SOVEREIGN

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Pensions Update

Issue 6 (March 2014)

Sovereign's pensions newsletter

How safe is the pensions lifeboat?

The demise of "gold plated" final salary pensions in the UK is much in the headlines these days. According to employee benefits consultancy JLT, the UK's private sector final salary pensions were collectively carrying a deficit of £171 billion at the end of January this year. That is quite a hole in the accounts and naturally prompts the question: "What happens if my employer can't afford its pension promise?"

The good news is that private sector salary related pensions enjoy the backing of the Pension Protection Fund (PPF). This is a lifeboat funded by pension scheme levies – it is not government-"backed". It is not possible for an employer to simply dump their pension liabilities into the PPF; in order to qualify for compensation the sponsoring employer must be officially insolvent and the company's pension scheme must be underfunded with little hope of recovery.

The compensation afforded to the member depends on whether they were already drawing their pension at the time their employer became insolvent. Where the pension was in payment, the entire pension is protected. Where the pension has yet to commence, compensation is limited to 90% of the accrued pension to a maximum of £31,380 p.a. Clearly individuals with larger pension promises enjoy less protection in this regard.

The PPF's existence is comforting for pension scheme members, although the lifeboat does have its leaks. Firstly, it should be noted that public sector pensions, such as National Health Service or teacher's pensions, are not covered. Also, ancillary benefits such as a spouse's benefits and children's pensions may be far less generous than the original scheme. The PPF also offers limited protection from inflation, especially where benefits were originally accrued prior to 1997.

More information on the PPF may be found via the following link - **www.pensionprotectionfund.org.uk**

Pensions library at your fingertips

Constant changes to pensions legislation and cross border considerations can make international retirement planning a time consuming process. To assist, Sovereign provides a comprehensive range of Pensions Factsheets, all of which can be found on the Sovereign / PenTech International Financial Adviser Support (IFAS) portal **www.pentech.im/ifas/**

The Factsheets cover a range of topics including taxation of benefits, Qualifying Non-UK Pension Schemes (QNUPS), property investments, loans, critical yield calculations, divorce and Malta's double taxation agreements. There is also a useful Factsheet detailing the tax treatment of a Qualifying Recognised Overseas Pension Scheme (QROPS) where the member returns to the UK.

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

Budget 2014 - Pensions guidance

George Osborne's Budget announcement on 19 March 2014 proposed a number of surprise changes to Defined Contribution pensions. Sovereign has produced a special guidance note on the proposals and this can be accessed via the IFAS portal or your local Sovereign representative. Following the budget, Sovereign will adopt the new 150% of GAD maximum pension basis across its range of QROPS.

Programmed withdrawals

With its full EU membership, strong network of tax treaties and robust regulation Malta is an extremely popular QROPS (Qualifying Recognised Overseas Pension Scheme) jurisdiction. For those individuals with substantial pension funds, Malta also offers Programmed Withdrawals. This facilitates additional lump sum payments over and above the original Pension Commencement Lump Sum.

In order to qualify, the pension fund must first retain sufficient capital to provide an annual income stream for the member's retirement. This will be a minimum of €20,000 p.a. and more if the member resides in Malta. When the trustees have calculated how much capital should be retained, up to 50% of any excess capital may be drawn annually as a lump sum.

Programmed Withdrawals may not commence before the pension has been in drawdown from the Malta scheme for three years. To be eligible the member must be non-UK resident and have completed five entire and consecutive UK tax years as a non-UK tax resident.

At present, Programmed Withdrawals are not taxable in Malta because they are considered a lump sum payment. However, this is under review and Programmed Withdrawals may become assessable for Malta income tax if local budgetary changes are implemented.

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Heading to South Africa?

Sovereign's Conservo International Retirement Plan is proving extremely popular in South Africa and with returning South African expats across the globe. As previously reported, the Conservo is a Guernsey-based 40EE International Pension Plan (IPP), which offers significant tax advantages for South Africa-based retirees.

Contributions to Conservo usually fall outside the scope of South African Donations Tax. Once invested, the underlying assets will generally grow tax free and without source taxation in Guernsey. Retirement benefits may be accessed from age 50 and the member may elect whether to receive: a lump sum; an income stream; or a combination of both. Capital paid into the plan will be returned to the member without any tax liability in South Africa. With appropriate structuring the plan may also mitigate South African Capital Gains Tax (CGT) liabilities on investment growth.

On death, the Conservo's assets will usually be exempt from South African Estate Duty. There is also the option for assets to be passed into a new trust for surviving beneficiaries. The Conservo offers unrestricted investment options and the facility to make regular monthly contributions. Existing assets may be transferred to the plan in lieu of cash contributions. The plan offers a very competitive charging structure, which starts at £750 to establish and £900 as an annual administration fee.

Thinking ahead - Sovereign's new Succession Trust

Sovereign is delighted to announce the launch of its new Succession Trust. This has been designed to receive lump sum death benefits from a QROPS (Qualifying Recognised Overseas Pension Scheme) and to provide enhanced planning opportunities for surviving beneficiaries.

It is well known that a QROPS provides very tax efficient lump sum death benefits, including an exemption from UK Inheritance Tax (IHT). However, it is also important to consider the future tax position of the recipient of those death benefits – typically a surviving spouse.

Where a surviving spouse dies having previously received a QROPS lump sum death benefit, any unspent monies will usually form part of that spouse's estate. As an alternative, the Succession Trust enables the pension scheme trustees to transfer assets seamlessly into trust when the QROPS member dies. The Succession Trust can then provide for the surviving spouse. On the death of the surviving spouse the Succession Trust will continue to provide for other beneficiaries such as children, but will avoid the delays of probate and cost of IHT on the spouse's death.

Any existing or prospective QROPS or QNUPS (Qualifying Non-UK Pension Scheme) member is entitled to establish a Succession Trust, which effectively remains dormant until the death of the QROPS member. The Succession Trust is competitively priced with the Malta version costing only €400 to establish and €250 each year whilst dormant. Once the Succession Trust has received the QROPS death benefits and is active, the annual charge will be approximately €1,500.

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