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Press Release

Article for Intercontinental Finance Magazine - QROPS: Banishing the Mystique

Adam Wrench says that whilst the QROPS market has great potential investors must first overcome the "fear factor".

Utter the word 'SIPP' and it will likely ring a bell amongst many a high net worth pension investor, but mention the word 'QROPS' and in many cases it is likely to be met by a rather blank expression.

Unlike some of its better known counterparts, QROPS (Qualifying Recognised Overseas Pension Schemes) still continue to remain somewhat of a mystery to many pension investors around the globe.

However, with increasing opportunities arising internationally thanks to the allure of better job prospects, higher incomes and greater standards of living, the world is fast becoming a smaller place.

We've all borne witness to the steady exodus to Asia, making it the expat 'destination du jour', while the Middle East still continues to beckon expats from all four corners of the globe thanks to the promise of its thriving job market. And let's not forget our European-based counterparts; as European expats are the most likely of all to bid their home countries farewell for a considerable amount of time, and with many opting to spend their retirement years residing on the sunny shores of Spain and France.

But with so much movement across the globe, what happens to these people's pensions?

We all know the importance of saving for our autumnal years and the benefits associated with starting to do so early on. Most experts are in agreement that you should be looking to start to invest in your nest egg as soon as you begin earning, which for many people is in their early 20s. What you do want to avoid though is working hard to save money in one country to only then leave your pension pot behind should you eventually choose to move abroad. Unfortunately though this appears to be a common mistake, and the numbers speak for themselves.

The QROPS market is currently estimated to be worth around £280 billion, yet only £6 billion has been transacted to date. Not only does this leave a lot of potential business untouched, but it also begs the question as to why this should be the case?

The advantages of QROPS

Simply put, QROPS were borne out of a desire to enable people to work in the UK to pay into a pension pot, and then be able to take that pot with them should they subsequently decide to bid the UK farewell. Their introduction in 2006 sought to revolutionise the international pensions market and their popularity is only likely to increase going forwards - with the Institute of Public Policy Research having already estimated that one in five Britons of UK pensionable age will live abroad by 2050.

As such, the ability of QROPS to provide portable retirement benefits has opened, for many, the door to a new and

beneficial retirement income option.

Its beauty lies in its flexibility, freedom of investment choice, and of course tax benefits. Unlike UK pensions, QROPS are not subject to the maximum Lifetime Allowance, which is currently capped at £1.5 million for the UK and is set to be reduced still further next April, thus providing far more freedom for higher earners. When it comes to taking benefits, QROPS members may also be entitled to a greater tax-free lump sum than the maximum 25% normally on offer through a UK pension scheme and with some schemes stretching to as much as 30%.

The income tax charge on any pension payments received from a QROPS will depend upon the QROPS jurisdiction chosen in conjunction with the country where the client is resident and the subsequent treatment of pension payments.

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

Unravelling the mystique

But despite the many advantages of QROPS, there still appears to be some reluctance on behalf of advisers to explore this option with their clients. When they were first introduced, it was assumed that people would transfer their pension to the country to which they were moving, but this hasn't necessarily been the case. The QROPS market instead has developed into a much more fluid beast, with many people choosing to register their pensions in what they deem to be a more attractive jurisdiction, rather than those in which they have chosen to reside.

In my view, the majority of the "fear factor" surrounding QROPS arises mainly from a misunderstanding of the different jurisdictions and accompanying legislation, a lack of specialist knowledge, and regulatory changes within the market – all of which have not been helped by some of the more negative headlines that QROPS have unfairly attracted. However, if we are to offer clients the best possible savings vehicles for their retirement, this irrational "fear" of QROPS is something that the pensions industry must work hard to overcome.

Whilst there have been more recent attempts amongst some QROPS providers to gain more traction within the market, those providers with a UK presence, together with UK based financial advisers, will be the ones best placed to serve the market; especially as the vast majority of legacy clients, who make up this £280 billion market place, will be currently sitting within the UK pension system.

The great news for UK financial advisers is that by increasing their awareness of the benefits of QROPS, and by putting in place a UK look-a-like compliance process, they will be in the best position to maximise this opportunity.

Once advisers have completed a careful review of their existing client base, in order to ascertain those clients who may prove to be ideal candidates for a QROPS, they can then decide whether or not they wish to transact that business themselves or pass it on to a third party. What they must not do is simply ignore the best interests of their clients because of their own uncertainty.

HMRC's recent announcement that all QROPS scheme managers are to be shortly issued with an ID, in a bid to keep track of those currently operating within the QROPS market is, in our opinion, certainly a step in the right direction and should help to alleviate some of the misconceptions currently present within the market. We are also firm believers that QROPS should not only be regulated, but such regulation should be on par with the current SIPP framework, in order to make the market far clearer and better understood for both clients and advisers alike.

Further down the line, we would support the introduction of a register, similar to that of the ABI's "Insurance Fraud Register", as a way of addressing the issue of potential misconduct. By listing any suspect companies, not only could the public easily run checks on their potential choice of organisation but this could also flag up those companies who have acted inappropriately.

So to summarise, the QROPS market is expanding. Not only have we already seen solid growth, which we can only envisage will continue to accelerate going forward, but there is a huge opportunity currently available for those advisers willing to invest both time and resource into not only offering QROPS to their clients, but transacting the business themselves rather than providing referrals to other firms.

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Notes to Editors

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