

Contents

Section 1 - Introduction

Section 2 - About QROPS Schemes

Section 3 - Frequently Asked Questions

Section 4 - Additional information and advice

Section 1

Introduction

Blacktower Financial Management (International) Limited (BFMI) aims to provide you with all the information necessary in order to make an informed decision as to whether a QROPS (Qualifying Recognised Overseas Pension Scheme) arrangement holds sufficient benefits to meet your current and future retirement objectives. This guide is just a start to that process.

You can transfer your existing pension provisions into a QROPS arrangement if you now reside overseas or are planning to move away from the UK to retire. The financial benefits of such a transfer could potentially be vast if planned correctly.

The QROPS Provisions have fairly strict rules appertaining to them with an HMRC '5 year reporting rule' which we explain later in this guide. You are able to take the Pension Commencement Lump Sum or income withdrawal benefits within the first 5 years of you being a UK non-resident but by planning in advance you have the ability to improve the investment growth, flexibility and financial security of your pension fund. It is imperative that you seek advice from qualified professionals before making any decision to transfer your pension.

To this end, BFMI are on hand to provide you with a full Financial Planning service via one of their highly trained and qualified team of financial advisers. Our advisers are supported by industry experts with more than 37 years' experience in the pension's arena.

Section 2

About QROPS arrangements

In April 2006 the decision was made to allow British expatriates to move their pension benefits to a QROPS arrangement with the UK Inland Revenue's approval. Prior to that, UK pensions had been traditionally tied up in a multitude of restrictions and regulation. The main reason for this was to ensure that the tax revenues of annuities were controlled and also, that the individuals did not become a burden on the state by spending their pension funds over a short period of time. In addition, the tax free growth which UK schemes had gained over the years was not to be misused.

A QROPS arrangement is a pension scheme set-up outside the UK that is regulated as a pension and recognised for tax purposes in the country in which it was established. A QROPS arrangement, whilst complying with the above, can be taxed in the country it is established at a minimal rate of tax and in some instances even at a nil rate. It is not until you have been outside of the UK for five full complete (and consecutive) tax-years that QROPS benefits really come into play. Once you have completed that period of time outside of the UK, the QROPS provider no longer has to report any

payments/withdrawals to the HMRC. If your QROPS provider is in a country/jurisdiction where payments from such a scheme receive a nil rate tax, then the only tax you may be liable to pay is that of the country of where you are tax resident. The fact that the reporting requirements fall away after this period does not mean that the fund can be 'busted' as trust busting is illegal!

The pension fund is therefore only subject to the laws relevant to that particular overseas country/jurisdiction.

You are still not able to take the benefits before the minimum pension age of 55. With the appropriate advice, the tax benefits can be immense – a QROPS arrangement can offer you more flexibility, more income potential and more investment freedom compared with a UK Pension.

Please note that it is imperative that you only consider transferring your pension to an eligible scheme and fully approved by the HMRC. The consequences of transferring your pension to a non-approved scheme could be in leading to a hefty tax bill.

It all sounds too good to be true. Our job as Independent Financial Advisers, though, is to explain to you about the benefits and the potential disadvantages that you will need to consider. This is where we employ the services of a highly qualified firm of Pension Actuaries. This firm will produce an extensive report on your current pension scheme and highlight the advantages and disadvantages of such a transfer. It is together with this information and the guidance of your financial adviser that an informed decision can be made on the best course of action to take.

Section 3

Frequently Asked Questions

1. What is a QROPS (Qualifying Recognised Overseas Pension Scheme) A QROPS arrangement is a pension scheme set up outside the UK that must be regulated as a pension scheme in the country in which it is established.

A Qualifying Recognised Overseas Pension Scheme (QROPS) is any scheme recognized by HMRC as meeting standards and conditions similarly equivalent to a UK pension. This approval allows anyone with a UK registered pension who is living outside the UK, or is intending to leave the UK, to transfer their pension overseas.

Simply put, you should view your pension as an asset. While it is in a UK scheme, although it is "your asset" there are certain restrictions, obligations and implications that apply. These restrictions are legislative or were in the fine print when you took out the pension and may have a large financial impact at some point in the future.

While “your asset” is held in the UK by the pension group, it is subject to various regulations and limitations.

The QROPS provisions allow you to transfer this “asset” into a different HMRC approved scheme in a jurisdiction outside the UK. This overseas HMRC approved scheme will still be under UK pension rules and reporting requirements unless you have been a non-resident for 5 full complete and consecutive tax years, at which point the scheme is no longer required to report to HMRC.

When you have been a non-tax resident for over 5 years, you obviously have greater flexibility and many of the limiting restrictions and obligations will no longer apply.

2. When was a QROPS Pension Transfer introduced?

Due to European precedent in creating pension transferability, on 6th April 2006 and as a part of UK Pension Simplification (referred to as ‘A-Day’), the UK HMRC introduced the QROPS provisions for individuals meeting certain requirements.

3. What are the key factors of a good QROPS Pension Transfer?

Tax efficiency
Well established, secure and well regulated jurisdiction
Investment Flexibility
Transparent Charges

4. Which QROPS Pension Transfer schemes are HMRC approved?

For full details of eligible QROPS Pension Transfer schemes please contact one of our Financial Advisers.

5. Key Benefits of a QROPS arrangement.

All unused pension funds can be left to your beneficiaries.
Much greater investment freedom.
Pension Commencement Lump Sum of up to 30% in certain jurisdictions
Access to global funds with higher returns.
Pension income is more tax efficient.
Take income and benefits in the currency of your choice.
Greater confidentiality.
Protection against possible future creditors (depending on jurisdiction)

6. What age do I need to be to apply for a QROPS Pension Transfer?

Anyone between the ages of 18 and 75 may apply for a QROPS Pension Transfer.

7. I'm currently a UK tax resident, can I still apply?

Yes, provided that you have a clear intention to become a non-UK tax resident within the next 12 months.

8. Can I transfer my UK pension if I am a US citizen?

Transfers to a QROPS arrangement for US citizens can be difficult, as many US based IRA's are not permitted to receive funds from a UK registered pension scheme.

A simpler solution would be setup a QROPS outside of the US in a tax efficient jurisdiction.

9. What nationalities can apply for a QROPS Pension Transfer?

Most of the schemes are not available to US nationals although any other nationality may apply for a QROPS Pension Transfer.

10. Can I transfer to a QROPS once I have purchased an annuity?

No.

11. Can I transfer to a QROPS once I have taken any benefit from a Final Salary (Defined Benefits) Scheme?

No.

12. Can I transfer a state pension?

No. Unfortunately, you cannot transfer a state pension into a QROPS arrangement.

13. When should I not transfer my UK pension?

In most pension situations, provided you are a non-UK resident and intend to remain so for five years or more, the benefits can be immense if you transfer your pension.

However, some older pension plans have guaranteed annuity rates set with higher interest rates and it may not be beneficial to transfer these.

Certain Final Salary Schemes could have large levels of Guaranteed Minimum Pension benefits ('GMPs') as the result of previously contracting out of the UK State 2nd Pension (SERPS/S2P)

Each instance varies and you will require the advice of a pension professional. No matter what pension you have, given the large benefits, it is definitely worthwhile to discuss the option of a QROPS Pension Transfer with an adviser.

14. What are the tax implications of moving my pension?

Transfer to a QROPS arrangement is a Benefit Crystallization event and is not subject to taxation unless it exceeds an individual's lifetime allowance ('LTA'). This LTA is currently £1.8m but reduces in 2012 to £1.5m. If your pension exceeds this amount you need to specifically discuss this with one of our Financial Advisers.

15. How will benefits or withdrawals of a QROPS Pension Transfer be taxed after the initial period?

This depends on where you are a tax resident of the time. There are schemes that achieve a minimal tax rate.

We believe that it is best to discuss this with an adviser who will be able to provide specific information where you are tax resident.

This means for example that if you take benefit from a Guernsey based QROPS arrangement (which is often recommended), there will be no tax deducted at source from payments that are made from the scheme.

You will however be subject to any taxation on such payments that are due in your country of tax residence at the time.

16. Will transfer to a QROPS arrangement attract any tax?

The transfer to a QROPS plan can be affected without the deduction of any UK tax, subject to the receiving QROPS arrangement continuing to be QROPS approved and the LTA not exceeded.

17. Will I have to purchase an annuity if I transfer my UK pension into a QROPS arrangement?

No.

However, if your QROPS is correctly setup, you can if you wish. Remember that a good QROPS Pension Transfer offers greater investment flexibility.

18. What investment flexibility and choice will I have with a QROPS Scheme? (Can I manage my own QROPS assets?)

One of the greatest benefits of a QROPS arrangement is the investment flexibility and choice that it offers you. The better schemes offer greater

flexibility and the degree of choice and flexibility depends on the scheme you choose. Some schemes will allow you to manage the assets with total freedom, while others have certain restrictions.

You may also appoint an investment adviser to make the decisions with you or for you, it all depends on what you are looking for. The best option would be to discuss the specific scheme with an investment adviser.

19. What happens if I move around the world?

No matter where you move in the world, nor how often you may move, your QROPS plan stays in the neutral offshore jurisdiction that you have chosen.

This is another reason why the jurisdiction of your QROPS arrangement is important.

20. Can I do a QROPS Pension Transfer myself?

No. Only appointed intermediaries are allowed to do a QROPS Pension Transfer.

21. If I transfer my UK pension to a QROPS arrangement can I access my fund as a 100% lump sum?

Normally, the clear answer to this is 'No'. Schemes and advisers that are offering 100% access are being investigated by and subsequently shut down by the HMRC and Members are being levied heavy surcharges and penalties for this.

There are QROPS approved Superannuation Schemes in the jurisdiction of New Zealand – however, there are no guarantees that legislation will not change in the future and/or HMRC review the situation and remove the approval.

22. What jurisdiction should you transfer your UK Pension Scheme to?

You should ensure that it is in a tax-efficient, secure and well regulated jurisdiction.

It should also have strong investor principles and pension legislation such as the UK.

The jurisdiction should offer significant improvement in investment and benefit options available. E.g. some jurisdictions require you to purchase an annuity, and place major restrictions on the funds you can go into.

A jurisdiction such as the Isle of Man, Jersey, or Guernsey would be optimal, as they offer tax efficiency and flexibility.

23. Why is Guernsey one of the preferred options?

Guernsey is an independent, well regulated and internationally accepted jurisdiction with a firm framework of legislation in the financial services sector.

Pension providers on the island have worked closely with HMRC to ensure a robust QROPS offering for both its resident and international clients.

It is a neutral jurisdiction which allows tax-efficient structures. This means that income and capital gains from the assets within your plan are not subject to Guernsey tax. Therefore, the assets within your plan grow in a tax efficient environment.

You can choose your QROPS Pension Transfer to be denominated in a hard currency (Pounds, Dollars or Euros).

24. If I die, what will happen to my QROPS Scheme?

The better QROPS Pension Transfer schemes ensure that all remaining assets upon your death are distributed to Named Beneficiaries. Again, many tax and estate planning opportunities exist and should be discussed with a financial adviser.

Options available upon death that your QROPS should include are:

- An annuity to spouse or dependants
- Payment of the proceeds of your plan to a new plan for Named Beneficiaries.
- Retention of your plan in trust for distribution at a predefined date or future event (within 2 years of your death).
- Winding up of your plan and payment into your estate
- Winding up of your plan and payment directly to Named Beneficiaries.
- You should easily be able to amend your succession instructions.
- Annuities are not purchased from Life Assurance companies. Thus, on death all remaining assets in the QROPS arrangement are returned to your plan for distribution in line with your wishes.

25. What are the costs associated with a pension transfer to a QROPS arrangement?

- If you look at the costs in terms of a percentage of the fund value, then larger the fund value, the lower the charges.
- Each specific QROPS scheme has its own charges and depends on various factors. Before deciding on a specific scheme look at the benefits and flexibility that they provide.
- When considering a QROPS arrangement, 'cheaper' definitely does not always mean 'better' and you need to carefully look at the specific

scheme. If you're going in to have a medical operation, would you choose the cheapest or the best doctor? The same applies with QROPS Pension Transfers.

There are generally three costs that you need to be aware of in most QROPS schemes.

These are on average as follows:

- Establishment cost – on average these are approximately £1,000
- Annual management/Trustees charge – £1,000 – £1,500 p.a.
- Underlying Fund Management – these are relatively modest and depend on the specific funds chosen.
- Remember, that if you consider the benefits of a QROPS arrangement, these costs are insignificant. You need to take into account that with many pensions they are in a very low or even negative growth and that upon death, an Annuity, if purchased can often 'die' with you, not to mention the potential tax implications on the residual fund.

26. What is the minimum value I can transfer to a QROPS arrangement?

Each specific QROPS scheme varies. Different schemes have different charging structures and as a result they are only worthwhile provided that a certain threshold is reached. We have found that the minimum required for a basic QROPS scheme is £25,000. Remember though that you can combine more than one pension to reach this figure. In general, where the amount is below this threshold it is not beneficial to transfer to a QROPS arrangement. It is important to note that many schemes allow you to include other investable assets to reach this figure. Thus, whatever the value of your pension, it is worth contacting an advisor as there is usually a solution to be found.

27. Why are UK pensions tied up in many layers of regulations & restrictions?

This is mainly to protect tax revenues of the UK government by taxing annuities. Secondly, it is to stop pensioners from spending all their money in the first 5-10 years and then relying on the state.

28. How long does it take to setup a QROPS Pension Transfer?

The length of the process varies. It can be 6 weeks or it can be quite lengthy and take a few months. On average, you should expect the process to take 2-3 months. Please see the procedure section to see the various steps.

29. Is my plan subject to EU savings tax directive (for European citizens)?

A QROPS Pension Transfer plan is currently not subject to the EU Savings Tax Directive

30. Do I have to first liquidate my assets held within my UK registered pension scheme before transferring them into a QROPS arrangement?

If the pension scheme is a SIPP or a SSAS, it may be possible to transfer the existing assets to the QROPS arrangement. This is referred to as an 'in specie' transfer and depends on the specific QROPS scheme.

For most other pension schemes you will need to liquidate your assets before transferring to a QROPS.

31. Does the HMRC in the UK require the QROPS pension fund to report payments?

The QROPS Scheme Manager/Provider does not have to notify HMRC unless the member: is resident in the UK when the payment is made (or treated as made), or although not resident in the UK at that time, has been resident in the UK earlier in the tax year in which the payment is made (or treated as made) or in any of the five full tax years immediately preceding that tax year.

32. Will a QROPS Pension Transfer accept the transfer of a Protected Rights fund (Contracted Out benefits)?

Yes, provided that the QROPS plan is willing to accept it.

Form CA 1881 needs to be completed as this enables HMRC to keep track of where the Protected Rights are. If you are transferring your Protected Rights it is necessary to state that you understand that all protection associated with UK pensions legislation is being given up.

33. Can I purchase residential property with my QROPS fund?

If you have been a UK resident at any time in the last five full complete and consecutive tax years, then the answer to this and similar questions is precisely that which would apply to a UK registered pension scheme.

Thus, "yes" you are able to purchase residential property but it will be subject to a 70% tax charge of the asset value.

If you have a QROPS and have not been at any time resident in the UK for the last five full complete and consecutive tax years, then the operation of the QROPS is subject to the legislation associated with the jurisdiction in which the QROPS is based.

Some of these jurisdictions do permit investment into residential property although most frequently this will be only permitted through indirect ownership that is through a corporate structure or property fund.

34. What happens if I have a QROPS Pension Transfer and return to the UK within 5 tax years?

If you are returning for holiday and are still a non-tax resident then everything is as per usual with QROPS.

If however, you are returning to the UK to work within 5 tax years, then you will need to report your QROPS to the HMRC and, although it can remain overseas, it will fall under UK pension rules and regulations.

35. Will the QROPS arrangement declare any payments made from the scheme to the HMRC?

During the first 5 full complete and consecutive tax years of the member leaving the UK, the QROPS trustee is required to let the HMRC know of any payments, withdrawals, or transfers made from the QROPS Pension Transfer.

After this period, the QROPS Trustee is no longer required to advise HMRC of any payments, withdrawals, or transfers made from the QROPS Pension Transfer.

36. During the first period, do I also need to declare payments?

Yes

During this '5 year period', the QROPS Trustee will report any payments or transfers made to HMRC. You must also fill out a self-assessment return (available from HMRC) and declare any payments or transfers.

If you have setup a QROPS Pension Transfer you should return your completed form to the tax office that is currently dealing with your affairs, or that which was dealing with your affairs immediately before you left the UK.

Section 4

Additional information

QROPS transfers may in fact not be suitable for everybody. As stated in the FAQ section, you cannot transfer a state pension into a QROPS arrangement, nor can you transfer if you have already purchased an annuity with your pension fund. In the most though, a QROPS arrangement can be extremely beneficial, especially if constructed appropriately and with continued expert advice and support.

The expatriates we have supported thus far and those that are planning to leave the UK, all have a unique financial situation. There may well be other financial assets, liabilities and specific IHT issues that need to be considered and advised upon.

With a new government in place, how long will it take them to realise that millions and possibly billions of pounds are being taken from UK pensions funds? Will they bring an end to the QROPS provisions? And with the increases in taxes for the more affluent – how many more will make the decision to leave the UK and transfer all their pension assets with them?

QROPS are available today, so if you do not intend to return to the UK for the foreseeable future, contact us now while the opportunity to benefit from this is available.

Advice

What is left for you to do is make contact with one of our Financial Advisers. Book a financial planning review today and let us work together to find out just how QROPS arrangements could benefit your own personal circumstances.

You do not need to know the exact value of your pension fund but the more information that you can provide the better. Once you have met with one of our financial advisers, we will then proceed to seek the appropriate information on each of your pension funds. This will allow us to gain an exact value and then provide all this information on to an Independent Pensions Technician/Actuary who will produce an extensive report on each of your funds. There is no cost for this report and you are under no obligation to accept the advice provided. Of course QROPS might not be suitable for everyone – so you need to seek professional advice, before this is considered.

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