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After the pensions revolution: making sense of QROPS

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It may not necessarily capture the imagination like a George Osborne speech (!?!) but ensuring you're getting the best out of your UK pension has become more difficult to gauge than ever.

In or out? If out, then what? No, I'm not talking about the UK's referendum on EU membership but the Brave New World of transferring pensions overseas now the changes to the UK system are a reality.

Anyone who has ever worked in the UK but is no longer resident will likely be rolling their eyes at the very mention of the term *QROPS*. There are a number of possible reasons for this: including the barrage of internet advertisements you're exposed to every day and the uncertainty of what's best for you – stay in the UK scheme or transfer it out.

In case all of that isn't tricky enough, the UK government has, over the last couple of years, decided to revamp the entire UK pension system. The main thrust behind this was apparently HM Treasury's desire to offer *Freedom and choice in pensions*.[1] That translates as being the opportunity for those already receiving income from an annuity to agree with their provider to assign that income to a third party, in exchange for a lump sum or an alternative retirement product. Obviously the changes had nothing whatsoever to do with the government's thirst to cash in a load of tax money (ahem!). Like many other governments, it mistakenly thinks that will somehow make a huge difference to the UK economy.[2]

From an expat point-of-view, one thing this change has done is muddy the waters regarding the advantages of QROPS schemes, which were previously the only way to move pension money to a different retirement product.

For example, under the new rules, pension schemes must prohibit members from accessing their savings before the age of 55, unless the member is retiring early due to ill health. Consequently, HMRC has delisted several

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/332714/pensions_response_online.pdf

[2] http://www.ideaeconomics.org/

schemes in the last couple of years because they allowed expats to access their funds before reaching 55.[3] Australian funds were hit particularly hard; where the only schemes available now are a limited number of superannuation funds, which have been adjusted to meet UK requirements. These look increasingly unsuitable even if you satisfy the criteria of being an Australian resident whose transfer is within the annual limit of AUD 180,000 (c. GBP 91,640) up to an overall maximum amount of AUD 540,000 (c. GBP 275,910).[4]

In spite of the obstacles brought by the changes to the UK system, many of the upsides of QROPS remain; particularly the fact that you're moving your fund out of the UK government's jurisdiction and thus no longer at the mercy of any new government-imposed *freedoms*. There is also seemingly a wide choice of destinations: the HMRC currently approves of QROPS in 41 different countries, meaning you can choose depending on your preference (lower tax, flexibility, etc.)

And that's the crux of the matter. There is no one place which is the best to transfer your pension money into a QROPS – each has its strengths and weaknesses. For example, in Mauritius tax is just 3% but there is no flexibility regarding when you can drawdown your fund and there are currently only three QROPS based there, of which only one seems particularly active.[5]

Similarly, with a scheme based in Gibraltar you wouldn't retain absolute flexibility over when and how you drawdown your pension pot but, on the bright side, tax there would cost you just 2.5% of your withdrawals (other than your tax-free 25% lump sum entitlement). In fact this tax has only come in the last four years so that HMRC would once again allow transfers to the Rock – this privilege had been withdrawn because Gibraltar's tax rate was previously 0% for pension transfers, something which the UK authorities do not allow.

The same issue has resulted in the delisting of all QROPS in Guernsey, where income tax is zero for non-residents.[6] For those who already have a Guernsey-based QROPS, however, there are workarounds; be it moving the fund to a different jurisdiction or to a local fund which provides the same flexibility as a QROPS at 0% tax. This appears to be UK pension nirvana which is why the door has been bolted and no new transfers in are accepted.

If you haven't moved your fund to Guernsey and prefer flexibility over tax, Malta allows flexible drawdowns. Added to that, its status as an EU member state means (at least for the time being) that HMRC cannot stop the

[3] http://www.telegraph.co.uk/finance/personalfinance/expat-money/11720242/Qrops-crackdown-sees-offshore-pension-options-dwindle-for-expats.html

[4] https://www.ato.gov.au/Super/Self-managed-super-funds/Contributions-and-rollovers/Contribution-caps/

[5] https://www.gov.uk/government/publications/list-of-qualifying-recognised-overseas-pension-schemes-qrops/list-of-recognised-overseas-pension-schemes-notifications#mauritius

[6] http://www.ftadviser.com/2012/04/20/regulation/regulators/hmrc-axe-falls-on-guernsey-qrops-as-schemes-closed-2KqOIwrVXeP46oD9tyalUO/article.html

provision of QROPS schemes unilaterally, even if Maltese authorities bring the tax rate down. The issue though is that tax in the island state right now is relatively high at a maximum of 35%,[7] unless your country of residence has a double taxation agreement (DTA) with Malta, which reduces the tax burden to something much more bearable. Guess what? Thailand doesn't yet have one.

For many, but not all, UK pension holders, QROPS can still bring great advantages but you need to ensure the jurisdiction to which you transfer your pension money meets your own priorities and goals. That's why it's best to ask a licensed, objective, fee-based, independent financial adviser to help you come up with a plan for your retirement fund that suits you. After all, it's your money!

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[7] https://ird.gov.mt/services/taxrates.aspx