Holborn Assets

UK Pension Transfer Guide

Pension Transfers:
Could the grass be greener elsewhere?

What you need to know before you move

- What's your defined benefit scheme worth?
- Switching to a QROP
- SIPP—more control, choice and flexibility
- Understanding the tax implications
- The value of expert advice

About Holborn

Holborn Assets was established in 1998 and now has regulated operations in the UK, Europe, Asia and South Africa. As a friendly, family company with British values of integrity and respect for all. we are passionate about helping people put the right money, in the right place, at the right time. No other independent company can match our advisory expertise or depth of proposition.

Why should I move my pension with Holborn Assets?

We truly understand the legal and financial mix. We know how to link the legal and the financial aspects of your assets to secure your family's financial future. Pensions are a key asset for everybody and their transfer requires a sound knowledge of how everything else in your financial picture will be affected - particularly with the complexity of the tax issues involved.

Transfer experience

We have been overseeing the transfer of pensions for over 15 years. Areas of the international pensions transfer sector have (sometimes quite rightly) come under legislative scrutiny over recent years, and this makes the need for professional experience all the more pressing.

We will give it to you straight

If a pensions transfer is NOT going to suit your overall financial picture, we will tell you. We will advise you to stick with your existing pensions arrangement. In 47% of cases between 2016-17, our advisers demonstrated their commitment to their client by advising them NOT to transfer. The role of an adviser certainly involves arranging financial products, but by far and away our most important role is to guide our clients with their bigger financial picture in mind. And if a transfer isn't right for you, we will make no bones about it.

The pension for your life now and in the future

You've already tackled the difficult bit. You have a pension. Future sorted. Pressure off. Well, not quite. Because like it or not, every now and then your pension needs attention. Times change, new rules and possibilities emerge and an arrangement made ten, fifteen or even three years ago, may not be as appropriate now as it was then.

Choose from a range of flavours…

Over the last few years, personal pensions have undergone a transformation. They are no longer available only in plain vanilla. In fact, some are quite exotic. From being tax-beneficial savings plans, usually invested and staying put in a 'managed fund', personal pensions have become fully-fledged investments in their own right. Holders of personal pensions can, for example, invest in different asset classes, in different investments within each asset class and in different markets around the world. And if you're over 55 years of age, in a personal pension you can make withdrawals of any amount as and when you wish.

They're some of the reasons why people in defined contribution and defined benefit schemes are considering moving from their current arrangement to something more flexible. So, for the sake of a conversation, you might find that there's more you can do with your pension than you imagined—if you're prepared to consider moving it to another provider.

A word about jargon...

Most individuals are likely to have one (or even both) of the following types of pensions:

- **Defined contribution scheme:** also referred to as 'personal pension', 'money purchase pension' and 'stakeholder pension'. This type of pension can be arranged by an employer, an employee, a self employed individual or a person who is not in any form of employment. In this guide, we use the term **personal pension** when referring to defined contribution schemes.

- **Defined benefit scheme:** also known as 'workplace' pension', 'final salary pension', 'career average pension' or 'occupational pension', and usually arranged by an employer. In this guide, we use the term **defined benefit** pension.

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Take advice—talk to an expert

To decide whether a transfer would be in your interests requires objective and expert advice from an approved and regulated pension transfer specialist, which Holborn Assets Limited is.

1. Analysis 2. Advice 3. Action

Transferring a pension is not a straightforward exercise—get it wrong and what you gain with one hand, you risk losing with another.

The transfer process is comprised essentially of three-stages

The first part of the process is to assess where you stand right now. Many factors are considered including your financial needs and goals, understanding the life you desire once you've finished work and a detailed analysis of the arrangements you already have in place.

Next, we conduct a thorough analysis of the arrangements you already have in place.

Finally, once we have all the information we need, we can discuss the options with you and — with your permission—take steps to implement the new arrangements.

Given the complexities of pension planning, it is not a foregone conclusion that transferring will be in your best interests. If in fact our findings indicate that it would be detrimental to your interests to change your current arrangement, we'll tell you so.

As distant as the prospect of your retirement may be, you still owe it to yourself and others to set up the best possible arrangement in terms of planning for your retirement. With our guidance, you can be certain that whatever type of pension you have and wherever you

Almost any type of pension can be transferred

All personal pensions and most defined benefit pensions are portable. So almost everyone has the option of transferring their pension to a registered scheme, without reducing the size of their pension pot. In other words, if and when you decide to move your pension elsewhere, all the money in your fund moves with it.

What you can transfer from:

Although pensions transfers are mainly of interest to people who have yet to retire, it is possible to transfer your personal pension even after you've started drawing retirement benefit.

A pension transfer is not an option if the pension has been annuitised, if you're a member of an 'unfunded' public sector pension scheme (such as the Teachers' or the NHS schemes) or if you've already started drawing benefits from a defined benefit scheme. And nobody, under any circumstances, can transfer their state pension to another type of pension.

What you can transfer to:

Some of the options below may be more appropriate to you than others. (Although there are no restrictions on the number of different pension schemes that you can open, there are limits on the total amount of money you can contribute to them.)

- Personal pension: usually provided by an insurance company; investment options are restricted to collective funds such as unit trusts and OEICs
- Stakeholder pension: similar to a personal pension but with lower charges and accepts relatively small and irregular contributions
- SIPP (Self Invested Personal Pension): offered by 'SIPP Providers' specifically for individuals who want a larger choice of asset classes and investment options than a standard personal pension offers
- SSAS (Small Self Administered Scheme): similar to a SIPP, but intended primarily for company directors and/or senior staff
- QROP (Qualifying Recognised Overseas Pension scheme): for individuals living and working overseas who have pension benefits held in one or more UK pension schemes

Here are some of the reasons why people transfer their pensions:

Starting a new job

More investment choice

Aiming to retire earlier than planned

Loss of trust in a defined benefit scheme, or the scheme ceases to exist, becomes insolvent or underperforms

They have pensions with different employers and want to consolidate them

They're moving abroad and want to transfer their pension to a scheme in that country

Spend less time on paperwork

More flexible withdrawal options

Pension transfers—the ins and outs

There's much to consider before you decide to transfer. Are you married or single? Do you have children? How old are you? Are you in good health? When are you planning to retire? Or are you already retired or close to retirement? Transferring a pension is as big a decision as starting one: many different factors must be taken into account.

But transferring is not easy

It's not so much the process itself that makes pension transfers problematic, it's the conditions and the potential risks and pitfalls. That's why it's important to take independent specialist advice, otherwise you risk making an expensive mistake.

What do you have to lose?

Are you aware of the possible ramifications of transferring from an existing scheme or provider to a new scheme? Over and above giving up the benefits offered by the current scheme, here are some of the other issues that need considering prior to transfer:

1. Exit penalties—are there any?
2. Would any potential bonuses be lost?
3. The transfer value—is it more or less than expected?
4. Guaranteed benefits—if they exist, what are they worth?
5. Does transferring expose a pension expose it to risk?

Regarding defined benefit schemes…

…and unless a strong case can be made for transferring out—the UK's Financial Conduct Authority's view is:

"Defined benefit pensions, and other safeguarded benefits involving guaranteed pension income, provide valuable benefits so most consumers will be best advised to keep them. However, we recognise that the environment has changed significantly, so we want to ensure that financial advice considers the customer's circumstances in full and recognises the various options now available to them. "

The transfer options are:

- You can transfer a personal pension from one UK pension provider to another UK pension provider
- You can transfer a defined benefit scheme to a UK pension provider
- You can transfer a personal pension or a defined benefit scheme to an overseas pension provider
- When you transfer, you can choose the type of personal pension you want

Pension transfers—UK or overseas?

Transferring a pension within the UK

If you're considering transferring a personal pension from one UK pension provider to another UK pension provider, the potential benefits are:

- The new scheme's charges may be lower, which can leave more of your money invested
- Keeping all your pension savings in one place can make it easier to keep track of them
- You may have more choice in terms of the investments you can include in your pension

If you're considering transferring a defined benefit scheme to a UK pension provider, the potential benefits are:

- Keeping all your pension savings in one place can make it easier to keep track of them
- You can choose which investments to include in your pension
- You may be able to take advantage of a generous cash transfer offer
- You can decide how much income you take and when

Transferring a pension outside of the UK

If you're considering transferring a personal pension or a defined benefit scheme to an overseas pension provider, the potential benefits are:

- Keeping all your pension savings in one place can make it easier to keep track of them
- If you're a member of a defined benefit scheme, you may be able to take advantage of a generous cash transfer offer
- You can decide how much income you take and when
- You can choose which investments to include in your pension
- You may be able to make lump tax and income withdrawals free of tax

Is a SIPP an option for you?

A SIPP (Self Invested Personal Pension) is a type of personal pension plan which in terms of contributions, tax concessions and eligibility, works in the same way as other personal pensions do. And providing the plan holder seeks expert advice first, an existing pension or pensions can be transferred to a SIPP.

Where SIPPs differ from a conventional personal pension is that they enable the plan holder to invest in a wider variety of investments. In most personal pensions, the plan holder's contributions are invested by the insurance company in one or more of their own funds. A SIPP however gives the plan holder more investment choice and the ability to hold all their investments directly within the SIPP itself.

Providers of SIPPs sometimes impose higher management charges than providers of other types of personal pensions or stakeholder pensions do, which can make SIPPs more appropriate for individuals with relatively large funds to invest.

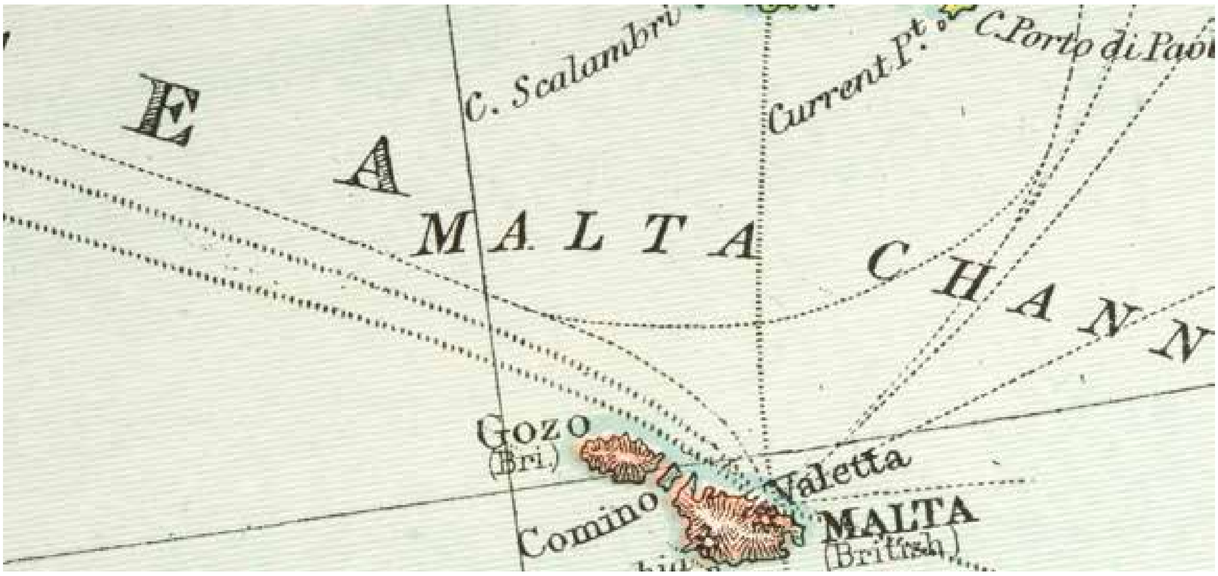
For inclusion in a SIPP, any and all securities must be permitted by HM Revenue & Customs. The list that follows is not definitive and different SIPP providers will offer different investment choices.

- bank and building society deposit accounts;
- commercial property;
- government securities;
- insurance company funds;
- investment trusts;
- National Savings products;
- stocks and shares quoted on a recognised UK or overseas stock exchange;
- traded endowment policies;
- unit trusts and OEICs

Although it's not permissible to hold direct investments in residential property in a SIPP, it may be possible to invest in property through a collective investment vehicle such as a real estate investment trust or a property trust.

About Qualifying Recognised Overseas Pension Schemes (QROPS)

In the same way that it is possible to transfer benefits between approved pension scheme providers in the UK, people already living, or intending to live permanently overseas, are also allowed to transfer their pension benefits — subject to certain conditions — to pension schemes outside of the UK.



Providing the recipient of the scheme agrees to the arrangement, there's no requirement to be resident in the country, prior to making the transfer. (It is not possible to transfer a personal pension or a deferred benefit scheme overseas if an annuity has already been purchased.)

Before any UK scheme can be transferred to an overseas scheme, it must be registered and listed by Her Majesty's Revenue & Customs (HMRC).

The two main conditions for approval are that a) the pension scheme should be regulated in the country in which it is established and b) the benefits paid by the scheme must be subject to tax.

When a UK scheme provider receives an application to transfer benefits overseas, the existing scheme provider will conduct due diligence on the receiving scheme to ensure it meets the conditions necessary to receive a UK pension transfer.

Defined Benefit Schemes: Transfer Values and Incentives

When a person transfers their pension from a defined benefit scheme to another type of pension, they are giving up the income the defined benefit scheme promises to pay when they retire in return for an immediate lump sum—what's known as a 'Cash Equivalent Transfer Value' or 'Transfer' value.

Transfer values

Defined benefit scheme transfer values are based on the value of the benefits the scheme member has built up during the term of their employment. The transfer value calculation takes into account how long the employee has been a member of the scheme, his or her final salary and by how much the employee's pension is likely to increase each year. Those benefits are then converted (after some adjustments) by the scheme's trustees into a transfer value.

Deficits

Pension deficits are usually associated with the defined benefit schemes run by businesses—of any size. A deficit becomes evident when the pension scheme accounts show that the scheme's liabilities outweigh its assets.

When deficits occur, the Pensions Regulator (the body which regulates work-based pensions) will expect the business to take steps to make good the situation. If however, the employer is unable to do that or becomes insolvent—and providing the scheme is deemed 'eligible'—the Pension Protection Fund may pay compensation to members of the scheme. Even so, and because of a 'capping' arrangement, members may still not receive the benefits they had hoped for.

Why deficits occur

- **Increased lifespans:** Because people are living longer, schemes are required to pay out for longer periods of time than they planned for

- **Poor investment performance:** Schemes invest in stocks and shares, when those investment under perform the value of the pension fund decreases

- **Low or no profitability:** The business doesn't make sufficient money to fund the pension pot

- **Scheme mismanagement:** Pension deficits can occur when corporates continue paying dividends rather than funding their pension schemes or when the business takes a contribution 'holiday'

- **Expensive annuities:** Most employers will purchase annuities to provide their scheme members with an income for life. The cost of an annuity is determined primarily by interest rates. With interest rates currently at an all-time low, annuities cost much more than they once did

If you have a workplace scheme, and you wish to retire earlier or later than planned, you may need your employer's permission or the permission of the scheme's trustees, to do so.

Pensions when you live and work abroad

Wherever you move to in the world, if you were a member of a UK registered pension scheme before you left, you can remain a member of that scheme. Nor does it make any difference where your employer is based: your UK pension is unaffected by where you work or live.

Take it or leave it?

If you do move overseas, you can choose whether to leave your pension in the UK or move it with you. (The best course of action will depend on your personal circumstances and a number of other considerations.)

Take your pension with you

You may find it more convenient—and indeed financially beneficial—to transfer your UK pension to an overseas scheme. Overseas schemes that satisfy HMRC's requirements are known as QROPs ('Qualifying Recognised Overseas Pension Schemes').

However, with a potential overseas transfer tax charge of 25%, the viability of a QROP depends on the individual's country of residence . Bespoke advice should be taken.

Primarily for reasons of taxation, the most popular QROP providers are based in Malta, the Isle of Man and Gibraltar—although many other jurisdictions offer QROPs. A QROP can be established anywhere, it does not have to be set up in the country where you live.

British expats can also consider establishing a SIPP (Self Invested Personal Pension). Unlike QROPs, SIPPS are UK-based and subject to UK tax laws. As such, the financial advantages may not be as favourable as a QROP can offer.

Depending on whether you are a UK taxpayer or not, and in terms of tax relief on contributions for example, relief may be available only for the first five tax years of non-UK residency.

Expats and the UK State Pension

The British government intends to continue increasing State Pensions to expats living in the EU after the UK leaves the EU in 2019. National Insurance contributions made while abroad will also continue to count towards the State Pension.

Residing abroad does not preclude you from building up or receiving a UK State Pension but it may affect the amount you receive at State Pension age.

Providing you live in a country within the European Economic Area, Switzerland or any other country that has a social security agreement with the UK—and you pay into the country's social security system—you can still accrue a UK State Pension (which will increase each year as it would in the UK). You may also be able to claim the State Pension from the country where you live.

Assuming you've paid sufficient UK National Insurance contributions to qualify, you can receive your UK State Pension while living or working overseas.

The full basic State Pension is £122.30 per week. There are ways you can increase your State Pension up to or above the full amount.

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