SOVEREIGN

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Pensions Update

Issue 3 (August 2013)

Sovereign's monthly pensions newsletter

Long term care - alternative funding solution

The provision of LTC is high on the agenda for most governments. The demographics are stark; in the UK the number of people aged 85 or over is projected to rise between 2010 and 2035 by a factor of 2.5, reaching 3.5m and representing 5% of the population. Across the EU, the number of people 65 or over as a percentage of those between 15 and 64 was 26% in 2010 and projected to reach 42% in 2035, with no country outside that advance. Worldwide, the trend is for growing and ageing populations and governments need to raise funds to address the healthcare issues.

One in four of us will need LTC and families face a funding dilemma; must they exhaust savings, sell assets, and then rely on the State? Even when there is State provision its usually complex and doesn't cover all possible costs, i.e. residential, nursing, respite, palliative, home visits, etc., acting primarily as a safety net. Means testing is a route some nations follow; meeting costs if assets are beneath a given figure or, if not, by compelling the use of resources potentially resulting in the sale of, or charge on, a private residence.

Qualifying Non UK Pension Schemes are a viable alternative funding mechanism; a member can invest a broad class of assets, has the option to take a lump sum from age 55 (when Care becomes more probable), can remain invested whilst income is drawn, and any residual can be bequeathed. It is certainly as attractive as LTC insurance which isn't widely obtainable. Immediate Needs Annuities, only bought at the point of use, can provide comfort an individual won't "run out" of money but they are expensive and carry the risk that if death occurs before value is realised the balance is foregone.

Sovereign strengthens its association with International Adviser

In the past month, Sovereign once again participated in an International Adviser event this time in London where the seminar was addressed by both Simon Denton, Managing Director of Sovereign (UK) Limited together with Laurence Lancaster, Sovereign Group Tax Counsel. Concentrating on the benefits arising from QNUPS their contribution was warmly received by the large audience. Mr Lancaster said that whilst QNUPS may not be as well-known as QROPS they represent an excellent planning tool although he stressed the importance of obtaining detailed, professional advice before entering into any such arrangement. IA runs a series of similar events around the world. Sovereign recommends the seminars and will be participating in several more over the coming months.

The Sovereign Art Foundation

The image at the top of this newsletter: "Child in Red" by Haris Purnomo, 2007 Sovereign Asian Art Prize Public Vote Winner
A charity raising money to help disadvantaged children using the arts as rehabilitation, education and therapy. www.SovereignArtFoundation.com

Eamon Bermingham appointed as Director in Malta

The Malta Financial Services Authority (MFSA) has recently approved the appointment of Eamon Bermingham as Investment Director of Sovereign Pension Services Limited in Malta. Born and bred in Ireland, Eamon relocated to the Channel Islands in 1997 and subsequently worked there for two leading investment managers. He moved to Spain in 2008 where he was a director of an IFA business that he subsequently acquired from the owners. Joining Sovereign just over twelve months ago, Eamon's primary role will be to advise its board on all investment matters relating to both QROPS and QNUPS.

Sovereign offers free transfers

There are several factors to consider when transferring a pension to a QROPS. One of the most important is the choice of jurisdiction particularly bearing in mind any tax implications. For example, in the case of Malta, pension holders may benefit from its extensive range of double tax treaties. In contrast, Gibraltar has not entered into any of these agreements but instead imposes a low 2.5% tax on pension payment at drawdown.

At the outset, it may be more appropriate for a client to transfer their pension to a Gibraltar QROPS but when they eventually retire it may be to another country where drawing pension payments down from a Malta QROPS would be more advisable. Depending on circumstances, the opposite may also be true. Clients are therefore well advised to choose QROPS providers that offer the choice – and the ability to switch jurisdictions in the future should that be advantageous. Sovereign is able to offer this choice and as an extra benefit, allows transfers between its QROPS jurisdictions easily and completely free of charge.

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Business opportunity - the importance of seeking advice when considering annuities

Much emphasis is given to the accumulation stage of pension planning, with funding built on a client's anticipated income requirement throughout retirement. An adviser's default position if a client cannot engage effectively in this approach is to assess current affordability and highlight the impact on income levels many years in the future. Two topics that have arisen in June should provide advisers with material that will be of use when discussing the equally vital decumulation stage of the planning process.

Axa Life Europe has calculated that annuity rates have reduced by 29% over the last 3 years, which coincides with the Bank of England's quantitative easing (QE) programme. QE, although it is not the sole factor, has reduced the value of gilt yields upon which annuity rates are based and any client who had previously projected income on higher rates will be affected. It is anticipated that gilt rates will rise from current levels but a review of client planning, both well in advance of initial drawdown and for those with imminent recalculation of payment levels, would be timely.

The second and perhaps more interesting development is the launch of an Association of British Insurers initiative to stop clients automatically rolling over their accumulated fund into an annuity with their current provider by the compulsory removal of the annuity application from the material insurers send to their customers. 650,000 UK scheme members turn 65 each year but currently 33% of members do not shop around and, of those that do, 54% remain with their existing insurer. The initiative will mean that whether members are based in the UK or overseas there will be an increased need to seek financial advice at this critical point in the planning cycle.

QROPS league tables may not be telling the whole story

A recent survey conducted by Skandia International amongst 141 international advisers who use QROPS ranked Gibraltar as the second most popular jurisdiction after the Isle of Man. The results were welcomed by industry and government alike particularly given Gibraltar's relatively recent market entry. Specific legislation by way of an amendment to the Income Tax Act was introduced in mid-2012. Skandia commented on the results of the survey saying "in the space of less than a year, Gibraltar has come from nowhere to become a very strong QROPS centre."

It is interesting therefore to browse HMRC's latest QROPS list that as at 15 July 2013 shows that 19 Gibraltar schemes were listed but care should be taken before making comparisons with other comparable jurisdictions. Gibraltar is home to Sovereign's largest office; Group Director Gerry Kelly points out that a number of QROPS such as Gibraltar's Calpe scheme are designed to be used by multiple users where a deed of adherence is executed by new joining members. He points out that direct jurisdiction comparisons are thus made more difficult and also that QROPS providers can elect that their schemes do not appear on the list at all.

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