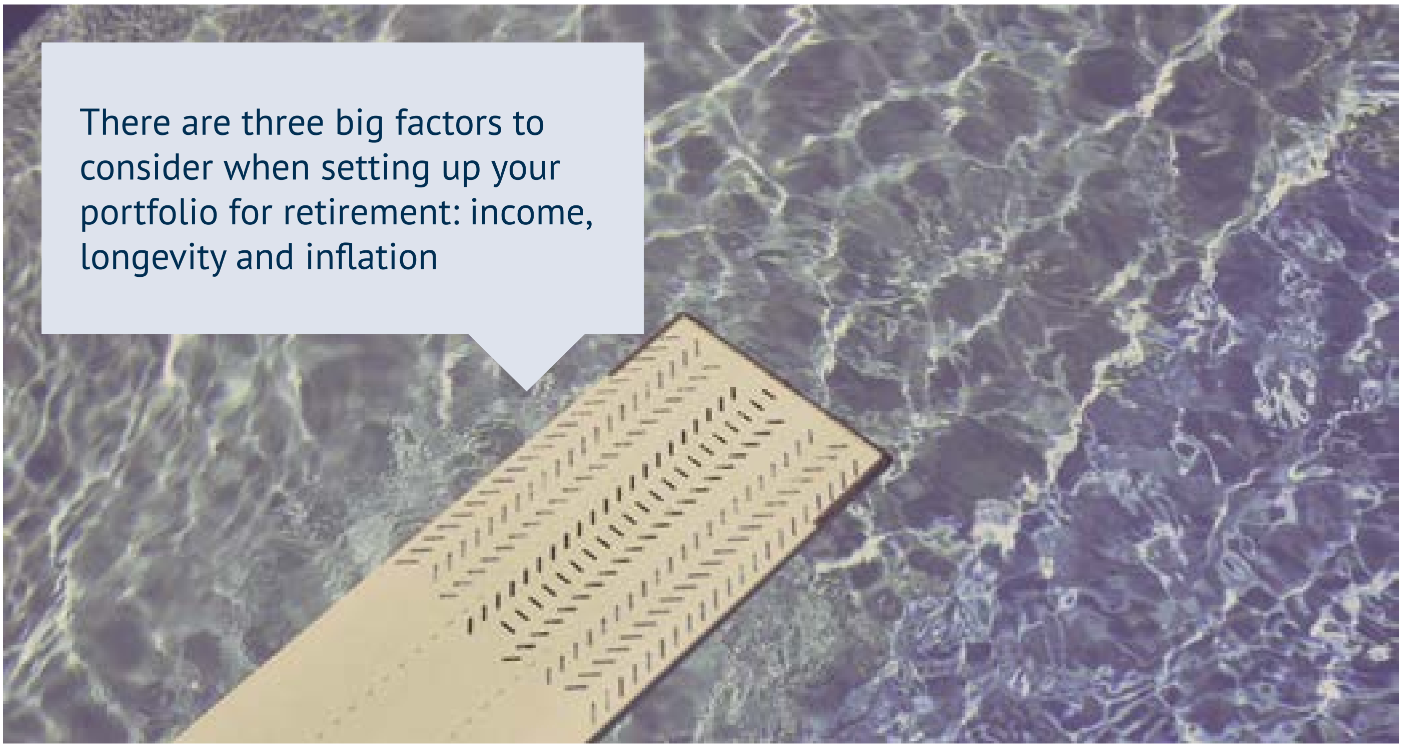
Before you begin planning your pension investment portfolio make sure you discuss your attitude to risk with your financial planner.

There are three big considerations you must take into account when setting up your portfolio for retirement:

1. Income – Generating enough income for your desired lifestyle

2. Longevity – Making sure your money lasts through your retirement

3. Inflation – Stopping your capital from being eroded by inflation



1. Income

There are two main ways that you can generate some income in retirement.

One traditional method is to invest in an income paying equity fund. These funds will invest into dividend paying companies. These dividends are then paid into the fund which is then able to produce an income.

Another method of generating income in retirement is through investing in a bond fund. These operate in a similar manner as an equity fund, except rather than owning shares in the company, the fund owns debt issued by the company. The issuing company will then pay the fund a set rate for lending it money.

2. Longevity

Clearly, if your investment strategy is no good, your money is going to run out. It could be particularly damaging if you lose a substantial sum of money through a stock market crash or other unexpected event, as there is no way to get your money back quickly.

This is why the asset mix within your portfolio is important. As well as generating the required amount of income, you also want to ensure you do not have too much risk.

Consider allocating some of your portfolio to very highly rated government bonds – UK and German government bonds are two of the best – or very strong so-called "blue chip" companies.

By purchasing bonds from these companies, or investing in funds which do, you will offer your portfolio some stock market protection, while also growing your capital.

Be wary of structured products

Structured products are often sold as ideal for pensions with capital guarantees and incoming producing features. Be wary! When these products fail, they can be catastrophic for your finances.

In practice – when an investment fails

Mr and Mrs Smith, moved to Spain around six years ago with £152,858 in savings to see them through to retirement. They bought a property and set up a small B&B business.

In addition to their savings, Mr Smith had a UK pension worth around £425,637, with which he planned to fund their income in retirement.

While in Spain, they were contacted by a financial adviser and took his advice to transfer Mr Smith's pension into a QROPS to allow more "investment freedom".

They were in a strong position, with enough to comfortably retire on. Their pension commencement lump sum would have been enough to clear the business mortgage on the property. With minimal ongoing costs, they would only need an income of around £15,000 per year to live a comfortable retirement, which the remaining pension pot would have easily provided.

Their financial adviser had his own retirement in mind however. He found it easy to persuade them that a series of structured products was the right way to invest their money.

Headline features like 'capital protection' and 'quarterly income paying' on these products make them sound low risk, as does the fact that they're underwritten by large well-known banks.

The structured products performed badly. Some of them were linked to individual stocks which plummeted in value, while others were linked to assets such as gold which also fell significantly in value.

Despite the adviser's promise of capital protection and income payments, the Smiths lost 60% of the value of their pension savings.

As a result, their dreams are in tatters and they have had to push their retirement plans back several years as they return to work in the UK to replenish their savings.

3. Inflation

One factor often not considered by retirees is the impact of inflation on their income.

Over the course of your 10, 15 or even 30 year retirement, the value of each pound in real terms will fall. This is because the price of most goods and services will rise.

For example, factoring an average rate of inflation of 3%, after just 10 years a £500,000 portfolio would be worth £375,000 – 25% less than at retirement.

Factoring inflation is therefore crucial when looking at pension portfolio investing.

Growth is going to be critical to ensure your portfolio remains of sufficient size to produce the yield you require, as you will also likely be taking an income from this portfolio.

We would suggest therefore that a pension portfolio focuses on strategies with low, smooth volatility (stock market ups and downs) to soften the impact of capital reduction.

This would typically include a wide mix of investments, some more risky than others, which should hopefully provide income, preservation and growth.

In practice – the effect of inflation

Mr Jones is a self-made businessman with an independent retail store and has always been sensible and saved hard. He sold his business at the age of 55 and, after repaying his mortgage and other outstanding debts, has a pension pot of £500,000.

He is afraid of investing his money and losing it, so he leaves it in cash.

As he wants to use his pension pot as an income, he decides not to take a 25% tax free lump sum, leaving the entire £500,000 available for an income. He decides then to take an annual income of £17,500.

However, assuming a 3% rate of inflation, after just five years he will have eaten away £100,000 worth of his pension. At this rate, he will have used up his entire pension pot before his 80th birthday and will certainly leave nothing for his family after he dies.

If he were to have taken his 25% tax free lump sum, as most people do, he would use up his pension well before his 75th birthday.

If he invested his money, even cautiously, it would mean he could have helped to protect his pension from the effects of inflation, as a 4% return would have seen him comfortably passed his 85th birthday.