

QROPS business is great business. For financial advisers with British expatriate clients, or for that matter with non-British clients stuck with UK deferred pensions, the ability to transfer a UK pension overseas, subject to the right advice, is manna from heaven. It may not be popular with UK SIPP providers, but it is great business for expatriate financial advisers and their clients.

QROPS have many advantages over other pension schemes, but there are three main areas in which they eclipse them.

■ Annuity agony

UK defined contribution (DC) pensions (personal, SIPPs and occupational DC schemes) generally hinge around the outdated requirement that pension in retirement means saying goodbye to an accumulated retirement fund and exchanging it for an annuity which stops when the client dies. For those unfortunate individuals stuck with UK pension rules, annuitisation means:

- locking into an investment return based around long-dated gilt yields (currently 4% pa), and so exchanging a large retirement fund for a small pension (which will invariably be a level one with no inflation protection such is the market premium for index-linked gilts, which translates through to unattractive index-linked annuity alternatives). Low gilt yields mean bad annuity rates, which in turn means a low pension.

- saying goodbye to what is often a large pension fund – for example, £200,000 – for the promise of an annual annuity of around £12,000 with no inflation protection, which stops when the client stops – meaning there is virtually no ability to hand down a substantial accumu-

Boal & Co's Gary Boal says financial advisers need to get over their wariness of QROPS to ensure that clients resident abroad with a preserved UK pension fund do not miss out on their many benefits

Advantage all round

lated fund on death. This means any individual with a below average life expectancy is subsidising the annuity pensions of others who live longer.

■ Taxed to the hilt

Any UK pension left behind in the UK, whether DC or final salary, is subject to UK tax. Yes, there are UK personal allowances, and in many overseas countries there are UK double tax agreements (DTAs).

But for larger incomes, UK tax rates increase in April to up to 50%, and there are many appealing overseas countries to which people can retire that do not have a DTA with the UK. In these cases – for example, Hong Kong, UAE, Thailand and much of Asia – leaving a pension behind in the UK

(whether as a personal pension or as a UK SIPP) means paying unnecessary UK tax on it of as much as 50%.

■ Lack of control

QROPS are particularly appealing to expatriate clients with final salary UK deferred pensions. These are pensions which are:

- dependent on the continued survival in business of a past employer, to keep a scheme as a going concern and often to recover substantial past service deficits. If the employer goes out of business, the assets of the scheme will be separate from the employer, but they will in most cases be insufficient to buy out 100% of benefits;
- locked in to commencing at

IA KEY POINTS

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a normal retirement age, relying on discretionary employer and/or trustee consent to retire early, or (increasingly) to retire late;

- payable in sterling, which is far from ideal if the client is intending to retire to Thailand, Spain, France, Asia – basically anywhere other than the UK.

■ Take a second look

For these and many more reasons, QROPS are an essential consideration for any individual resident abroad with a preserved UK pension fund. Advisers ignoring their benefits are missing out on the chance to add value to their clients' pensions and instead often boost HM Treasury coffers.

Some advisers may have initially steered clear of QROPS

because of the dubious schemes which first arrived on the scene, a number of which still exist.

But advisers dealing now with QROPS schemes in well-regarded international finance centres such as Guernsey and Isle of Man (as opposed to more esoteric commonwealth and ex-commonwealth countries), administered by professional, regulated pensions firms, can breathe comfortably.

For example, all of Boal & Co's QROPS schemes are fully regulated by the Isle of Man Insurance and Pensions Authority (IPA). They are bona fide pension schemes, with bona fide pension expertise behind them. And there is a reason why the Finance Act 2004 requires QROPS to pay a pension for life with at least 70% of a QROPS fund. Ignore it at your peril.

■ Beating the myths

There are still some QROPS myths which have somehow survived even four years after QROPS were first introduced. Fortunately, one of these surrounding residential property (which has been around since SI 2006/1960 appeared in UK legislation in July 2006) has finally caught the attention of some providers.

Essentially, QROPS should not invest in residential property any more than UK SIPPs. But genuine commercial property is fine.

■ Point of no return

Another myth is that QROPS are somehow a problem for a client who returns to the UK. Indeed, some say they cannot be used for someone who even might return to the UK.

To take just the three reasons why QROPS are a better option detailed earlier in this article, two of the three still

apply if the client returns to the UK.

With a QROPS the client returning to the UK does not have to buy an annuity, is not subject to ASP limits, can keep funds invested in growth assets and still drawdown after 75, and can take control of their retirement age. There is one set of UK tax rates on pension income, and that is the same for UK pension income as for overseas (QROPS) pension income.

■ Final salary poser

A myth that can be properly resolved with expert support, is that final salary deferred pensions are off limits and should not be considered for transfer.

These are more complicated and the process requires more support. But that is why Boal & Co's actuaries and pension professionals provide expert support for final salary transfers into QROPS. Often, our comprehensive Transfer Value Analysis (TVA) reports show matching yields of only 5% to 7% a year. Clients in normal as well as poor health can potentially achieve benefits through transfer. Add in tax savings (for clients retiring in many parts of Asia and Arabia, for example) and the QROPS advantages can be overwhelming.

We are also seeing more and more transfer value inducements, as people with deferred pensions are being offered enhancements by their scheme to transfer. Any such inducements should be evaluated properly.

At Boal & Co, as actuaries and pension consultants, this is where our professional expertise, allied to our choice of QROPS schemes, and unique choice of QROPS jurisdictions, gives advisers a fully comprehensive package for quality QROPS business. **IA**



Gary Boal, managing director, Boal & Co

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