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The 50c express

The playing field has changed in the wake of HM Revenue & Customs giving its blessing to the Isle of Man's 50c pension legislation, and with the recent launch of Boal & Co's Trinity offering – the world's first 50c scheme

There is no doubt about the biggest topic in QROPS: the arrival of the Isle of Man's 50c pensions legislation, hand in hand with Trinity, the world's first 50c scheme.

This article explains why 50c/Trinity is a game-changer, particularly now that HMRC has officially given its blessing (after a considered review) with confirmation that 50c schemes "can satisfy the requirements to be a recognised overseas pension scheme".

■ First class QROPS

Two things in particular set 50c schemes (such as Trinity) apart from the QROPS crowd:

- The ability to pay an increased retirement lump sum benefit (often substantially more than 30%).
- The flexibility to defer benefits beyond age 75.

Understandably, of these, it is the lump sum which attracts most adviser interest. At Boal & Co, we recognised (and a leading QC confirmed) that UK legislation requires QROPS to designate at least 70% of the incoming transfer value to provide a pension for life. The Isle of Man's 50c legislation was framed accordingly.

What this means is that Trinity can, when circumstances permit, pay 30% of the transfer value plus 100% of the QROPS investment return as a retirement lump sum. For clients with years between trans-

Case study

	James	John
QROPS scheme	Trinity 50c	Other (non-50c)
Transfer in value	£400,000	£400,000
Retirement fund	£1,200,000	£1,200,000
Maximum lump sum	£920,000	£360,000
Remaining pension fund	£280,000	£840,000
Capped pension*	£15,960 pa	£47,880 pa
Marginal tax rate	20%	40%
Income tax	£1,697 pa	£9,162 pa
Effective tax rate	11%	19%
Total tax on fund*	£29,772	£160,737
Excess tax paid	£0	£130,965

* See www.trinity.im/IASupp for terminology and detailed assumptions

fer and retirement, this permits a much larger lump sum. Not only does this provide clients with maximum flexibility, but it also can save them a fortune on tax, as the following illustration shows.

■ Case study

James transfers £400,000 (\$652,000) into Trinity when he is 45 and working in the Far East. By the time he turns 62, his QROPS fund has grown to £1.2m. His twin, John, has done exactly the same, but using a non-50c QROPS (see table above). They both plan to take their maximum lump sum while abroad, and then retire to the UK. What are their respective situations?

By maximising his lump sum, James has reduced his taxable pension and taken himself into a lower tax back-

et. John's non-50c QROPS, on the other hand, costs him £130,000 in needless income tax – an expensive mistake. John's adviser should consider transfer into a 50c scheme, before it is too late. While, if John had a UK SIPP, his tax loss would have been even greater.

In this example, James is considerably better off, even after retiring to the UK. If he did not retire to the UK, his 50c benefits could be even greater, because his Trinity scheme is not restricted to annuity-based drawdown (unlike other QROPS), so he could draw down a higher rate of pension than if he was restricted to GAD drawdown.

■ IHT advantages

It is well known that pension fund assets such as QROPS

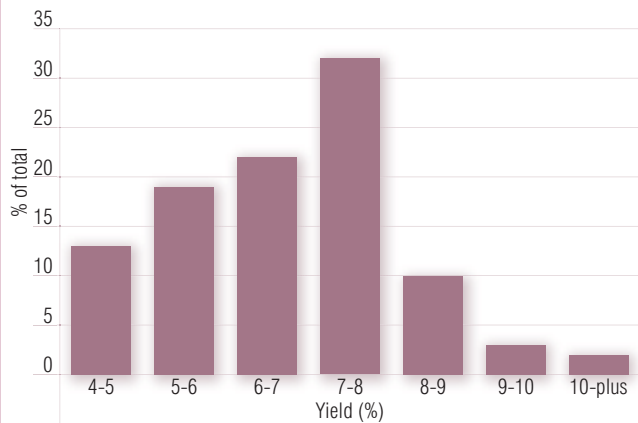
“It is well known that pension fund assets such as QROPS are exempt from inheritance tax (IHT) on a member's death. But if death benefits are paid to a spouse, this could lead to an extra IHT liability if the spouse's assets exceed the combined IHT threshold”

IA KEY POINTS

50c schemes offer the ability to pay an increased retirement lump sum benefit and the flexibility to defer benefits beyond age 75.

The Trinity Spousal Bypass Trust allows Trinity death benefits to be settled into the trust and kept outside a spouse's estate.

Matching yields from Transfer Value Analysis



Source: Boal & Co

are exempt from inheritance tax (IHT) on a member's death. But if death benefits are paid to a spouse, this could lead to an extra IHT liability if the spouse's assets exceed the combined IHT threshold.

A solution is now at hand in the form of our Spousal Bypass Trust. Trinity death benefits can be settled into the trust, and kept outside the spouse's estate. The same trust can be used, if desired, for some or all of the retirement lump sum benefit.

Please visit www.trinity.im for full details of the new Trinity Spousal Bypass Trust.

Final salary transfers

At Boal & Co, as actuaries who calculate pension transfer values, we know all too well the extent to which values vary from scheme to scheme.

That is why Transfer Value Analysis (TVA) is so important, and why Boal & Co is committed

to supporting our advisers with an exclusive TVA service (typically at no cost).

One only has to look at the chart above – which compares the matching yield required for a transfer value to achieve a matching pension in the transfer scheme – to appreciate that some transfers add value, whereas others may not.

Final salary pension transfers can be good advice but advisers need a filter to identify those cases which are not. An integrated TVA service is a must. Ours is available exclusively to Trinity introducers.

To nail some inaccurate stories about 50c QROPS, a selection of some of what has been incorrectly said to advisers, along with the corresponding facts is set out in the table below.

Regulation

Isle of Man QROPS, including 50c schemes, are regulated by

the Isle of Man Insurance and Pensions Authority under primary pensions legislation enacted in 2000.

Other QROPS jurisdictions typically do not have any equivalent pensions legislation (merely tax codes or general fiduciary regulation), though one centre has done what little it can to in-fill for the absence of both pension regulation and financial ombudsman by creating a voluntary Code of Practice (CoP) – a so-called “guide to best practice”.

Sadly, we see far too many instances of that code being ignored. As is to be expected, there are no sanctions for providers who breach the voluntary code. CoP? Or CoP-out?

Adviser guidance

Space does not allow for detail on the following technical subjects here, but readers are invited to visit the adviser extranet at www.trinity.im to read up on 2011 developments including:

- New GAD drawdown rules
- 55% UK death benefit taxation
- New “temporary non-residents” tax charge on “flexible drawdown”
- ECJ gender rating ban implications for UK pensions.

Advisers were correctly cautious of QROPS initially. But five years after ‘A-day’, the dust has settled, and the landscape is clear. HMRC has now given its blessing to 50c, and advisers are entitled to ask of putative QROPS providers:

- Where is your 50c QROPS?
- Are you a pension firm or a trust service provider?
- What are your international pension credentials (for example, how many Fortune 500 companies are pension clients)?
- Do you lead (have you received industry awards)? Or do you follow?



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Unpicking the myths about 50c QROPS

Myth	Fact
50c death benefits are subject to 7.5% IoM tax	There is NO tax. “A relevant benefit made under a scheme... shall be payable without... deduction of income tax”
Trinity fees are plus VAT	Trinity fees include any VAT, where applicable. So £1,250 means £1,250
Transfer Value Analysis is an extra cost	Boal & Co supports introducers with free matching yield calculations