My pension scheme is in deficit – how does this affect me?

One of a series of Factsheets and Quicknotes in the Module: How secure is my pension?
My pension scheme is in deficit – how does this affect me?

This Quicknote is written for people who are active members of a defined-benefit scheme.

Bad news always makes good headlines! There have been plenty of column inches in the press about the plight of pension schemes and their members over recent years.

You have probably heard about:

- poor stock market returns
- large pension scheme deficits
- pension schemes winding-up
- members and dependants who are victims of failing pension schemes
- people living much longer and the effect this has on pension schemes

The media has widely reported that large numbers of pension schemes are in deficit, i.e. where the potential liabilities of the scheme are greater than the assets. If your pension scheme is in deficit, you might consider how this could affect the stability of the sponsoring employer? This may not be as easy as it sounds – but you may be able to get a ‘feel’ of whether the sponsoring employer is financially healthy. Your adviser may be more used to making this type of enquiry – particularly where you have asked for a pension ‘health check’.

Where your pension scheme is in deficit, it will have reported the deficit in its returns to The Pensions Regulator. It will also have agreed a plan with the sponsoring employer, and notified The Pension Regulator, to pay off the deficit within a specific timescale – although this could be over quite a long period.

Just because your scheme may be in deficit does not mean the scheme (or the sponsoring employer) is going to fail. The plans put in place to rectify any deficit are designed to reduce the shortfall over an agreed period. Your job should not be at risk just because the scheme has a deficit, although funding the deficit shortfall may restrict your employer’s growth and profitability – which could have an effect on jobs in the short term.
If your sponsoring employer fails (i.e. becomes insolvent) and the pension scheme is under-funded, your pension scheme may then be accepted under the Pension Protection Fund. But beware; this may not give you full protection of the benefits you might be expecting.

Not all pension schemes are in deficit, but it is important to identify whether yours is, and to keep informed on the deficit situation.

So, should you be concerned? Perhaps, but only if you think the sponsoring employer may not be able to make the profits to pay the necessary contributions to keep the pension scheme afloat. You certainly shouldn’t take anything for granted. Take an active interest in your pension benefit. Keep informed. Review your pension periodically – or better still, get a specialist to do it for you.

Legislation does change (some would say too frequently in the case of pensions) and these changes can affect you.

See our Quicknote The effect of the employer covenant

Summary

People seldom have identical pensions and you should avoid drawing comparisons with colleagues whose circumstances may at first appear the same but could emerge as having significant differences.

This Quicknote forms part of our Module ‘How secure is my pension?’ and should be read alongside the other Factsheets and Quicknotes in the series.

This is not an authoritative document. Seek professional advice from an appropriately experienced and qualified adviser.

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