PENSIONS UPDATE

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QROPS overseas transfer charge: QNUPS may be a good option

As part of the UK Budget on 8 March, the UK government announced a new 25% Overseas Transfer Charge on transfers from a UK-registered pension scheme to a qualifying recognised overseas pension scheme (QROPS) where the request to transfer is made on 9th March onwards.

This charge will not apply in cases where the member is resident in the same country as the country in which the QROPS receiving the transfer payment is established or where the member is resident within the European Economic Area (EEA) and the QROPS is established in a country within the EEA.

As part of these changes, QROPS providers were required to re-notify HMRC of their schemes' status by 13 April. Accordingly the Recognised Overseas Pension Scheme (ROPS) list was temporarily suspended. The list was subsequently republished on 18 April and included all of Sovereign's QROPS in Gibraltar, Malta and the Isle of Man.

As a result of these changes to the QROPS regime, Qualifying Non-UK Pension Schemes (QNUPS) have been receiving little attention. Standalone QNUPS share similar foundations to a QROPS and are typically established as personal pension arrangements in jurisdictions such as Malta or Guernsey.

However QNUPS are not subject to the new Overseas Transfer Charge because they are funded by contributing cash or existing assets as opposed to UK pension transfers. Furthermore, subject to the rules of the jurisdiction where the QNUPS is based, a QNUPS can hold a wide range of assets including UK residential property.

A QNUPS is portable and provides a mechanism for additional retirement savings for both UK residents and expatriates. A QNUPS is not subject to the UK's lifetime allowance and neither are contributions limited by the annual allowance. However, the purpose of the QNUPS should be to fund for retirement.

Notably, assets held by a QNUPS are exempt from UK Inheritance Tax provided the pension scheme has been established correctly. Please speak to your local Sovereign consultant for more information on Sovereign's range of QNUPS plans.

FCA pension transfer guidance

The UK's Financial Conduct Authority (FCA) recently issued guidance on what it expects from firms advising on pension transfers. In respect of advice on pension transfers to overseas schemes, it acknowledges that non-UK residents considering a pension transfer are likely to need to seek advice from both an overseas adviser for investment advice and a UK adviser for advice on the proposed transfer.

In order to advise on the merits of the proposed transfer, the FCA says, the UK adviser should take into account the specific receiving scheme, including:

- the likely expected returns of the assets in which their client's funds will be invested;
- the associated risks, and
- all costs and charges that would be borne by their client.

This means liaising with the overseas adviser where necessary to ensure that the client is fully informed. The FCA's alert can be accessed **here.**

Defined benefit consultation paper issued

The Department for Work and Pensions (DWP) has triggered a new debate on the future of defined benefit pensions with the recent issue of a consultation paper. The document – titled "Security and Sustainability in Defined Benefit Pension Schemes" – considers the following four key areas: funding and investment, scheme affordability, member protection and consolidation.

One of the more controversial topics is the extent to which a defined benefit scheme should be permitted to reduce future benefits in cases where the sponsoring employer is financially stressed. The closing date for responses to the consultation is 14 May 2017.

Please click **here** for a link to the consultation document.

Hong Kong: a great base for Corporate Pensions

Any company considering establishing a pension scheme for its workforce would do well to consider Hong Kong. The local Occupation Retirement Schemes Ordinance (ORSO) provides a robust but highly flexible pensions framework for both Hong Kong-resident and non-resident companies. ORSO advantages include: no minimum retirement age, full flexibility at the point of withdrawal and the option for employers to build in vesting periods.

More information is available on the following link, or by contacting Yuseff Murphy in Sovereign's Hong Kong Office.

Transfer values stable in first Quarter 2017

Defined benefit transfer values have been stable so far in 2017, according to the UK actuarial and consulting specialist Xafinity. The difference between and maximum and minimum readings of the Xafinity Transfer Value Index over Q1 2017 was just £7,000 (or around 3%).

Overall Xafinity's index shows transfer values have dropped slightly from their recent peak in September and October of 2016 but remain high. Paul Darlow, Xafinity's Head of Proposition Development, said: "March 2017 was pretty unremarkable from the point of view of transfer values which stayed fairly stable. With Article 50 having now been triggered we may see some additional volatility in financial conditions. If so, this period of stability could prove to be relatively short-lived."

More information is available here.

CONTACT

SALES

Europe
Darren Whitley
dwhitley@SovereignGroup.com
+350 20076173

Middle East
Matt Tailford
mtailford@SovereignGroup.com
+971 (0)4270 3400

Cyprus
Baiba Saldovere
bsaldovere@SovereignGroup.com
+357 25 733 440

Africa
Coreen van der Merwe
cvandermerwe@SovereignGroup.com
+27 21 418 2170

India
Ravi Viroomal
rviroomal@SovereignGroup.com
+350 54031054

Hong Kong
Yuseff Murphy
ymurphy@SovereignGroup.com
+852 2542 1177

Singapore
Will Headly
+65 6222 3209
wheadly@SovereignGroup.com

ADMIN OFFICES

Gibraltar
gibraltarpensions@SovereignGroup.com
+350 20076173

Guernsey
guernseypensions@SovereignGroup.com
+44 (0) 1481 729 965

Hong Kong
hkpensions@ SovereignGroup.com
+852 2542 1177

Isle of Man
iompensions@SovereignGroup.com
+44 (0) 1624 699 800

Malta
maltapensions@SovereignGroup.com
+356 27888132

Gibraltar
gibraltarpensions@SovereignGroup.com
+350 20076173

UK
ukpensions@SovereignGroup.com
+44 (0) 151 328 1777