

Tracking Your Pension

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SCOTT STALLARD PHOTOGRAPHY

Modern day classic Bermuda dinghy race. When the wind is too light, crew are tossed overboard to lighten the load, and increase speed

Step Eleven - Tracking Your Pension

It May Possibly be Your Largest Investment Asset

You have been courageous in attempting this “long” review of your finances. Now, you are more than halfway through. This is the hardest bit, though – thinking about investments and what they mean to your successful financial future.

Here is a little factoid.

Your Bermuda National Pension Plan (formal name Occupational Pensions Act 1998) is probably going to be your biggest asset, besides your home. Spectacularly, a 25 -year old in the Bermuda private business workforce today could see values at retirement even higher than the value of his/her home. Further, I can assure you that if you understand what is in your pension plan, you will feel more comfortable about other investments you might want to make on your own. This assumes that you make it a personal consistent goal to monitor your pension plan on a quarterly basis.

THIS is your money!

What is in your pension?

Generally, your pension investments are managed as mini-portfolios, that is a mixture of various kinds of stocks, bonds, money market funds, cash, an assortment of exchange-traded funds, real estate investment trust funds, and other smaller asset allocation percentages such as commodities, such as food, oil, precious metals are put together in a fund, then invested in capital markets.

All investments have risk, some are far more, risky than others. The degree of risk drives the percentage of the allocations to various single security positions within the portfolio.

The return on your investments over the long term is generally determined by the amount of risk you feel comfortable accepting and the performance of investments and the underlying companies.

Our Bermuda Government is heavily weighted down by debt, foreign dollars mostly loaned to us by foreigners - as we all know. Institutional investment firms buy debt such as Bermuda’s for positions in their portfolios. Wouldn’t it be ironic if our Bermuda pension investments held bond positions in our own government debt?

Your Bermuda National Pension Scheme (BNPS) is within your control.

Yes, the control is limited, but you can make a choice of investment allocations based upon a number of personal criterias, talk to a Bermuda pension administrator retirement specialist and keep track of this very important financial piece of your future!

See the following in STEP Twelve. Don’t forget your BNPS is managed by qualified licensed investment portfolio professionals who are highly experienced in portfolio management with a global focus.

Why?

Because, generally, your Bermuda National Pension accumulations are invested in capital markets, unless you have chosen a guaranteed investment component (GIC), a choice that is managed by your pension provider. It, too, will be wholly or partially invested capital markets in conservative fixed income (bonds) of varying investment grades, including high-grade, but hopefully not high-yield bonds - a far riskier vehicle - obtainable in capital markets.

The guaranteed investment choice means that you have transferred the direct risk from capital market investments to your pension administrator to manage for you.

What's in Your Bermuda National Pension Scheme?

We will review a number of items:

What is it?

A Defined Contribution Plan under Bermuda Pension law, see the Act under www.bermulaws.bm is a "defined contribution benefit" that is determined solely with reference to, and is provided by, accumulated contributions made by, or for the credit of a member together with the investment yield of such accumulated contributions and that is determined on an individual account basis; and

"Defined contribution pension plan" means a pension plan providing a defined contribution benefit;

Vesting — is immediate at employment with funds locked after one year.

Contributions during your employment life are made by you (currently at 5 per cent of your gross salary, monthly) and your employer matches 5% directly to your pension plan company administrator

who hires professional investment managers to invest your portfolio, based upon your investment choices, your risk profile and investment allocations that are suitable for you, e.g. for example, if you are conservative by nature, a conservative portfolio allocation is recommended.

During the life of your pension, a hardship premature withdrawal application may be made with Pension Commission approval, along with extenuating emergency circumstances during the COVID pandemic. At your planned retirement age (55-60-65), the market value of your account is what you see is what you get.

You will have a choice of:

- A 25 per cent withdrawal of your lump sum, converting the remainder to either an annuity (with various term choices) or a drawdown account where your remaining pension continues to be invested in capital markets with a drawdown calculated for each year, until account is depleted. The drawdown account allows you to capitalise on continued appreciation (depreciation) in capital markets.
- Converting to an annuity (with various term and payment choices). Your return is fixed for the life of the payments. An annuity is a contract that once signed, cannot be cancelled.
- Converting to a drawdown account in whole or in part. See above description.
- Smaller pension sums can be withdrawn in a lump sum, now increased to approximately \$50,000 in total.
- An additional temporary amendment allows the employer (with consent of the employee) to reduce matching contributions to 2% instead of 5% each. This change will be effected through December 2021.

- An addition, that may not yet be in place is a change to a uniform fee structure for all pension providers along with detailed disclosure, according to the Bermuda Pension Commission.
- COVID pension legislation has authorised an additional individual \$12,000 withdrawal due to the pandemic lockdown and further drawdowns.

Where is it?

Your plan is a legal contract established by your employer and administered with one of four Bermuda insurance firms offering pension plan products. Yours and your employer contributions are distributed by your employer to the pension administrator who then deposits your funds - converted into US dollars - into your pension investment account - to be managed by qualified portfolio managers

Your pension investments are not held in Bermuda custody, but rather at one of many large custodian clearing financial institutions hired by your pension administration, possibly US / UK / Canadian custodian banks. This separation of duties between administrator and portfolio manager is required by securities law.

You have a choice at retirement or other circumstances, such as moving to another employer to use one of the four pension administrators, or the investment products provided by four additional Bermuda investment firms. This assumes that you elect a drawdown account and elect to move to an Individual Retirement Account, rather than purchasing an annuity.

See List under reference section.

Where can I find resources to track my pension investments?

Each pension administrator and financial services firm should be providing quarterly or semi-annual statements listing names of the funds invested on your behalf, contributions, capital market appreciation - depreciation, and fees.

Generally, the current fund fact sheets should be visibly available on each pension provider's website. Research your pension provider, then download the fund fact sheets for review each month or quarter to track how your pension portfolio is performing.

If such is not easily obtainable, give your pension advisor a call.

Is my pension investment choice right for me?

Review STEP 10 above for starters, then, please keep in mind that the Coronavirus pandemic of 2020 Market affected volatility significantly, but generally temporarily, depressed some market valuations, as all recessions historically have done. However, your pension portfolio managers are professionals experienced in investing in good companies with consistent results. Eventually, just as in the 2008-2009 recession, capital markets did (and will again) rebound eventually to previous normal valuations or above.

So, you should take a deep breath, and not change your allocations impetuously. Otherwise, you will be selling out at a possibly large loss.

If you still have a significant time in the workforce, seriously consider just keeping your current portfolio allocations in place. Every single market downturn since 1929 has rebounded with further investment appreciation going forward.

Also take a look at the Individual Asset Allocation Suggested Guidelines for a pension in STEP Twelve for more guidance on your investment asset allocations by age, working stages and rate of return.

Take a look at the Capital Market Recovery Chart shown in Step 13 for verification of the above statement!

If you are close to retirement, now is the time to discuss your time horizon with your pension provider's financial advisors to plan a strategy - for a possible gradual change in your pension portfolio to more conservative investment approach.

Are all my contributions accounted for?

Hypothetical Bermuda National Pension Scheme Semi-Annual Statement

STATUS	Active	SOC INS NO	99999		DOB	1985
STRATEGY	Balanced fund				HIRE DATE	January 2005
					ENROLMENT DATE	January 2005
ANNUAL SALARY AT HIRE	\$60,000				RETIREMENT DATES	55 - 60 - 65
	beginning balance JUL 01-2019	Contributions/ ER/EE 5% match	transfers / withdrawals	fees	investment gain / (loss)	closing balance Dec 31- 2019
EMPLOYER /EE contributions and investment gain/loss	128,000	6,000	0	0	6,968	140,968
MEMBER (EE) voluntary	9,000	none	0	0	572	11,565
TOTAL	\$137,000	6000	0	0	7,540	\$152,533
Hypothetical assumptions	<p>1. Salary assumes no raises - just to keep math clear and computational = total of \$90,000 plus gain on balanced fund for 15 years</p> <p>2. Very conservative average cumulative return on investment of a pension balanced fund for 2005 through year end 2019 = 4.5%</p> <p>3. Member contributed and additional 1-2% over 15 year time frame, plus investment gain</p> <p>4. Your pension statement will NOT look exactly the same. This is an illustration.</p>					

- Seems like the total is less than last year? This may be a direct impact from the most recent COVID-19 market crash, again that is predicted to be temporary.
- How is it doing - is my money growing?
- Will there be enough when I retire, is time-line important?
- Should I be aggressive or conservative?
- Should I be in these investments? I have a US green card / US passport.

Open your statement. What is there (or not) on your quarterly statement? Note: other firms may issue monthly, or semi-annually, so use the most current one instead.

Our hypothetical employee has kept a constant \$60,000 for the past 15 years. Yes, this is not realistic, but we are keeping the math simple in order to explain the statement itself.

You should see the following: The opening balance (from last report) contributions, withdrawals, fees, investment gains or losses and closing balance – with a line for employer and employee 5 % of your salary, separated.

Your Contributions should total \$128,000. This represents a total of \$90,000 plus the capital market appreciation for the same fifteen years. The contribution column should reflect the current year contribution $\$3,000 \times 2 = \$6,000$, representing 5% from you, 5% from your employer. There have been no transfers or withdrawals for hardship, and no fees are listed as that information may differ. The transfers, withdrawals and fees are subtracted from your total, then investment gains for the year are added - for the final total of \$140,968. If no fees disclosed, it is your responsibility to ascertain the total deducted fees from your pension advisor.

Notice that your extra voluntary contribution is stated separately. You may know that the reason is because voluntary contributions and appreciation are returned to you at retirement, not locked into a drawdown or annuity account.

First question - are all your contributions there? This is extremely important! You should check your pension - online every month, or at least quarterly, to be sure that all monies are distributed by your employer and deposited in your pension account.

Contributions Don't Match Your Pay Stubs

Lower than calculated contributions amounts that should have been deposited is pure cause for alarm. Contact your pension provider and the Bermuda Pension Commission. See List in references for contact information.

How do I pay for my pension management? What are the Fees?

Looking at the fee column, there may or may not be a column or amount for fee deduction, depending on the pension provider. If no fee is listed, contact your pension administrator for the information. Fees affect the final rate of return. You need to know what that fee is, and whether it is embedded in the other numbers, or not stated at all. You may also be able to locate the management fee if your pension uses mutual funds - by reviewing the mutual fund fact sheet.

However, the fact sheet will not generally state your pension administration fee, or other fees.

Generally, several fees are deducted from your pension account plan. The fees for pension administrator, the underlying mutual funds fees, if used, the portfolio manager fee, a custody fee may be charged separately, a foreign exchange fee to translate Bermuda dollars into US dollars, and finally, there may be upfront or backend sales commissions fees charged if certain mutual funds are used.

Consult with your pension administrator advisor for their fee policy.

Fees for portfolio management are incorporated in the mutual fund fee - appropriately disclosed on the mutual fund fact sheet as return - gross of fees, or net of all fees. If gross of fees is reported, you must subtract total fees charged to arrive at the important number - the Total Return Net of Fees number.

In early 2020, the Pension Commission announced mandated changes. Fees charged for pension administration and management by pension providers will adhere to a uniform fee structure, that will be displayed prominently in pension disclosures and investment brochure.

This was welcome news. No more trying to figure out the real net rate of return.

How are Management fees Impacting Performance?

Fees reduce your total return on pension, or any invested, assets, so reviewing those costs is prudent. The thing is, fees are not a big issue when investment market performances are solidly high, but one's attitude may change when market value of your investments decrease, even temporarily.

What is your pension's real net growth after fee deduction? We will explore the effect of fees on investment performance in depth in Step Thirteen

How am I doing - is my money growing? Review the investment gains or losses column on your pension statement. What you chose and how it should be performing should be listed below your pension account transaction details for the reporting period; it will be titled as your investment profile or similar language.

To review those pension investment values, use the closing balance of your statement compared to the opening balance. Your ending pension value, if the market is up, should increase by the amount of your additional contributions plus an appreciation number that is predicated on the asset allocation you chose.

Try an even better indicator - the closing balance of last year 2019, and if you really want to be on top of things, pull out your closing statements for 2018, 2017, 2016, 2015 - hoping you kept these records! If you have not, start now to keep track of them all - very important when you are ready to retire.

Is your pension steadily appreciating (above and beyond your total annual contributions) over the total time frame, even if there have been intermittent losses - on paper? Remember, there have been several temporary market downturns in the last 15 years, but markets and security valuations have recovered each time.

Doing well? Then you should continue on with that investment profile.

If not, then you need to find out, why not.

Lower performance, which is not necessarily a bad thing, and could be attributed to a number of factors, such as the severe market downturn during COVID-19, or your choice to change to a more conservative approach.

This is why it is so important to keep every single one of your pension statements. It may be difficult to track your contributions when market valuations drop, making your total pension number drop - unless you have those statements.

Too conservative?

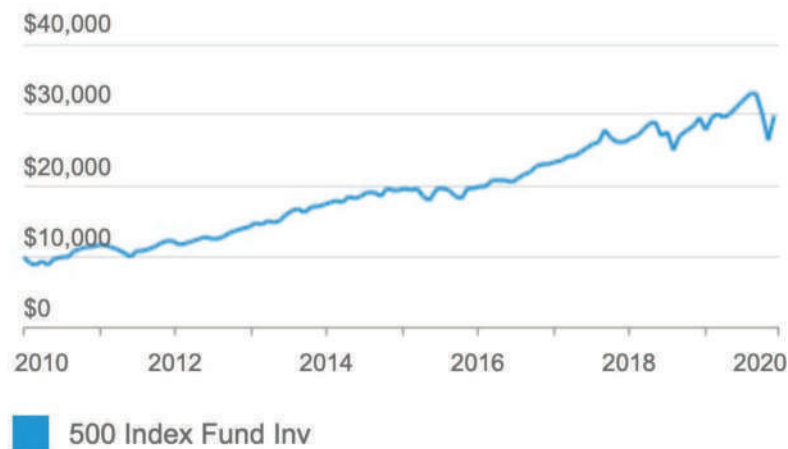
An investment choice, if your workforce longevity is more than ten years from retirement. You, as a younger careerist, need to allow time horizon and longevity in investment choices to do their job - appreciate. Don't take my word for it - there are millions of websites that discuss this very thought - just looking at the S&P 500 Index in a passive mutual fund performance over the last twenty years to see the significant appreciation, by simply leaving your money intact, allowing it to grow.

\$10,000 invested, just once in the S&P 500 Index over the last ten years could have grown to \$29,793 plus/minus as at April 30, 2020 - far more than a savings account, See chart - according to Vanguard.

Recurring contributions from a pension plan of say \$800 per month (\$9,600 per year) will have grown significantly more.

Hypothetical growth of \$10,000

as of 04/30/2020



Too aggressive?

an investment choice, particularly, if you are close to retirement – you may not have the workforce time, income, (or stamina) to make back temporary investment market losses. Further, the continued market volatility and risk always associated with aggressive security choices may begin to wear on your psyche, causing needless anxiety. Timing of selling market securities or moving to more conservative choice is critical. Need cash or want to lock in appreciation, the market may surprise with an abrupt downturn, leaving the contemplation retirement either on the back burner, or facing a smaller retirement fund.

Reacting Emotionally to Investment Volatility?

Succumbing to your investor emotions by moving your pension (and other) investment choices every time you are concerned there is market volatility, is not an issue if market is high, unless your reaction means that you are selling at a loss thereby perpetuating the common mantra of small investors – see in red below. It is important to think about investment allocations, especially during turbulent investment environments. If you are comfortable with the investment management of your pension, you should not change allocations.

Go back to STEP 10 and review Investment thinking and the DALBAR chart that demonstrates average investor returns versus the indexes. The Do-It-Yourself individual returns are significantly lower!

**Sell at the Low,
Buy at the High!**

**Never a Good Move!
Note that re-allocating
your pension portfolio is
selling security
positions!**

Happy with Your Investment Choices?

Reviewing your investment choices. What are they? It depends upon which pension provider your employer uses and what your pension advisor recommended – based upon how you feel about investing.

Where are you in your career, and how should you consider allocating your pension portfolio? Are you aggressive, balanced, moderate, very conservative?

What do your investment choices mean in rates of return (appreciation) by reviewing the benchmark guidelines that portfolio managers base for their investment performances.

Read on to STEP TWELVE!

Cross border caution regarding Bermuda National Pension Scheme!

United States citizens, green card holders and dual citizens should not be in the Bermuda National Pension due to US tax and reporting complications. Having said that, if you meet these nationality criteria, you may have been placed in the National Pension anyway, if you were/are the spouse of a Bermudian.

Please consult with a US tax practitioner, preferably a US CPA fiduciary professional for assistance with the tax implications of this pension investment each year and withdrawal/distribution tax implications.

You may be able going forward, or if you are just starting within the Bermuda workforce, to elect to be invested in a United States qualified pension plan.

DO IT early on - waiting years to correct tax misinformation is never a good idea.

Two Bermudian firms offer United States qualified plans that also meet the Bermuda Pension Act guidelines:

- Freisenbruch Meyer (for more than 15 years) and
- since 2016, Argus Group Holdings.



[Listen to Tracking your Bermuda Pension - Part 1](#)

<https://tinyurl.com/ygbh4q mz>

References & Resources

Bermuda Pension Administrators

Argus Group Holdings Limited - Pension Department

BF&M Insurance Company

Colonial Group Insurance International

Freisenbruch Meyer Group

The Bermuda National Pension Scheme (Occupational Act) 1998 Consolidated

The Bermuda National Pension Scheme (General Regulations) 1999

www.bermudalaws.bm › laws › Consolidated Laws

The Bermuda Pension Commission.

