

Broadbase International Ltd Newsletter – September 2010

We're back in the office and its business as usual following some disruptions due to the earthquake last week. Thank you for your patience as we tried to remain calm through the aftershocks – our server still appears to be running for cover every so often, so please bear with us as we get back to normal. In our newsletter this month we update you on UK public sector pensions and bring you the latest on Australian pension portability.

Earthquake!

We've mentioned in the past that living in New Zealand you can expect to feel an earthquake every so often, but the 7.1 magnitude jolt we had in Christchurch on the 4th of September exceeded all of our expectations! There has been a lot of damage to buildings but no loss of life, and a week or so after the event life is slowly returning to normal for all but the worst affected areas.

There are a couple of reasons why this earthquake caused a lot of damage – it was shallow and very close to a built up area. The low casualty rate is attributed both to the time of day (4.35 am) and the building code in New Zealand – while in the past not especially strong on [insulation](#) or [weather tightness](#), lessons learned during the devastating 1931 Napier earthquake means that most NZ buildings have been built with earthquakes in mind, and many heritage buildings have been strengthened. Despite the apparent flimsiness of New Zealand's timber framed homes when compared to UK houses, they are designed to flex in an earthquake.

Buildings that were badly damaged were mainly older buildings constructed from un-reinforced brick. In some areas even newer buildings were damaged by liquefaction, where during an earthquake soils suddenly starts behaving more like a liquid than a solid, which can result in subsidence, surface water and nasty piles of sandy silt. The Christchurch City Council has warned of the potential for liquefaction for many years, and it looks like they may think twice before allowing rebuilding to commence in the worst affected areas.

In the meantime aftershocks, some of them significant earthquakes themselves, are set to continue for some weeks. If you'd like to find out more about earthquakes in New Zealand check the excellent [Geo Net website](#) – their [list of recent quakes](#) has become very popular lately!

Public Sector Pensions

Part of the coalition government's June emergency budget was a change in the way that automatic increases to public sector pensions (and benefits) are calculated. Where previously these were based on increases to the Retail Prices Index (RPI), from April 2011 they will be based on the Consumer Prices Index (CPI). This will potentially impact transfer values, so UK public sector pension schemes such as the Teachers' Pension, NHS Pension, Armed Forces Pension and the Civil Service Pension have suspended overseas pension transfers "for the foreseeable future".

Will transfer values be lower or higher?

Both indices are measures of inflation that track price variations on a representative list of goods and services, the main difference being that the RPI includes mortgage interest payments, rents and council tax. The government is arguing that the CPI is fairer, but what is significant for people with a public sector pensions is that the RPI has in the past been about 1% lower than the CPI.

This change is seen by many as a cost saving measure, and it is hard to imagine it being anything else in the current economic climate in the UK. While the difference in percentages is generally quite low, the loss of even 1% every year in annual increases accumulated over the 20 or 30 years you may expect to receive a pension is quite significant. We expect this to be reflected in transfer values once overseas transfers resume, but we can't be sure of this.

What should you do if you have a public sector pension?

Without wanting to sound alarmist, this is probably the first in a series of changes that will be made to public sector pensions – a committee has been formed to review them. The public sector lagging far behind the private sector (where final salary pensions are getting very rare) in this, and pension bills are getting extremely high. Unlike the private sector, most UK public sector pensions are unfunded - they have to be funded by current employees and topped up by the taxpayer.

Any decision to transfer any UK pension to New Zealand needs careful consideration. While your final salary pension benefits will perhaps not be what you were initially guaranteed, and there are tax issues on being paid a UK pension when you are living in New Zealand, final salary pensions do still provide index-linked automatic increases and partner benefits – with a New Zealand pension your pension pot grows or shrinks

according to the performance of your investments.

When will you be able to get a transfer value from your public sector pension?

Public service pensions are currently waiting for the treasury to announce a new method of calculating overseas pension transfer values. No time frame for this has been announced, but we will endeavour to keep you updated. You can still request a transfer value from your public service pension, and it will be “queued” and provided when it is available – calculations can take 6-8 weeks so there could be significant delays.

What if you already have a transfer value?

Some public sector pension schemes are still honouring recent, unexpired transfer values. If you have had enough time to consider your options carefully please remember that getting all of the [necessary paperwork](#) signed and delivered to the UK can take a week or two – we will of course pull out all the stops if necessary to expedite your transfer, but would prefer it if you didn't leave it until the last possible moment!

Want to find out more?

We're happy to help you to [consider your pension options](#), and invite you to use our article on [final salary pensions](#) as a useful starting point in your investigations. We won't pressure you in to making a decision that you are not comfortable with. You are welcome to [peruse our website](#) and send off for an updated copy of our comprehensive [UK Pension Guide](#), and we're happy to [answer any questions](#) you may have.

Australian Pension Update

The legislation necessary for New Zealand residents with Australian pensions to transfer these pensions to New Zealand has been passed. It won't come in to effect until a month or so after the Australian and New Zealand governments finally sign off on pension portability, which is now expected to be in 2011.

If you have an Australian complying superannuation scheme you will be able to bring it over to a New Zealand KiwiSaver scheme. Access to the Australian part of your KiwiSaver will be different to the parts of your KiwiSaver that originated in New Zealand – you will be able to access the Australian part (at the value as it was when transferred, disregarding any subsequent gains or losses on that part of your KiwiSaver scheme) at the age of 60 if you have permanently retired by that age. (Access to a KiwiSaver normally occurs at the age you qualify for National Superannuation, currently 65.)

If you have worked in Australian at some time over the past 20 years or so you may have an Australian superannuation scheme or scheme, which will include contributions from your employer at the time. You can check on any pensions you may have lost track of with the SuperSeeker facility on the [ATO website](#), and you can read more about KiwiSaver (and specifically about KiwiSaver for migrants) [on our website](#).

Until Next Month...

Wishing you well until we are next in touch. Please feel free to contact us anytime if you have any questions about the financial side of life in New Zealand.

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