SOVEREIGN

PENSIONS UPDATE

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SIPPs benefit from increase in pension transfers

According to the Office for National Statistics (ONS) a record £10.6 billion was transferred from and between UK pension schemes during the first quarter of 2018. This continues the upward trend from 2017 when a total of £36.8 billion was transferred over the course of the year. To put this into context, the figures for 2015 and 2016 were £13.2 billion and £12.8 billion respectively.

Figures published by fintech company Origo suggest that SIPP providers have been one of the biggest beneficiaries of the increase in pension transfer activity. Its data shows transfers to self-invested personal pensions (SIPPs) have increased by 30% over the last year.

Origo's Options Transfer service is used by more than 95 firms, including the major pension consultancies, life companies, platforms and SIPPs' providers. Origo estimates the vast majority – around 90% – of pension transfers in the contract market go through its service.

Clearly the pension freedoms introduced in April 2015 have played a big role in encouraging the rise in pension transfers to defined-contribution (DC) arrangements. At the same time, low interest rates mean that transfer values can appear extremely generous for those exiting their valuable defined-benefit (DB) schemes.

This has not escaped the attention of The Pensions Regulator (TPR), which has written a joint communication, together with the Financial Conduct Authority (FCA) and The Pensions Advisory Service (TPAS), to selected DB schemes. The letter, which is to be shared with members who have requested a transfer value, advises them to consider carefully the risks and options available.

Malta postpones new pension rules

The Malta Financial Services Authority (MFSA) has announced the postponement of extensive proposed changes to the regime for Personal Retirement Schemes in Malta, which had been scheduled to come into force on 2 July 2018.

In a circular issued on 6 June 2018, the MFSA stated: "A number of issues raised by market respondents merit further consideration by the Authority". It goes on to say the current rules remain applicable and "the new proposed amendments to the Pension Rules for Personal Retirement Schemes will be introduced at a later stage, upon further communication by the Authority."

The rule changes were initially proposed in a consultation document issued on 6 December 2017. This proposed several amendments to the current framework including narrower eligibility for member direction, new guidelines for custody and investment management functions, caps on structured notes and minimum standards of regulations for investment advisors.

Sovereign Pension Services is a member of the Malta Association of Retirement Scheme Practitioners (MARSP), which will continue to liaise with the MFSA regarding the proposed amendments.

Sean Gillease elected to the GAPP committee

Sovereign's Guernsey-based Business Development Manager Sean Gillease was elected to the committee of the Guernsey Association of Pension Providers (GAPP) at its recent Annual General Meeting. His appointment underlines Sovereign's commitment to the local pension associations and industry groups in all of the jurisdictions from which we operate.

Sovereign representatives currently chair the Gibraltar Association of Pension Fund Administrators (GAPFA) and the Isle of Man's Association of Pension Scheme Providers (APSP). We are also now represented at senior levels on the GAPP, the Malta Association of Retirement Scheme Practitioners (MARSP), as well as the Association of Member-Directed Pension Schemes (AMPS) and the Pension Scams Industry Group (PSIG) in the UK, and all relevant sub-committees.

International Retirement Seminars – South Africa

Sovereign hosted its annual International Retirement Seminars in Johannesburg and Cape Town on 21 and 24 August respectively. Both events were well attended and included speakers from Miton Optimal, Sable, Investment Design and Distribution (IDAD) and Guernsey Finance, alongside Sovereign's own presenters. Political commentator and economist Daniel Silke filled the role of master of ceremonies and provided great insight into the shifting political landscape in South Africa.

As demand for retirement planning solutions continues to grow, the 2018 events mark the fifth anniversary of Sovereign's International Retirement Seminars. Planning for the 2019 events will start soon.

International Defined-Benefit Pension Transfers

In an increasingly fluid world, more and more people are accumulating pension benefits from periods of working outside their home country. This is particularly true for those working in highly mobile industries, such as shipping or the extractive and energy sectors.

In many cases, such individuals would have been enrolled into a defined-benefit (DB) pension scheme. Often these arrangements are referred to as overseas or international DB schemes. If the individual is a long serving employee, however, they may have also built up significant guaranteed DB pension benefits during their time working in their home country.

For those who have secured a guaranteed source of income from a DB scheme in their home country, however, the flexibilities of a defined contribution (DC) scheme may be a more attractive option for any additional international DB entitlements that they may have accrued abroad. These flexibilities include the ability to withdraw funds in a more ad hoc fashion, greater freedom of investment choice and the ability to pass on 100% of remaining funds to their chosen beneficiaries on death.

Transferring from a DB scheme is a complex area and requires careful consideration and specialist advice that is specific to the individual's personal circumstances, objectives and motivations. It may not be the best course of action in every case.

Sovereign offers a range of personal pension schemes. The best option will depend on a client's particular situation as well as the conditions of the international DB scheme from which they are proposing to transfer.

Clients who are either UK tax residents or UK nationals may wish to consider a scheme that satisfies the conditions outlined by HMRC for it to be considered as a Qualifying Non-UK Pension Scheme (QNUPS). Assuming that it has been established for retirement planning purposes, a QNUPS should be afforded the same exemption from UK inheritance tax as is afforded to a UK-registered pension scheme.

Sovereign's Rinella Retirement Benefit Scheme in Malta and Brock Personal Pension Plan in Guernsey both meet the QNUPS conditions.

Alternatively the Conservo International Retirement Plan, also administered from Guernsey, provides even greater flexibility in terms of access and investments. It should be noted, however, that this scheme does not meet the QNUPS conditions.

Whatever your client's requirements, your local Sovereign representative will be happy to guide you towards the most appropriate option.

Sovereign offers new 'Pensions Freedom' product in Isle of Man

The recent introduction of the Pensions Freedom Scheme (PFS) legislation in the Isle of Man has provided the opportunity for Sovereign to offer a new PFS product that will offer increased flexibility on savings options and the freedom to choose how to fund retirement.

The PFS allows members to have full access to their pension fund from age 55, as was made possible in the UK under similar liberalising legislation that came into force in 2015. Unlike previous schemes, the PFS has no maximum retirement age.

A lump sum tax free payment of 40% can be paid based on the value of the pension fund at the time the payment is made. Previously this was limited to 30%. Members then have flexible access to the remaining pension funds, which will be taxed as income in accordance with their annual tax assessment.

There will also be no charge to income tax paid out on the death of a member, provided that the funds are paid out within two years of the member's death.

There is the potential to transfer from an existing IOM-approved pension to a PFS, however this will incur a 10% Assessor fee based on the value of the fund being transferred. A member is only permitted to have one PFS at any one time

The maximum annual contribution for all IOM schemes has been reduced from £300,000 per annum to £50,000 per annum. This includes contributions from the scheme member – and, if applicable, their employer – and extends to contributions made in respect of the same person to other approved pension schemes of which they are a member. There is, however, an exemption for transfers into a new PFS.

To assist scheme members who wish to access funds in an existing approved scheme without transferring funds to a new scheme, the triviality limit and fund remnant limit have been increased from £50,000 to £100,000.

Updated Investment Guidelines

In a circular dated 16 August 2018, Sovereign gave notice of some additions to its investment guidelines for Recognised Overseas Pension Schemes (ROPS) and international Self-Invested Personal Pensions (SIPPs).

As of 1 September 2018, Sovereign will no longer permit investment into funds that:

- Contain exit charges; or
- Are broker funds; or
- Are deemed to have high expense ratios / ongoing charges figure (OCF).

In addition, SIPPs' members will be required to maintain a cash balance of 3% of the value of their plan to cover ongoing charges (both the investment manager and Sovereign) and to avoid overdrawn balances.

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