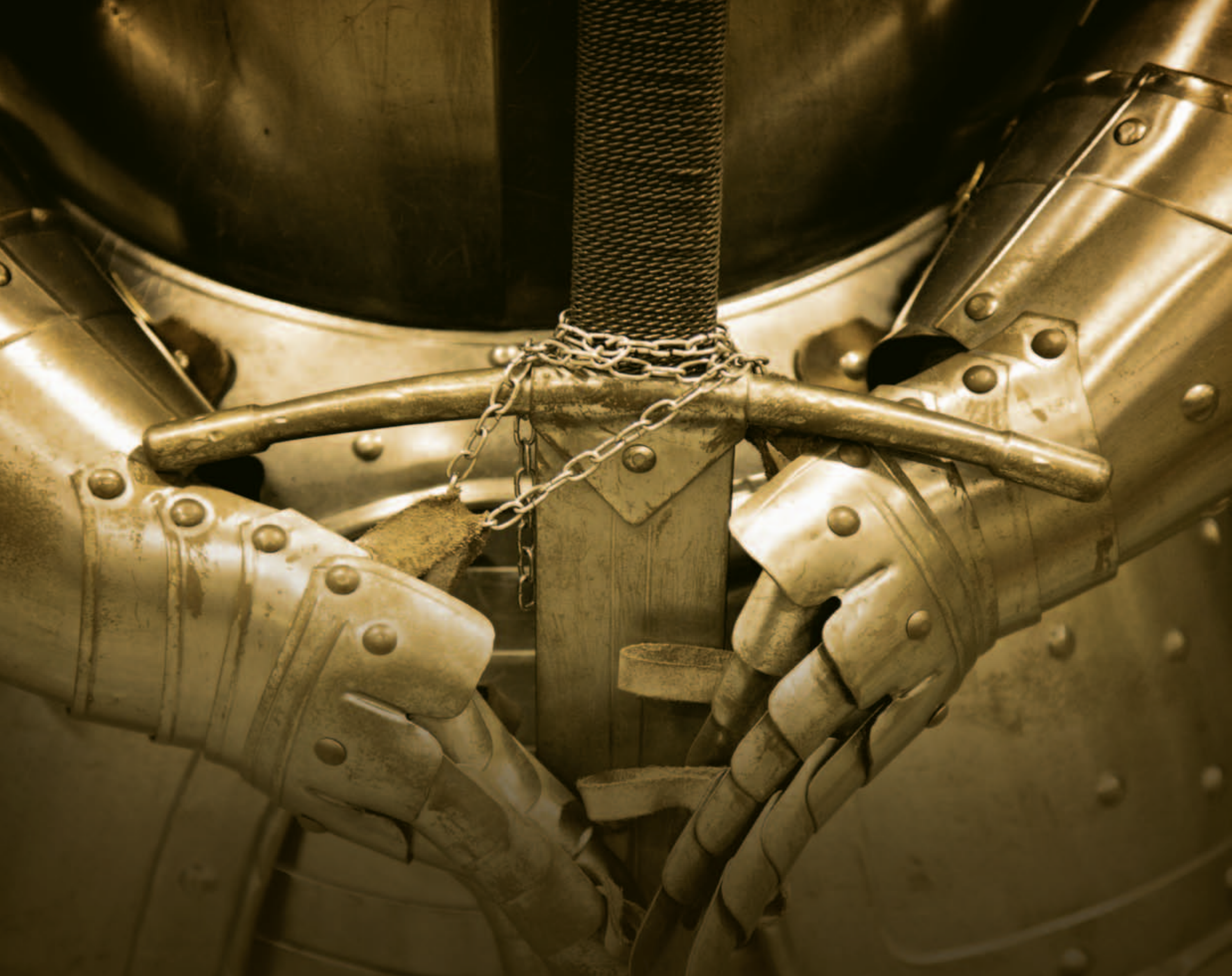
Trinity

Redefining the QROPS landscape

Boal & Co
Actuaries & Consultants



Whatever our age, and wherever in the world we have chosen to live, we all want to make the most of what we have. It's right to look at our options, to make the most of the assets that we have. And to make the most of the opportunities we are given.

For many of us, our pension will be one of our largest financial assets. For some people, particularly those with final salary pensions, their pension may be worth even more than their house.

If you have built up a UK pension fund and now are no longer UK-resident, you may not realise that your pension is still subject to UK taxation rules. You might have moved abroad to escape the UK, but if your pension has not, it is still subject to constantly changing restrictive UK taxation rules, which may lead to you paying a lot more in tax than is necessary.

Trinity

There is an alternative. Imagine a fully-regulated overseas pension scheme which provides:

- more flexible benefits in retirement – more choice, less rules
- more tax-efficiency, with no tax deducted from your pension, and a higher tax-free lump sum
- the widest possible investment choice, both before and after retirement
- the opportunity (if you so wish) to change at any time the currency of your pension fund and your retirement pension, to match your local currency
- a scheme especially designed for UK pension transfers – a scheme which fully recognises and satisfies the relevant UK rules, but maximises the opportunities that you have as a UK non-resident
- on your death, for funds to be paid to your family or nominated beneficiaries

Imagine no longer. Welcome to Trinity.

What is Trinity?

The Trinity Pension Scheme – "Trinity" - is a pension scheme established under trust in the Isle of Man, and tax-approved in the Isle of Man under section 50C of the Income Tax Act 1970.

Trinity and its professional advisers Boal & Co (the professional trustee, scheme administrator and scheme actuary) are regulated by the Isle of Man **Insurance and Pensions Authority** (IPA) under the Retirement Benefits Schemes Act 2000.

Trinity is registered with the UK tax authority HM Revenue & Customs (HMRC) as a *Qualifying Recognised Overseas Pension Scheme* ("QROPS"). This means that pension transfers made from UK pension schemes to Trinity are termed *recognised transfers* and so are permitted transfers under the UK pension legislation introduced by the Finance Act 2004. Provided the transfer value of your UK pension is less than the UK *lifetime allowance* (see page 7), there is no tax payable when you transfer your UK pension into Trinity.

Terms shown in *italics* are explained in the glossary at the back of this brochure.

Why Trinity?

Trinity is a union of three pension doctrines:

- **Flexibility –** Trinity is designed to fully satisfy the rules applicable to QROPS. Whilst fully observing all HMRC requirements, Trinity aims equally to optimise the position for members. The result is a scheme which delivers more benefits, more freedom, and less tax.
- **Expertise –** At Boal & Co, we have 15 years' experience of overseas pension transfers. We are advisers to international pension schemes for Fortune 500 and other world-leading companies. We have designed, and we administer, many QROPS schemes in multiple offshore financial centres. Trinity is our newest QROPS and is tax-approved under new Isle of Man pensions legislation which we have helped to create.
- **Regulation –** Our professional expertise as actuaries and pension consultants is further underpinned by the fact that we are regulated by the IPA as a professional schemes administrator. Trinity is also regulated by the IPA, as a registered scheme. The regulatory underpin is triple-locked by the Isle of Man's Financial Ombudsman scheme, which covers our customers worldwide.

Trinity, in short, is nothing less than the holy grail for overseas pension transfer schemes.

What is a QROPS?

Qualifying Recognised Overseas Pension Schemes (QROPS) are special overseas pension schemes which satisfy rules and regulations laid down by UK legislation: the Finance Act 2004 made it possible, from April 2006, for UK pensions to be transferred to any overseas pension scheme which is registered with HMRC as a QROPS.

Before 2006, it was only possible for a person to transfer his or her UK pension to an overseas pension scheme located in the person's new country of residence. Modernisation and simplification of UK pensions legislation in 2006 removed this restriction. This not only enables an individual to freely transfer a UK pension overseas by right, it also therefore gives choice over where to transfer a UK pension. Trinity has been designed specifically to optimise this choice.

What are the key benefits of Trinity?

If you have a UK pension scheme or a UK pension policy, and you have been (or will be) UK non-resident for at least 5 complete tax years, there are several possible reasons to consider transferring your UK pension to Trinity:

1. Increased Retirement Lump Sum

Most UK pension schemes are only permitted to pay 25% of the pension fund in the form of a (tax-free) lump sum. However, Trinity is subject to different HMRC rules, and can permit a much greater lump sum.

Provided you are not UK-resident when you retire (and you have also been UK non-resident for the previous 5 complete tax years) Trinity rules enable you to take a higher tax-free lump sum, all in accordance with HMRC regulations. At least 70% of the amount transferred from your UK pension scheme(s) has to provide you with a pension for life. All of the excess* – including 100% of the investment return earned after transfer into Trinity – can be paid to you as a retirement lump sum. Furthermore, we take no tax off.

Example:
James, who is 45, transfers a total of £200,000 (all non-protected rights) into Trinity from his UK company and personal pension arrangements.

By age 65, when James starts to wind-down and retire, his Trinity fund has grown in value to £600,000. Being non-UK resident for 5+ years, James is only required to take a pension with £140,000 of his Trinity fund (being 70% of the £200,000 transfer). The excess over £140,000 can be paid to him as a lump sum, with no tax at source, enabling James (who is living in Hong Kong) to take a tax-free lump sum of £460,000. So his maximum lump sum in this case is more than 75% of his pension fund – all fully in accordance with HMRC rules.

If James had kept his pension in the UK, his maximum lump sum would have been only 25% of his fund, ie £150,000. So Trinity enables him – perfectly legitimately and in accordance with HMRC rules – to take a lump sum which is up to 3 times larger, and all of it tax-free.

If you are a UK resident when you retire, the maximum tax-free lump would be restricted to 25% of fund value.

2. More Pension Flexibility & No Annuity Requirement

UK pensions are subject to specific rules which mean that they: must commence by age 75 at the latest; are subject to tightly defined upper limits ("capped drawdown"); and often involve the purchase of an annuity to provide the pension, meaning that capital is lost on death. Trinity, in contrast, offers much more flexibility on the amount and timing of pension.

Firstly, there is no requirement under Trinity rules that your pension has to commence by age 75. So if your pension fund is incidental to your other financial assets and you would prefer not to draw it, there is no need to do so. (Please see below for details of the favourable inheritance tax position, as well as the ability to nominate beneficiaries for your pension fund upon your death.) Your pension cannot begin to be paid before age 55 (except in cases of medically-certified serious ill-health), but its commencement can be deferred for as long as you wish.

*** applies to non-protected rights fund only**

Secondly, provided you are not UK-resident at the time, the amount of pension payable to you from Trinity is not subject to restrictive UK rules. The amount of pension you can draw will be chosen within a range of amounts which are designed to last for your life but, subject to this, can be set on an individual actuarial basis, taking into account the manner in which your Trinity fund is invested (and the possible range of associated future investment returns) and your individual life expectancy, and so can be personalised to your own situation.

Finally, Trinity pension is paid by drawdown, with absolutely no annuity requirement. If you transfer your UK pension to Trinity, your fund before and after retirement remains invested exactly the way you (and your investment adviser) want it. Pension is payable to you by annual drawdown of income and capital from your pension fund. You never, ever have to buy an annuity. And unlike with an annuity, your pension fund does not die with you.

3. Pensions Paid Free of Tax

If you are no longer UK-resident for tax purposes, you will certainly not wish for UK or other tax to be deducted at source from your pension.

Trinity meets this requirement: pensions are paid without deduction of any tax, under the provisions of section 50C of the Isle of Man Income Tax Act 1970.

In some countries, there is no tax payable on foreign pension income. As no tax is deducted when we pay your pension, the result in such cases is a completely tax-free pension.

In other countries, though, you will have a potential liability to tax on your pension in your country of residence, depending upon your personal situation. This will vary from country to country, and you should ask your financial adviser for full details of the tax applicable in your particular country of residence.

Trinity can offer huge tax advantages compared to leaving your pension in the UK. UK pensions are often subject to UK tax at source - there is no general exemption to income tax for individuals who are living abroad in receipt of a UK pension, so UK pensions are subject to UK tax, unless a specific form of double taxation agreement applies.

4. Pension Fund Inheritance on Death

Even if you have left the UK, if your pension has not, it continues to be subject to UK tax laws and restrictions whilst it remains in the UK. Pension tax rules in the UK are constantly changing, but continue to result in a high tax charge when a UK pension fund is wound up after the death of the member/spouse, with the majority of the fund being confiscated in the form of a death tax charge.

Trinity, however, is a non-UK pension scheme. Payment of the pension fund on death to another family member does not attract the same penal UK tax charges applicable to UK pension schemes (provided the member was not UK-resident at the time of death, nor has been UK-resident for the previous 5 complete tax years).

5. Lifetime Allowance

UK pensions are subject to ever increasing tax restrictions, designed to reduce the possible use of pensions for tax relief. Where previously there was no limit to the size a pension fund could grow to (only a limit on how much was paid in as contributions), UK tax law introduced in 2006 created an upper limit to the size of a UK pension fund, namely the **lifetime allowance**. Any excess of a fund above the lifetime allowance is subject to UK tax, at 25% or 55%, on what is termed a "**benefit crystallisation event**" (eg the commencement of a pension). Possible future changes to the lifetime allowance create considerable uncertainty for individuals with larger UK pension funds.

The lifetime allowance, previously £1.8m, reduces to £1.5m in 2012, bringing more and more UK pensions into the catchment of the excess 25%/55% tax. Changes to the lifetime allowance therefore bring considerable uncertainty, and can lead to significant UK tax, for individuals with larger UK pension funds, even if they are no longer UK-resident.

It is possible to eliminate this uncertainty by transfer to Trinity. A transfer to a QROPS is a one-off "**benefit crystallisation event**" (termed BCE8). If at the time of transfer the transfer value is less than the then lifetime allowance, there is no tax charge. After transfer to Trinity, even if the Trinity fund increases to an extent where it exceeds the lifetime allowance, or even if the level of the lifetime allowance is further reduced, the crystallisation event has already occurred (at date of transfer) and so no further tax is payable in relation to the lifetime allowance. In short, transfer to a QROPS brings greater certainty, for larger pension funds which might otherwise be subject to future UK tax. Exporting a UK pension overseas means that the pension is tested against the lifetime allowance once, and thereafter is not subject to the vagaries of changing UK allowances.

6. Investment Choice

Trinity offers a range of pension investment choices – from simple bank accounts to streamlined platform-based investments (such as insurance bonds), right up to fully bespoke **SIPP**-type pension funds including personalised investment portfolios of individual shares and other securities. Investment management can either be self-directed by the member or delegated to an investment manager appointed by the member. Please refer to page 9 for further information on investment choice.

What pensions can be transferred into Trinity?

Pension transfers into Trinity can be made from most forms of UK tax-approved pension schemes, including:

- occupational pension schemes, both *defined contribution* and *defined benefit*
- **SIPPS** and other **personal pension** schemes
- additional voluntary contribution (AVC) schemes
- section 226 retirement annuity policies

Transfers from a defined benefit pension scheme cannot be made if pension has already commenced from that scheme, or if the scheme in question has entered the Pension Protection Fund.

Please note that it is not possible to transfer State pensions such as the Basic State Pension or the State Earnings Related Pension / State Second Pension.

Just because it is possible to transfer a UK pension does not necessarily mean that it is advisable to do so. Independent financial advice should be taken by any individual in connection with any pension transfer, and special consideration should be given in particular when contemplating transfer of pensions from either a defined benefit scheme or from a pension policy with guaranteed annuity options, when pension transfer might be inadvisable. Please ask your independent financial adviser for advice.

How is my Trinity pension fund invested?

Investment management can either be self-directed by the member or delegated to an investment manager. Investment can be made into any of the following asset classes:

- private portfolio bonds, investment bonds and other life assurance policies
- shares and other listed equity investments
- gilts, corporate bonds and other fixed-interest or index-linked securities
- bank and building society accounts
- commercial property
- collective investment funds investing in any of the above asset classes

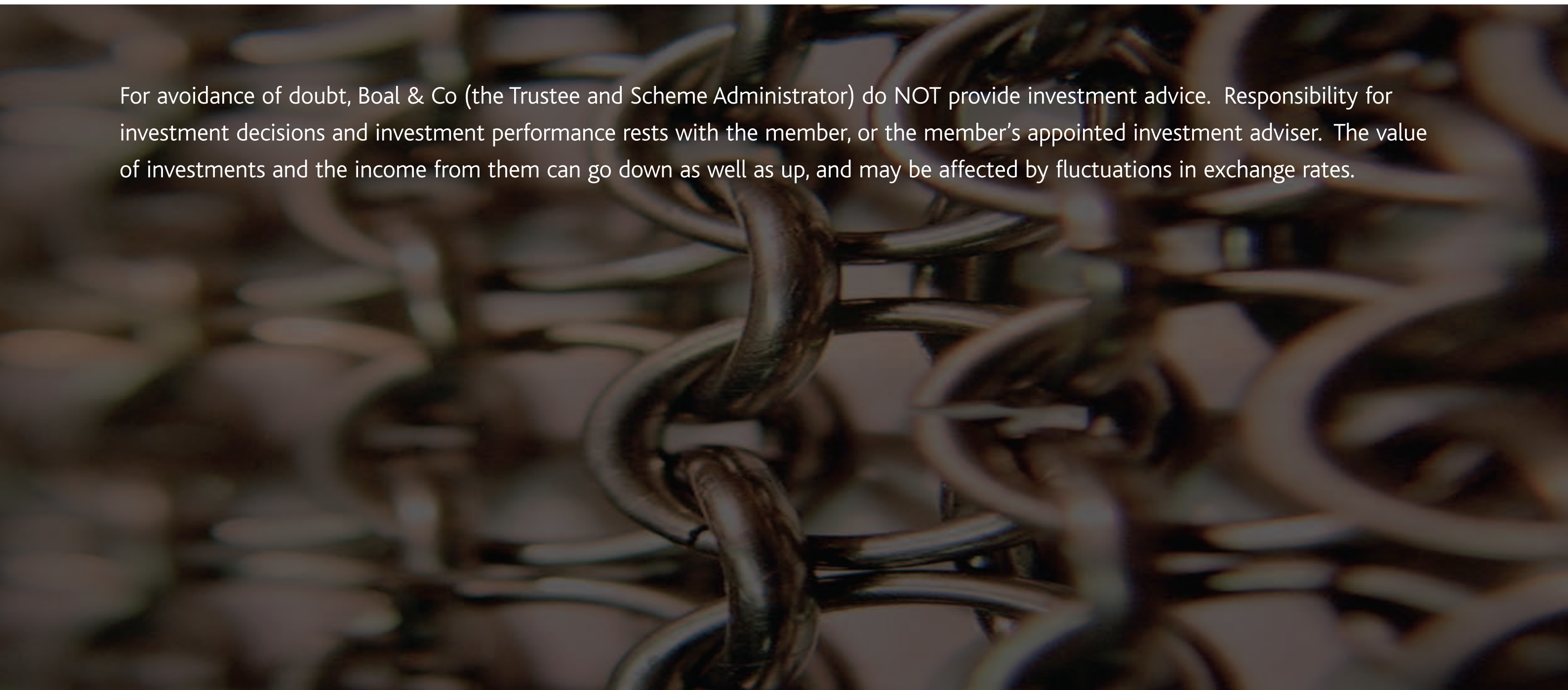
Different administration charges will apply, depending upon the investment choice required – please refer to our Schedule of Charges for full details.

As Trinity is an "open-architecture" scheme, insurance policies and investment funds can generally be selected from any product provider.

The above list of investments is not exhaustive. Other forms of investment are permitted by agreement. Bespoke investment arrangements require our prior agreement, and special charges may apply.

Please note that investment in residential property is not permitted in any circumstances because of HMRC regulations applicable to UK tax-relieved pension funds, including QROPS.

For avoidance of doubt, Boal & Co (the Trustee and Scheme Administrator) do NOT provide investment advice. Responsibility for investment decisions and investment performance rests with the member, or the member's appointed investment adviser. The value of investments and the income from them can go down as well as up, and may be affected by fluctuations in exchange rates.



What benefits are paid at retirement?

Trinity is a *defined contribution* pension scheme, which means that the amount of benefits received by a member, in the form of pension and retirement lump sum, is entirely dependent on two things:

- the amount of money paid into the member's Trinity fund (generally by way of transfer values from UK pension arrangements), and
- the investment performance (which may be positive or negative) on the member's Trinity fund

Therefore there are no guaranteed retirement benefits of any form.

Retirement benefits from Trinity can be taken by a member at any time after age 55. There is no maximum age by which benefits must commence.

The member's pension in retirement is provided via ***drawdown***, which means that each year a proportion of the member's fund is drawn down and used to provide the pension. Pension payments will typically comprise the investment income on the member's fund together with a small return of capital. Therefore it is to be expected that a member's fund will gradually reduce after retirement, through the effect of pension payments to the member.

The amount of pension, i.e. the rate of drawdown, is flexible within limits. The Scheme Administrator will be able to advise you prior to retirement of the range of permitted pension drawdown in your individual situation.

After retirement, the amount of pension payable to you is normally reviewed every 3 years in line with the investment return achieved by your Trinity fund. If your fund earns more than assumed, this can result in an increase to your pension; if your fund earns less than was assumed, this can result in a reduction to your pension. Failure by a member to implement the recommendations of any regular pension review, or sustained poor investment performance, could lead to a member's Trinity fund running out before their death.

At retirement, Trinity members can opt to take part of their Trinity fund as a retirement lump sum. The taking of a retirement lump sum does not necessarily mean that a member also has to commence drawing a pension at the same time. At least 70% of the amount of any transfer value received from a UK pension transfer has to be used to provide a pension for life. Any excess (other than protected rights) can be taken as a retirement lump sum.

What happens on my death?

On death before or after commencement of drawdown pension, the member's Trinity fund (excluding any **protected rights** fund) can be paid out as a lump sum to the beneficiaries nominated on the member's application form. There is no Isle of Man tax payable on this death benefit.

Alternatively, there is the ability for funds to be retained within Trinity and applied to provide an immediate drawdown pension to the member's spouse. If the member has **protected rights**, the protected rights fund *must* be used to provide a spouse's pension.

Members are able to indicate their preference in the Expression of Wish section of the Trinity application form.

What is the taxation position?

- All retirement pension and lump sum benefits described above are exempt from Isle of Man tax under section 50C of the Income Tax Act 1970
- There is no taxation relief on contributions payable into Trinity

Even if benefits are paid to you free of Isle of Man tax, you may have a liability to tax in your country of residence. Tax rates vary widely from one country to another, and you are advised to take local tax advice and to declare Trinity pension income on your annual return.

It is a legal requirement and obligation of any QROPS, including Trinity, that the Scheme Administrator reports to HMRC in certain situations when a member benefit begins to be paid. The reporting obligation does not apply unless the member is UK-resident at the time of payment, or has been UK-resident in any of the preceding 5 tax years. The reporting obligation applies only to the first such payment, and extends to the date, amount and nature of that payment, together with the name and address of the member. Note that the 5-year period is measured from date of becoming UK non-resident, not from date of pension transfer into Trinity.

Please note that the information given in this document is based on our understanding of current pension law and taxation practice, which may change in the future. No liability can be accepted for any personal tax consequences of this scheme or for the effect of future tax or legislative changes.

Who offers Trinity?

All assets within Trinity are held under trust for members by the scheme trustee, Boal & Co (Pensions) Ltd. Boal & Co **www.boal.co.uk** is a leading firm of consulting actuaries, based in the Isle of Man. Boal & Co (Pensions) Ltd is regulated as a Professional Schemes Administrator under the Isle of Man Retirement Benefits Schemes Act 2000.

Boal & Co is a member of Abelica Global **www.abelicaglobal.com**, a leading international organisation of actuarial consultancy firms.

What are the costs of Trinity?

The charges for Trinity take the form of an initial fee, when you transfer into the scheme, and an annual fee for ongoing membership. Both fees are taken from your Trinity fund. The applicable fee scales are set out in the Schedule of Fees.

Investment management charges are agreed between you and your appointed financial adviser or investment manager, and are also paid for out of your Trinity fund.

Normal underlying charges, if any, associated with the investments in a member's Trinity fund will apply in the usual way, subject to any discounts that are obtained. All such discounts will be credited in full to enhance your Trinity fund.

In some cases, a financial adviser may charge clients an initial transfer fee in lieu of commission from the underlying investments. In this case, the amount of the adviser's transfer must be agreed by the financial adviser with you in writing.

Am I eligible for Trinity?

Trinity is an overseas pension scheme designed for individuals who currently have UK pension arrangements but are no longer UK-resident for tax purposes. If you are UK-resident and remain so, you are ineligible for Trinity. This is because you will still be subject to UK tax rules and so will be unable to avail of the key features described in this brochure.

Trinity is only available to individual persons who are currently UK non-resident for tax purposes and who have been, or will be, UK non-resident for a continuous period of at least 5 complete tax years.

The minimum investment into Trinity (by transfer value from existing UK pension schemes) is £50,000.

Service assurance

If at any time you believe that our service could be improved, or if you are dissatisfied with any aspect of our services, you should ask for a copy of our Complaints Procedure which explains how we deal with any issues, or alternatively write to:

G F Boal BSc FFA FSAI
Managing Director
Boal & Co (Pensions) Ltd
Marquis House
Isle of Man Business Park
Douglas
Isle of Man
IM2 2QZ
British Isles.

In this way, we will be able to ensure that any concerns are dealt with carefully and promptly.

Boal & Co (Pensions) Ltd is regulated by the Isle of Man Insurance and Pensions Authority **www.gov.im/ipa**.

Any matters relating to the investments in your Trinity fund should be raised with your financial adviser or investment manager.

How do I join Trinity?

If you have read the Trinity brochure and accompanying material, and have decided that you would like to transfer your pension to Trinity, you should apply for membership using the Application Form. The information collected in the Application Form will enable us to contact your UK pension company and authorise them to arrange for transfer of the value of that pension into Trinity.

The Application Form also enables you to tell us who your financial adviser is, and the rate of investment management and/or transfer fees applicable.

Once completed, the Application Form should be sent by post to us at the address shown on the form.

Glossary

Defined Benefit pension scheme (also known as a final salary pension scheme) means a scheme where pension is calculated by reference to salary and length of pensionable service.

Defined Contribution pension scheme means a scheme where the benefits are dependent entirely on the amount of contributions paid into the scheme and the investment return achieved on them.

Drawdown means the regular withdrawal of money from a member's Trinity fund in order to provide the member with a pension in retirement. The funds paid out in drawdown will typically include a return of both capital and interest.

Gilt means a UK Government fixed-interest security.

Insurance and Pensions Authority is a statutory board of the Isle of Man Government, originally established under the Insurance Act 1986 and continued under the Insurance Act 2008, with responsibility for the regulation of the insurance and pensions sector in the Isle of Man.

Lifetime Allowance is an overall ceiling set under UK legislation to limit the amount of an individual's UK pension fund. The lifetime allowance is fixed at £1,800,000 until April 2012 when it reduces to £1,500,000. When you initially transfer UK pensions into Trinity, their value is tested against the lifetime allowance and, if it exceeds the lifetime allowance, a UK tax charge will arise unless you have registered your UK scheme for protection. This is a one-off test, however. There are clear advantages therefore in transferring a UK pension before it grows in excess of the lifetime allowance.

Personal Pension scheme means a UK pension approved under s631 Income and Corporation Taxes Act 1988.

Protected Rights is a term given to UK contracted-out rights which arise when a person opts out of the State Second Pension. In return, that person receives a contracted-out rebate which is paid into a scheme approved to receive such rights. Where an individual is contracted-out through an Appropriate Personal Pension, these contracted-out rights are known as protected rights and are subject to certain rules.

QROPS or **Qualifying Recognised Overseas Pension Scheme** is a non-UK pension scheme which satisfies certain HMRC requirements as to benefits and reporting, and which is registered with HMRC. A list of QROPS schemes is available on-line at **www.hmrc.gov.uk/pensionschemes/qrops.pdf**

Recognised Transfer means the transfer of a UK pension to another UK-approved pension scheme or to a QROPS. A recognised transfer is an authorised member payment and so does not incur a tax charge. (Note, see separate reference to Lifetime Allowance.)

Scheme in this brochure refers to the Trinity Pension Scheme.

Scheme Administrator means Boal & Co (Pensions) Ltd.

SIPP or **Self-Invested Pension Plan** is a form of personal pension arrangement with the widest possible investment choice.

Trinity is the Trinity Pension Scheme, which is an Isle of Man tax-approved pension scheme.

Trustee means Boal & Co (Pensions) Ltd.

Trinity

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Boal & Co
Actuaries & Consultants