



THE DAY YOU RETIRE MAY BE A RAINY DAY

A Summary Look At Approved Retirement Schemes

As a result of the downturn in the economy many employers have had to make the painful and difficult decision of terminating employees in order to continue to operate. One of the common results of such a termination is the simultaneous termination of an employee's membership in the company's pension plan. Most persons who have been the victims of such terminations focus, understandably, on the immediate financial demands they face as a result, and are eager to get a cash refund of any monies due them under the pension plan. This, however, ultimately puts the individual in a very vulnerable position as it concerns the benefits available to him upon retirement.

In the event of termination of employment, it is usually possible to transfer benefits earned in the pension plan of the previous employment to an Approved Retirement Scheme (ARS). Most pension plans will transfer the full amount of your benefit, meaning both your contributions and the contributions made by your former employer, to the ARS provided you were a vested member in the plan. Vested means you contributed to the pension plan usually for a minimum of 5 years. In the event you are not vested you will still be able to transfer to the ARS that portion of your benefit that is attributed to the contributions you made to the plan.

Individuals who are self-employed or employed with a company that does not have a pension plan or for whatever reason are not eligible to participate in the company's pension plan, may also wish to consider joining or participating in an ARS.

What is an ARS?

An ARS is a tax-deferred retirement savings plan in which persons who are self employed or who are not active members of an approved superannuation fund (company pension plan), can make contributions to an account which will be used for the purpose of providing them with a pension on retirement. An ARS is operated and established by registered financial institutions and insurance companies, for example Prime Asset Management Limited and Scotia Jamaica Life Insurance Company, who will invest the contributions made.

Contributions

Essentially, a member of an ARS can make a contribution of any amount up to a maximum of 20% of his annual income. A member of an ARS has the flexibility of deciding when contributions are made. Contributions can be made monthly or ad hoc through the year and the amount contributed at any one time may vary, however, a member must make at least one contribution payment per year. Where an individual is employed in a non-pensionable post, it is permissible for his employer to make contributions on his behalf; the total value of the contributions of both the member and his employer cannot exceed the maximum of 20% of annual income.

Tax Benefits

One of the key benefits to be gained from participating in an ARS is the tax advantages to be had. Contributions are tax deductible meaning that the contributions can be taken from your salary before it is taxed. Therefore, if your income is \$500,000 and you contribute 10% to your ARS then you would only be required to pay taxes on \$450,000 and not the entire \$500,000. Additionally, you do not pay any taxes on your contributions during the life of your membership with the ARS. When you become eligible to receive your pension on retirement then income tax at the rate of 25% will be deducted from your retirement benefit before you receive it.

Retirement Age

The retirement age will generally vary depending on the ARS you choose to join but will be between 60-65 years of age. An ARS may specify differing retirement ages for members based on the nature of the occupation of the members and will usually allow for members to proceed to early retirement within ten years of the stipulated retirement age allowing a member to access his pension benefit early. Late retirement will allow an individual to extend his retirement age by no more than five years affording the opportunity for contributions to be made for a longer period and hence increase the likely retirement benefit.

Assigning Your Pension

As mentioned previously, contributions to the ARS will be used to provide the member with a pension upon reaching retirement age. Essentially, contributions are not accessible prior to retirement to make car loan or mortgage payment, neither can a pension benefit be assigned to another individual. In other words, you cannot pledge to another the benefit of your contributions in your ARS when you reach retirement age. Any such agreement to assign or 'give away' a pension benefit is not legally enforceable.

It will be important for individuals seeking to join an ARS to shop around and compare the products and options being offered by various insurance companies and financial institutions to ensure the best fit for their overall long term needs.

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