Now is the Time to Think About Transferring Your UK Pension Fund to an International Scheme

Time may be running out to take advantage of favourable conditions allowing those living outside the UK to move their UK pension funds offshore into a Qualifying Recognised Overseas Pension Scheme ("QROPS" or "ROPS").

The UK law that allows the international transfer of funds was enacted as a direct result of European Union human rights requirements regarding freedom of capital movement. As such, once the UK leaves the EU, the ability to make foreign transfers of capital, without incurring penal tax charges at least, may well be gone.

Anyone who is living abroad, or intending to move abroad in the next 12 months, and is planning on living outside the UK long term should be considering a QROPS as a potentially attractive alternative to retaining their pension funds in UK based schemes.

For non-UK residents, income from UK pensions is exempt from UK income tax as long as the individual is eligible and they apply to HMRC for their pensions to be made exempt. You should be eligible if you are fully resident in a country that has a double tax treaty with the UK (France and the Channel Islands do) and you pay income tax on your pensions in that country.

However, the income tax exemption does not extend to death charges or lifetime allowance excess tax charges so these would still be applied regardless of the member's residence status. As these charges do not apply to overseas QROPS pensions, for many people, this is enough to make it worthwhile transferring their pensions offshore.

There are also a number of other advantages gained by transferring pension funds overseas, such as the availability of a larger tax-free lump sum and greater control and flexibility over what investments are held and how benefits are taken.

No Death Charge
A pension fund in the UK is often taxed as it is passed to beneficiaries on death. This could reduce the capital by as much as 45%. With an international pension there is no death charge and your beneficiaries receive the full value of the pension that you leave behind.

No Lifetime Allowance Excess Tax Charge
The maximum total combined UK pension savings a person can have without incurring additional tax is currently £1m. If total funds are greater than this, when income is drawn, a 25% charge is applied to the proportion relating to the excess (and, on a lump sum, the charge is 55%). These rules do not apply to QROPS pension schemes.

Greater Tax-Free Lump Sum
When benefits begin to be drawn from a UK pension, a tax-free lump sum can be taken equal to 25% of the fund value. With a QROPS, the available tax-free lump sum can be as much as 30% of the fund value.

Flexible Currency Options
Having an international pension gives you the ability to hold your capital, and receive your income, in Pounds, Euros or both. If your day-to-day living expenses are in Euros this is likely to be a welcome option as you will no longer need to worry about the exchange rate risk.

Flexible Investment Options
Most QROPS schemes give members a huge amount of choice and flexibility in terms of what funds and investments the scheme invests in. UK pension schemes do vary in this respect and some are very good but generally they do not offer anything like as much choice.

Flexible Benefit Options

UK pension benefits, under the recently relaxed law, can be drawn whenever and however the beneficiary wishes, subject to certain parameters. However, the scheme rules may well impose additional limitations. Moving funds out of pension schemes with restrictions to a QROPS with fewer restrictions enables you greater degree of flexibility and control. For example, income can be drawn from an international pension scheme from the age of 55 whereas with UK schemes you tend to have to wait until you are 60 or 65.

Consolidation of Funds

Many people will contribute to a number of different pension schemes over the course of their career. Transferring to a QROPS gives you the opportunity to consolidate multiple schemes into one.

A QROPS is not for everyone. It is probably uneconomical to have a QROPS if you have less than about £40,000 of capital to transfer for example. There are some pension schemes such as civil service schemes that will not allow transfers. Some schemes will serve you better if they are left intact. For example you may decide that a known and constant income from a final salary scheme for life gives you a peace of mind that outweighs the benefits a QROPS offers.

As well as a comparison of the numbers, however, other factors also need to be considered. You need to accept that a private sector defined benefit scheme may not be as "gold-plated" as once thought. There is a risk that some schemes will not be able to pay their members the benefits it is contracted to. You have to decide whether you are happy to accept this risk. Even if it is relatively small, you would be wise to consider whether an alternative would be a safer option.

I have highlighted the main benefits of QROPS schemes but there are many other factors to consider that I have not touched on. To find out more and to help you weigh up whether a QROPS is right for you, you should speak to a financial adviser. This need not be a costly exercise. Some reputable advisers provide this service free of charge with no obligations. Instead of receiving fees directly from their clients, they receive referral fees from pension providers.

It may seem much easier to leave pension arrangements as they are for now but time is of the essence. The QROPS rules may or may not change as a result of the UK leaving the EU but the possibility that they might change is enough in my mind to warrant weighing up the options now. If nothing else comes of it, you'll see what your pension situation currently looks like and a projection of the level of income you can look forward to in your retirement.

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