LONDON & COLONIAL
INNOVATION IN PENSIONS

Press Release

The introduction of QROPS

Qualifying Recognised Overseas Pension Schemes (QROPS) have been gathering momentum in the international pension arena for some time now, as the allure of job opportunities, higher income and a greater standard of living continues to entice people abroad.

In 2006, changes to legislation revolutionised the market, making it easier for clients with UK pension schemes to transfer those overseas. Naturally, this prompted an increase in interest among people who had built up a pension pot under UK tax rules but had either retired abroad or were planning to do so in the future.

The ability of QROPS to provide portable retirement benefits opened, for many, the door to a new and beneficial retirement income option.

However, their growing popularity spurred the FSA to introduce tighter controls in 2012, with the new rules intended to provide greater clarity for both providers and pension investors alike. Initially, there were fears that the move to alter the existing legislation would reduce the amount of opportunities available within the market, but this now appears not to have been the case.

In fact the complete opposite has proven to be true as once HM Revenue & Customs had approved the final rules, and it became clear that they were devised to protect clients, the resulting greater transparency within the market only served to garner a greater level of interest in QROPS.

A new reporting requirement was introduced, calling for providers to report back to HM Revenue & Customs on payments of the scheme for ten years or more from the date that the overseas pension transfer was first introduced. The reporting requirements relate to any members who are UK resident at the time of the payment, or have been at any point within any of the preceding 5 tax years.

In addition, the HMRC called for residents in QROPS jurisdictions to be treated in the same manner as non-residents for tax purposes, and those jurisdictions that failed to comply with the new rules instantly felt the wrath of the UK's HM Revenue and Customs through being struck off their approved list.

On the whole these changes have not had any adverse affect on the QROPS industry, with QROPS still continuing to offer many expats a viable and attractive alternative to a UK pension.

Beauty of QROPS

I'm often asked what exactly a QROPS does that a UK pension cannot. Well its beauty lies in its flexibility, freedom of investment choice and, of course, tax benefits.

Unlike UK pensions, QROPS are not subject to a maximum Lifetime Allowance, currently capped at £1.5 million for the UK, enabling much more freedom for higher earners. When it comes to taking benefits, QROPS members may be entitled to a greater tax-free lump sum than the 25% currently on offer in the UK, with some QROPS stretching to as much as 30%.

Income tax on payments is not subject to UK rules either, but determined by where the QROPS is based, meaning it could be much lower; and with the further advantage of payments being available in Euros for EU residents, the risks associated with fluctuating currency rates are reduced.

With the financial axis of the world steadily changing, it is likely that overseas opportunities will continue to grow, and with them the use of QROPS. There will always be a need for flexible and transportable long-term retirement savings vehicles, and QROPS continue to offer the right kind of benefits and advantages that meet the needs of expats.

Benefits of a Multi-Platform

But of course as the world population shifts and develops over time, so will the QROPS market.

QROPS have traditionally offered pension investors a choice of offshore bonds. However, I see the future moving towards a Multi-Platform offering, as using an offshore bond exposes the client to two separate layers of charging – one for the top wrap, the QROPS, and a second on the offshore bond itself.

By using a Platform, these costs can be significantly reduced, while still providing the client with exactly the same tax advantages through the QROPS.

Using a Platform is, in my opinion, one of the most efficient ways of investing within a QROPS, as not only will many clients already have become used to the functionality that a Platform can offer whilst in the UK, but they may also have a strong existing affiliation towards a particular Platform.

Having said that however, it's also my view that investors should not be restricted to one single Platform but should instead be given the opportunity to benefit from access to a whole range of Platforms. A client's attitude to risk changes with age and their asset values on a Platform will also change with any new premiums as well as market conditions, not to mention the fact that Platforms are changing their fees and charging structures all the time as well as the anticipated Platform consolidation. For this reason clients will benefit from access to a Multi-Platform solution that can adapt according to changing circumstances for whatever reason including different fund choices or asset classes.

With the inclusion of an on-shore Platform option too, we can also help to drive competition within the offshore market for both QROPS and Platforms alike.

The added advantage of a Multi-Platform QROPS is that it can be adapted to a client's particular circumstances, allowing for transfers between Platforms to be made within the pension wrapper, and all without the incurrence of any additional and unnecessary charges for the client.

Not only does this significantly help QROPS members, but for those advisers who are willing to grasp the complexities of QROPS and take the time to fully understand them it also presents an opportunity to provide real value for their clients, and show them that they are working in their best possible interest through the provision of as much flexibility and scope as possible.

Adam Wrench is Head of Product & Business Development at London & Colonial.

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Notes to Editors

About London & Colonial
London & Colonial specialises in self-invested products for both UK residents and persons resident overseas.

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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