Explaining UK pension transfers

Phuket Gazette - Monday, December 17, 2012 11:33:55 AM

RESTARTING IN PARADISE: Expat retirees must decide if it is best to transfer their pension. Photo: Roberto Jorge

PHUKET: For the many people who leave the UK each year to live, work and retire in Thailand, or many popular countries across the world, a decision needs to be made as to whether they will keep their private or occupational pension funds in the UK or transfer them overseas.

Since April 6, 2006, an individual looking to transfer their UK pension benefits, has been permitted to transfer that UK pension overseas by Her Majesty's Revenue and Customs (HMRC) on the condition that the receiving overseas scheme is a QROPS.

Defining QROPS

The initials stand for Qualifying Recognized Overseas Pensions Scheme, and, in short it is the only type of overseas pension scheme that an individual can transfer a UK pension to.

A UK pension fund would have both been contributed to and grown with the assistance of HMRC tax relief over the years. HMRC therefore expects those funds to provide an income in retirement.

However, as other jurisdictions in the world do not have the same internal rules for their pensions, HMRC made the decision that UK pensions could only transfer to an overseas scheme that agreed to pay out benefits with the same limits as UK schemes. This must be for a period of at least five complete UK tax years of the pension member's overseas residency (a period of time now referred to as the Member Payment Provision Period).

The limits would include any pension benefits not being paid out before retirement age 55, with pension income not exceeding the UK limits and the lump sum payable not exceeding 25% of the total fund's value.

Benefits paid before retirement age, 55, or in excess of the UK limits, would be subject to an unauthorized payment charge.

However, providing the pension member (and the QROPS) stays within the UK regulations for five complete tax years of the member's overseas residency, there are many benefits and advantages of transferring from a UK pension to a QROPS.

The advantages of QROPS

A key reason to transfer to a QROPS is tax treatment on the pension. Pension income paid from a UK pension (either through drawing from the fund or purchasing an annuity) would be subject to tax at source, when paid from the UK scheme, or subject to tax upon receipt in the country that the member lives.

Depending upon where an individual has migrated to, the local rules of some QROPS could allow either a nominal or nil tax to be deducted from the income at source and no tax required to be paid upon receipt.

It is important therefore, that an individual seeks the correct advice as to what QROPS in which jurisdiction is the most suitable for him or her.

Many people assume that transferring their UK pensions to a scheme in the country that they are living, is the right solution. This is not necessarily the case.

Firstly, the country that they are living in may not have any pension schemes (or the equivalent) that are QROPS – therefore a UK pension transfer could not be received.

Secondly, the benefits available from a local scheme may not be any greater or tax efficient than if paid from the original UK scheme.

It is therefore important to seek expert advice when selecting QROPS jurisdiction that you chose to transfer your pensions to.

In recent years, the most popular QROPS are in Gibraltar, Malta, Isle of Man and New Zealand.

The local pension rules for each vary and each jurisdiction has Double Tax Treaties with different countries, therefore it is important to establish what benefits are important to the individual.

Among the benefits available, after five complete UK years of a pension member's overseas residency, are higher income levels than permitted from UK pensions, enhanced lump sums (usually up to 30%) and zero tax paid on death benefits to beneficiaries when a pension is in payment.

This can be up to 100% of the remaining fund, whereas, UK pensions would either tax the beneficiaries 55% on any lump sum or (in the case of some annuities) the pension would stop altogether upon death of the member.

Once the pension transfer is complete the next important question to ask is, " What is the most efficient way to invest the QROPS assets?" This question will be answered in future articles.

With the various benefits and options available, it is important to seek the correct advice before deciding on transferring your UK pension to a QROPS.

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Phuket, Thailand
11:33 local time (GMT +7)