Guide to UK Pension Transfers

FORTH CAPITAL

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Introduction

If you live in Australia and have a UK-based pension fund, it may be beneficial for you to explore the option of transferring your pension. Transfer options can deliver valuable benefits for expats, but it's important to assess your individual circumstances to ensure that it's the right decision for you.

This guide will give you an overview of the transfer options available, but it does not replace the need for expert financial advice. Our detailed understanding of UK and Australian pensions and our international licenses mean that our dual-qualified advisors can provide you with clarity and simplicity, helping you to cut through the complexity and potential pitfalls of optimising your pension funds and benefits, wherever you are in the world, and wherever you choose to retire.

Transferring your UK Pension

Following the UK government's decision in April 2006 to allow additional pension freedoms, anyone with a personal or occupational UK pension fund who leaves or intends to leave the UK [becoming non-resident for tax purposes] is now able to transfer their retirement savings to an alternative pension scheme. There have been several modifications to this process in subsequent years, so seeking advice from a dual qualified financial advisor is strongly recommended.

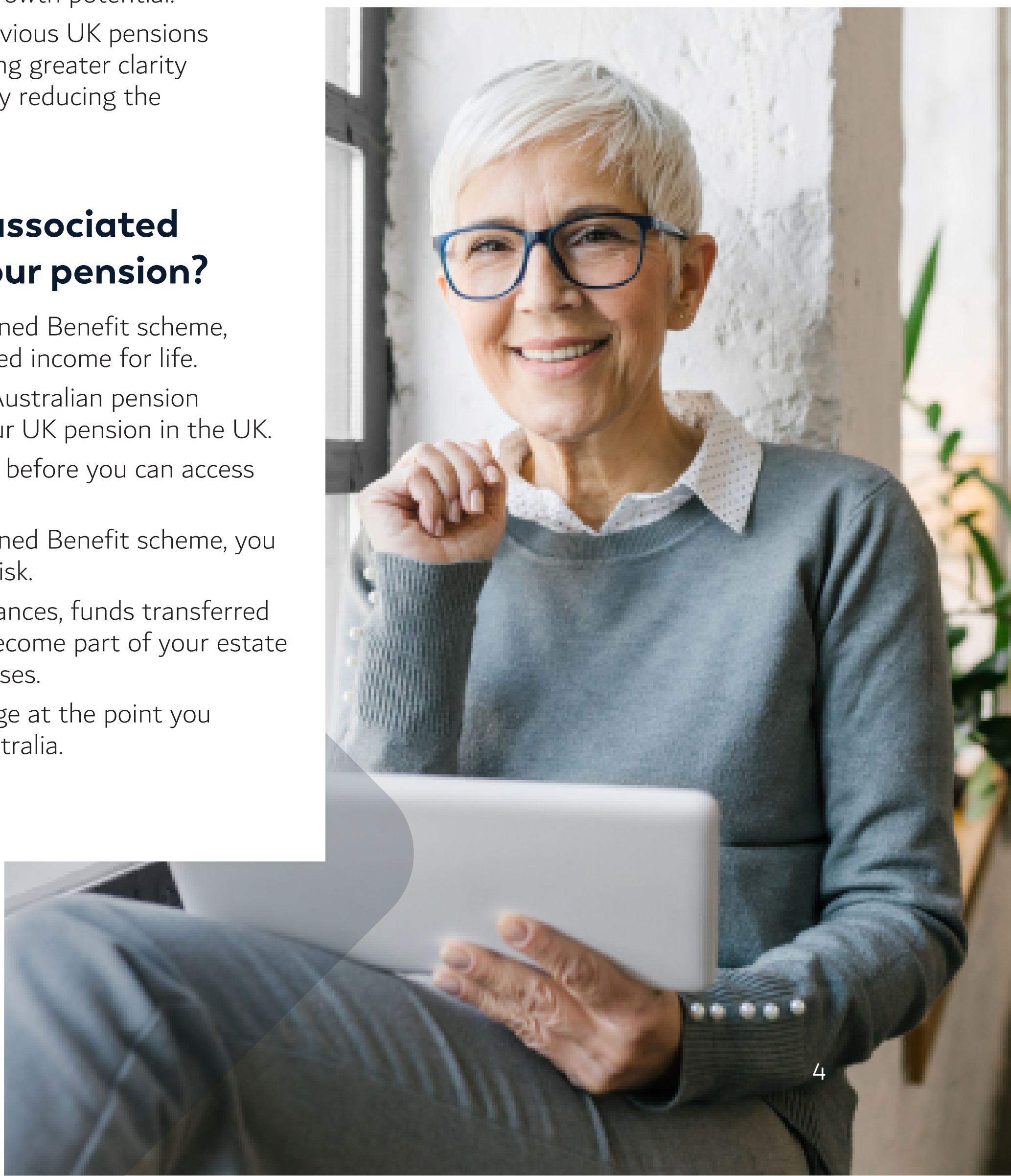
Transferring your UK pension can have a significant impact on the tax you pay, when you can access your pension benefits, the lump sum value you're able to withdraw, and how your family can benefit from your pension funds. It's therefore important to understand your options and take expert advice, to ensure that you can make an informed decision about your UK pension.

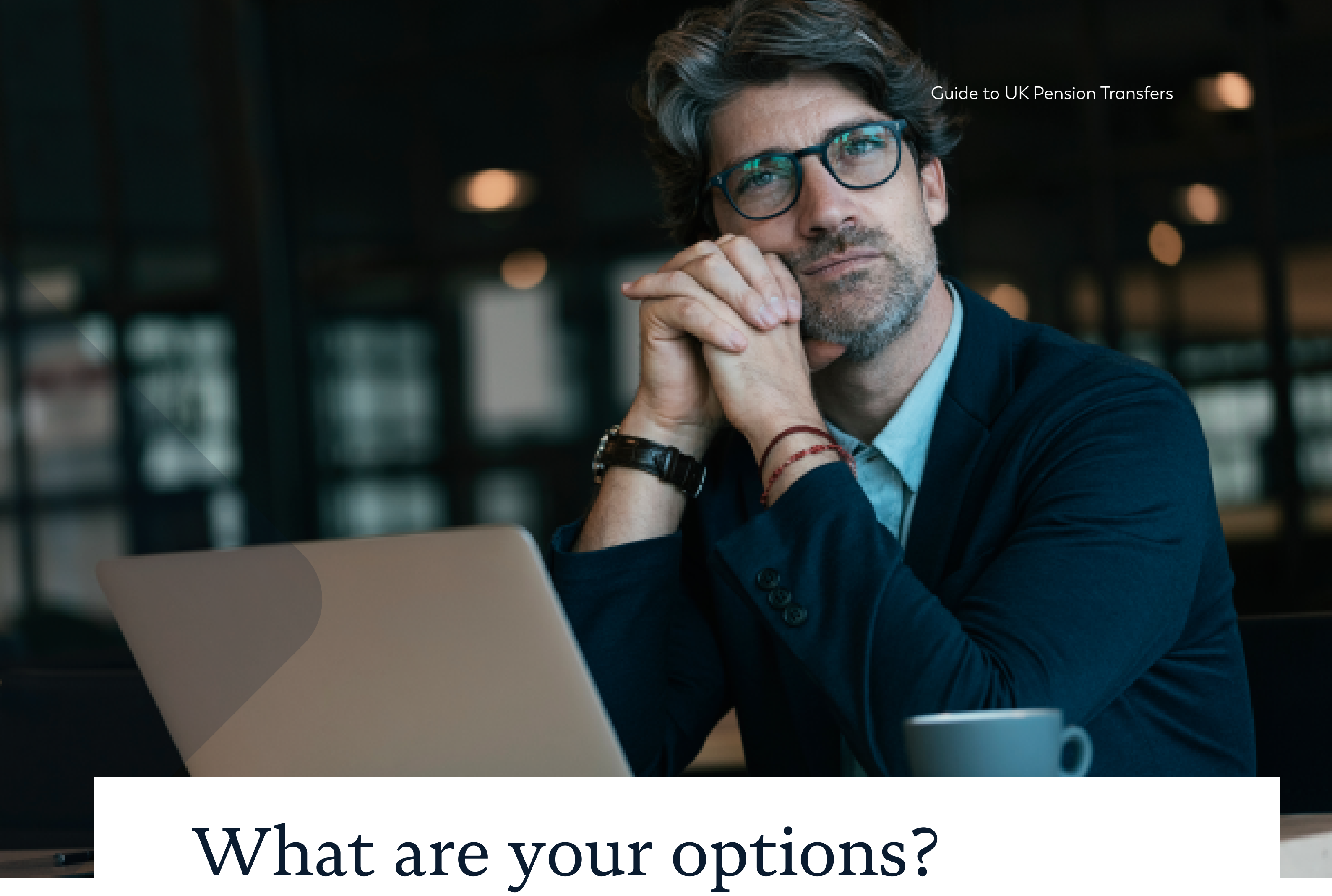
What are the benefits of transferring your pension?

- In most cases, income or lump sums taken from an Australian arrangement will be paid free of income tax [UK pension funds can be taxed up to 47% by the Australian Government].
- 100% of your pension is passed on to your chosen beneficiaries. If your UK pension is part of a Defined Benefit scheme when you die, your spouse will only receive a reduced benefit, and your children could receive no benefit, depending on their age.
- Mitigate currency exchange rate risk.
- Control of investment and growth potential.
- You can combine all your previous UK pensions into a single scheme, providing greater clarity and efficiency, and potentially reducing the overall fees you pay.

What are the risks associated with transferring your pension?

- If you are transferring a Defined Benefit scheme, you will be losing a guaranteed income for life.
- You may pay more for your Australian pension products than you do for your UK pension in the UK.
- You may have to wait longer before you can access your retirement savings.
- If you are transferring a Defined Benefit scheme, you will take on the investment risk.
- Depending on your circumstances, funds transferred out of a UK Pension could become part of your estate for UK Inheritance tax purposes.
- There may be a taxable charge at the point you transfer your pension to Australia.





What are your options?

Now that you have left the UK there are a number of options available to you in respect of your UK pensions:

1. Do nothing. Leave your pension funds in the UK.
2. Transfer to an international SIPP [Self Invested Personal Pension].
3. Transfer to an HMRC Recognised Overseas Pension Scheme [ROPS] where possible.

1. Leaving your Pension in the UK What happens if you do nothing?

If you do decide to leave your pension in the UK, you can continue to receive any benefits you have associated with your pension products, and you can continue to receive tax relief on contributions from relevant UK source income [or based on £3,600 if no earnings] to your UK pension for up to five years after leaving the UK. However, there are also risks associated with doing so. If you do decide to leave your pension funds in the UK they may be:

- subject to income tax of up to 45% when income is withdrawn from the pension[1].
- subject to ongoing tax and pension legislation changes.
- held in GBP creating a potential future currency risk.
- held in an underfunded Defined Benefit scheme[2].
- held in a scheme with no control of the underlying investments.
- restricted in terms of their growth options and capital protection.
- held in a scheme which doesn't allow your family to benefit fully from your pension funds after your death.

1. This can be mitigated in certain circumstances where a dual taxation treaty exists.
2. As at July 2023 nearly one in ten of all UK final salary schemes are underfunded, with an aggregate deficit of £2.3bn – Source: UK Pension Protection Fund [PPF].

2. International Self Invested Personal Pensions [SIPPs]

An International Self Invested Personal Pension [SIPP] is a UK government recognised personal pension scheme that allows you to take control of your own investment decisions as you save for your retirement. International SIPPs provide significant choice and flexibility regarding investments, tax benefits and currency choice. If you no longer live in the UK, an International SIPP allows you to transfer and consolidate benefits from UK-registered pension schemes easily and efficiently, while still protecting you under UK regulations.

Please note that UK state pension benefits and certain unfunded Government pensions such as NHS pensions cannot be transferred.

What are the benefits of an International SIPP?

- An International SIPP is UK-regulated and will continue to work for you, whether you live in the UK or abroad.
- You can consolidate all of your fragmented pensions into one pension for cost effective investment management and administration.
- 100% of your funds will be passed to your beneficiaries if you die before age 75 and a marginal rate of UK income tax will apply to your beneficiary if death occurs after age 75. If you have a Defined Benefit or Final Salary pension, your spouse will only receive a reduced benefit and your children could receive no benefit.
- You have the ability to be involved in how your pension funds are invested.
- Your accumulation funds will not be subject to Income Tax or Capital Gains Tax.
- You can hold and invest your funds in any currency.

3. Recognised Overseas Pension Scheme [ROPS]

Transferring your UK Pension to a ROPS offers multiple potential benefits, including tax efficiency and greater flexibility, but it's important to seek advice from a qualified pension expert to establish whether a ROPS is the right option for you, dependent upon your individual circumstances.

A ROPS is a pension plan that is recognised under UK HMRC rules to accept transfers from UK pension schemes. A ROPS may be available to you if you are resident in the EEA [defined as the EU plus Norway, Liechtenstein and Iceland] and intend to remain resident in the EEA for five full years after your pension transfer. It may also be relevant in other countries such as Australia and New Zealand.

Who can hold a ROPS?

You can hold a ROPS if you have a UK personal and/or occupational pension scheme [with a value of £100,000 or more invested, as a guideline] and you have left the UK [or are planning to leave the UK in the next 12 months] and are living in the EEA [and will continue to do so for the next 5 years] or are resident in a country with its own ROPS (like Australia).

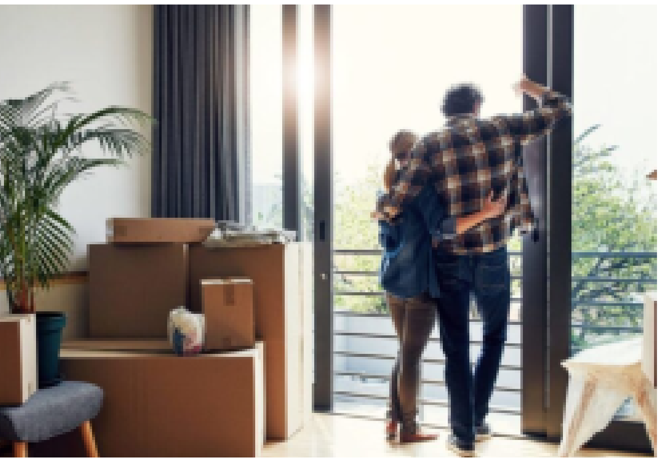
Please note that UK state pension benefits and certain unfunded Government pensions such as NHS pensions cannot be transferred.

What are the benefits of a ROPS?

For expats, this special pension scheme has several advantages over a regular UK pension plan:

- In most cases, income or lump sums taken from an Australian arrangement will be paid free of income tax [UK pension funds can be taxed up to 47% by the Australian Government].
- Transferring to a ROPS is a 'benefit crystallisation event' and the value of the transferred funds would previously have been tested and taxable in excess of the UK pension Lifetime Allowance (LTA) of £1,073,100. However, the LTA charge was recently suspended [in the chancellor's 2023 Spring Budget] meaning that transfers made in excess of the LTA are not currently being taxed. This remains the case for as long as the LTA charge continues to be suspended and the current legislation stands.
- 100% of your funds will be passed to your beneficiaries, regardless of your age when you die.
- You can hold and invest your funds in any currency.

What's right for you? We're here to help



Transferring your UK pension can have a significant impact on the tax you pay, when you can access your pension benefits, your ability to withdraw a lump-sum, and your succession planning, so it's important to seek advice before making any changes to your pension.

Financial advice from a dual qualified pension advisor is strongly recommended if you are considering a pension transfer and want to understand whether a SIPP or ROPS would be the right option for you.

Forth Capital takes a holistic approach to pensions advice. Before making any recommendations on the best transfer option, we offer an initial consultation to help you establish:

- Which pension products you have.
- When you want to retire and where.
- Your current residency status and tax situation.
- Your financial situation and income requirements.

Contact Forth Capital to learn more about your pension transfer options, and benefit from expert advice to ensure that you make the right decision for you and for your family.

Please note: *The value of your investment or pension can fall as well as rise, and you may not get back the original amount invested. The information provided in this Forth Capital 'Guide to UK Pension Transfers' is based on our understanding of UK tax rules as of September 2023. Please note that the tax treatment depends on the individual circumstances of each client and may be subject to change in future.*

This information is general advice and does not take account of investors' objectives, financial situation or needs. Before acting on this general advice, investors should therefore consider the appropriateness of the advice having regard to their objectives, financial situation or needs.

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