SOVEREIGN PENSIONS UPDATE 08

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Increased pension flexibility could lead to rise in fraudulent activity

The UK's Pensions Regulator (TPR) has long been concerned about savers falling victim to pension liberation schemes. Indicators of fraudulent activity include pension transfers offering early access, personal loan facilities or access to the entire fund as a lump sum. In July this year it was reported that as much as £495 million had been lost to fraudulent savings vehicles.

As at the beginning of September, the Pensions Advisory Service (TPAS) had received over 974 calls and enquiries about pension liberation – demonstrating the scale of the problem.

As part of a renewed drive in this area, TPR has decided to rebrand its "Pension Liberation" campaign under the more explicit title of "Pension Scams", although the logo of a scorpion used to illustrate the campaign brand will remain.

April 2015 will see the introduction of a new flexible pensions regime in the UK. The "cashing out" of defined contribution funds will become permissible provided that the member has attained the age of 55. However, TPAS has voiced concerns that fraudsters are using the new regime as an excuse to tempt savers into reviewing their arrangements – the aim being to place freshly commuted pensions into unregulated and highly speculative collective investment schemes. There is also the prospect of the saver incurring significant income tax charges in the process. As the result of TPAS concerns, further changes and amendments may be announced before April 2015.

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Although the flexibilities of the new regime are to be welcomed, it does present a number of potential "banana skins" for the saver. As ever, the Sovereign/PenTech International Financial Adviser Support (IFAS) service is available to help guide advisers through the complexities. Please visit www.pentech.im/ifas.

South Africa Retirement Forum

Sovereign's inaugural International Retirement Forum was held in August in South Africa. The event, staged in both Johannesburg and Cape Town, received excellent reviews and included speakers from South African investment managers Allan Gray, Ashburton, Old Mutual International, Glacier International and, of course, Sovereign.

Sovereign will also be present at International Adviser's International Retirement Forum to be held at Cape Town's One & Only Hotel on 9 October.

Gibraltar Income Tax Registration

As of 1 October 2014, it is no longer necessary to register each new scheme member with the Gibraltar Income Tax Office at the time of transferring benefits to a Gibraltar-based pension scheme.

This change removes the requirement to complete the Gibraltar government's Income Tax Office form along with the rest of the transfer documents. However, the form must be completed and submitted prior to the payment of any benefits from a Qualifying Recognised Overseas Pension Scheme (QROPS).

Government of Gibraltar appoints PenTech as consultants

The Government of Gibraltar recently confirmed that it has "entered into a consultancy agreement with PenTech Group to provide technical, regulatory and commercial pensions expertise in respect of the new pension legislation and regulations that are planned to take effect from early 2015".

This move shows Gibraltar's continued commitment to providing a pragmatic yet robust international pensions framework. PenTech will of course continue to support Sovereign introducers via its existing "IFAS Programme".

QROPS for UK resident members – Insurance Bond considerations

It is important, if a Qualifying Recognised Overseas Pension Scheme (QROPS) member anticipates becoming UK resident, to consider the suitability of the scheme's underlying investment vehicle. For example, certain transactions or "events" involving insurance bonds or capital redemption bonds may give rise to an income tax charge at such time as a QROPS' member becomes a UK tax resident.

The interesting point here is that the NHS, teachers, armed forces, civil service, police and firefighters are all unfunded PS schemes and fall within the prohibited transfer bracket.

The potential impact of these taxable events can be mitigated by a variety of strategies. For instance, by ensuring that policies have a second life assured, such as a spouse or a child.

In addition to the chargeable events regime, any QROPS holding a Personal Portfolio Bond (PPB) will be exposed to the deemed gains tax regime. This regime creates a charge to UK income tax on an assumed gain each year. It is therefore advisable to convert to a non-personalised policy before the member returns to the UK.

Our factsheet "QROPS and Returning to the UK" provides more information and is available to download via the IFAS portal at www.pentech.im/ifas. Please contact your local insurance company representative for more detailed information on the tax charges detailed above.

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