QROPS: Mind the gap

Sunday 31 January, 2016

There is always a gap in what we know about things and how they actually work. Let's start the year with a recap of developments in the world of **QROPS**. The more informed we are, the better decisions we make!

There have been quite a few changes indeed during 2015 in terms of legislation. The good news is that the main benefits of using a **QROPS** remain as before:

1. You can still take a lump sum of up to 30% of your pension fund free from UK tax
2. Your pension can be denominated in the currency of your choice, which helps mitigate your exposure to exchange rates, whilst at the same time simplifying pension payments.
3. Upon death your pension can be passed on to your 'loved ones' free of UK inheritance tax

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Things that have changed include the following:

1. A flexible drawdown facility is now available on pension transfers from the UK
2. There is now a distinction between a **QROPS** and a ROPS with the word 'qualifying' being dropped from the list published by HMRC. The HMRC website now hosts a list of Recognized Overseas Pension Schemes (ROPS):
3. Expats are not allowed to access their UK pension before the age of 55
4. The Lifetime Allowance is set to reduce to £1 million in 2016/17
5. Those seeking to make a 'final salary' pension transfer are obliged to obtain 'appropriate independent advice'

1. Flexi-access drawdown on UK transfers

Flexi-access drawdown from pension funds was introduced in the UK in April 2015. This means that 100% of an individual's UK pension fund will now be accessible from the age of 55. The same rules apply to those whotransfer their UK pension fund overseas to a **QROPS**.

The full encashment of a pension however is not recommended, as this can often result in higher taxes on funds withdrawn. The preferred retirement strategy is to draw an income from the pension fund periodically in a tax efficient manner.

2. HMRC list of ROPS

In order for a scheme to be classified as a **Qualifying Recognised Overseas Pension Scheme** (**QROPS**) it must first of all be a Recognised Overseas Pension Scheme (ROPS) and provide benefits in respect of retirement, ill health, death or similar circumstances. If it meets these requirements, the scheme must take certain additional **steps to qualify as a QROPS as defined by the legislation**.

The HMRC list consists of pension schemes which have informed the UK authorities that they meet the conditions to be a ROPS and requested to be included on the registrar. It is important to note that the list is self-certified by **QROPS** providers; HMRC do not have an official approval system for ROPS. It is therefore the responsibility of the individual to find out if there is tax to pay on any transfer of UK pension savings.

3. Access to UK pension

In the UK, there is tax relief on pensions so as to encourage people to save for their retirement. It should

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be noted that accessing benefits before the age 55 is likely to result in a liability to UK tax. Even if a provider is included on the HMRC list, they still have to abide by **ROPS** requirements.

4. Lifetime allowance

The Lifetime Allowance (LTA) is a limit on the amount that an individual can accrue in a UK tax privileged pension fund. This is currently set at £1.25 million. When a members pension benefits exceed the LTA, a tax charge is applied on the excess amount.

Any amount transferred to a **QROPS** above £1.25 million in the current tax year would be taxed in the UK at the marginal rate of income tax. The rate of UK tax payable on pension savings above the lifetime allowance depends on how the money is paid to you. The tax rate is:

- 55% if the pension is paid as a cash lump sum
- 25% if distributions are made as pension payments or cash withdrawals

The LTA will be reduced to £1 million as of April 2016. This continues the trend in recent years that has seen the UK government cut the LTA from its peak of £1.8 million in 2011/12.

5. Appropriate independent advice

The new rules introduced in April 2015 stipulate that anyone seeking to make a final salary/defined benefit pension transfer of over £30,000 in value must obtain 'appropriate independent advice' from a company regulated by the UK Financial Conduct Authority (FCA). This can cause practical difficulties for those already living overseas.

As a result, overseas advisers have linked up with UK authorized advisers to facilitate the pension transfer of larger defined benefit schemes. Unfortunately however there is an added cost to the client for such a facility; a cost which the client is not always happy to bear. The good news is that this cost can be deducted from the transfer value of the fund. Meanwhile, the Department for Work and Pensions in the UK has been made aware of the problem and is expected to reconsider the matter with a view to improving access to advice at affordable levels.

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Transferring a UK pension overseas can be a complicated process. There are a number of challenges at different stages of the operation:

- It is important that ceding pension schemes conduct the necessary 'due diligence' on the proposed **QROPS** before transferring client funds
- Schemes that apply for a ROPS registration must ensure that they remain compliant with current regulations and also any future changes in legislation
- Advisers need to be on top of their game when it comes to recommending products and providers
- The selection of a suitable jurisdiction is a crucial part of the UK pension transfer process

For more information on QROPS please download the Free Guide

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