LONDON & COLONIAL
INNOVATION IN PENSIONS

Press Release

New Model Adviser Case Study: Adam Wrench, Head of Business and Product Development at London & Colonial, looks at some of the opportunities and pitfalls for returning Expats.

The Situation

John Knowles has been living and working in several different countries over the past 15 years, although currently he is resident in Dubai.

John has a Gibraltar based QROPS into which he has been paying regular contributions for nearly 12 years. He is married and both he and his wife have two grown up children, and three grand children, all of whom reside within the UK.

Having enjoyed a successful career, over the years he has been able to make substantial contributions into his pension fund. However, as his current contract is drawing to a close and he is about to return home, it is essential that some careful planning takes place before returning to the UK, where he may or may not choose to continue working.

As a result of his current contract in Dubai he currently has a right of residence. However once this period of employment has finished he will soon have to leave the country, as without a contract of employment all foreign nationals are only permitted to remain on a visitor's permit, and for a maximum of 60 days. So on the face of it John appears to have quite a bit of planning to do.....Or does he?

The Options

When people in John's position seek professional financial advice, they can quite justifiably expect to be presented with a whole range of options - and sometimes expensive ones at that. Therefore it may come as something of an eye -opener that, having already undertaken a fairly detailed fact find of his circumstances and future aspirations with his financial adviser, potentially the best advice he could receive is to just do nothing at all.

First of all John is under no obligation to transfer his funds back to the UK, and there are many advantages to be had should he choose to leave his QROPS exactly where it is. Firstly he will have no transfer, set up, or any other such fees that he might incur had he decided to transfer back into a UK scheme.

Furthermore, any future fund growth would fall outside of any lifetime allowance tests and only 90% of any pension income would be liable for assessment for UK tax purposes.

Now as a QROPS is not a UK registered scheme it remains unaffected by the UK Lifetime allowance. This means that John's fund can continue to grow in excess of the 2014/15 LTA limit of £1.25m, and without the same tax consequences that would apply to a UK scheme (i.e. the incurrence of a tax liability of 25% or 55%).

Also, in the unfortunate case of his death before he is able to take any of his benefits, an additional advantage of his QROPS is that 100% of the fund would still be available to his wife and children as a tax-free lump sum.

In addition he still has the ability to retire at the same minimum retirement age of 55, as with a UK pension, and 25% of the value of his fund could still be paid out as a tax-free pension commencement lump sum, again as with a UK scheme.

The remaining 75% of the fund however must be used to provide him with an income in retirement, which can be derived from either an annuity or, as is more common these days, by way of income drawdown. The same 150% GAD maximum basis calculation would be used, again as with a UK pension drawdown facility.

As a UK resident John can benefit even further from choosing to remain within his existing QROPS, because with any Gibraltar based scheme income tax will be deducted from his income payments at source, and at the Gibraltar rate of just 2.5%. Furthermore, even though he would still have to declare this income to HMRC via his self-assessment, as mentioned previously only 90% of this income would be subject to UK tax at his prevailing rate.

So to summarise, whilst John will no doubt have a great deal of planning to do in light of his impending return home, as far as his pension arrangements are concerned, and the options that are available to him, there appears to be a very compelling reason for him to do nothing and remain invested in his QROPS. Especially as this will provide him with access to more tax efficient levels of income that a UK SIPP simply cannot match.

-ENDS-

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Notes to Editors

About London & Colonial
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The London & Colonial Group includes

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(3) London & Colonial Assurance PLC which is regulated by the Gibraltar Financial Services Commission (matching UK standards) and which offers Open Annuities, QROP Annuities and Open Offshore Bonds
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