

SAFEGUARDING

Your UK PENSION

Don't assume that your UK pension is safe, warns PAUL JEFFREYS. The good news is that if you meet the criteria for transferring out of it, you can take positive steps to safeguard your retirement.

Why do you say UK pensions may not be safe?

UK company pensions are now in the red to the tune of over £240bn – the biggest shortfall ever recorded. And bigger pension problems are looming. When the Bank of England began adding liquidity to the system by buying UK government bonds – gilts – it forced up prices, which in turn slashed yields to the lowest recorded levels. But rather than support big gilt-holding pension funds, it's done the opposite. Those funds now get less from their fixed-income assets than before, which means they'll need even more money to meet their future liabilities.

Won't the Pension Protection Fund (PPF) protect me from loss? After all, it was set up for this purpose and is backed by levies on member pension funds.

It's true that if a company fails at a time when its scheme is underfunded, the PPF will pay out 90 percent of the pension you would have received, up to £28,000 a year. But with losses mounting up so rapidly, the PPF itself could collapse.

What can I, as an expat, do in this situation?

You could think about transferring out of your company final salary scheme into a Qualifying Recognised Overseas Pensions Scheme (QROPS). This is a pension scheme set up outside the UK that's regulated in the country in which it is established and must be recognised for tax purposes in that country. This specific and highly beneficial type of pension is available only to expatriates, anyone contemplating living or retiring abroad.

It was announced in April 2006 that British expatriates could move their pension benefits to QROPS with the UK tax authorities' approval; there's been a slow but steady take up since then.

What are the main benefits of QROPS, and how does it differ from the traditional UK pension fund?


Firstly, you never have to purchase an annuity, as opposed to a traditional fund that requires a significant proportion of your pension to be taken in this form. With a traditional UK pension, you're obliged to purchase an annuity by the age of 75. No longer will you be restricted with regard to investment freedom and confidentiality, or passing your wealth to your loved ones when you die, and your pension fund need not die with you.

And if your QROPS provider is in a country where payments from such schemes are paid tax-free, then your pension-related income can be enjoyed without the deduction of tax.

Who qualifies to transfer their pension fund to a QROPS?

It most benefits someone who has been non-resident in the UK for at least five years and has no intention of returning to Blighty for the foreseeable future. This is because once your pension schemes have been transferred into QROPS and you have been non-resident for at least five years, then your QROPS provider is under no obligation to report any actions such as withdrawals or payments to the UK tax authorities.

Is this a good time to make the switch?

Some firms are now offering their employees excellent terms to encourage them to withdraw from their company pensions. Gilt yields having been forced down so low, and your company therefore needing more money to pay for your eventual pension, the value you would now receive has soared by a phenomenal 30 percent in 2009 alone. 

www.jigsawwealth.com

© Edwin Verin, Dreamstime.com