Sensible Pension Planning For Expats

Historically, in countries where there is no tax-driven, government-approved pension savings framework (most countries in the Middle East and Africa for example) expat workers have relied on 'international pension plans'; in reality a marketing name for what is essentially a long term savings plan.

By Paul Beard

For a long time these were the only vehicles available for expats to invest their money with a well-known, trustworthy and regulated institution, often the Isle of Man or Channel Islands subsidiary of a UK insurance company.

The problem with these plans was not with the structure per se, but the way that they were sold and the rewards inherent in this for the advisory firm, which in most cases were not regulated. If the plan was set for a 20-year term instead of, say, ten years then the advisory firm received double the amount of commission; again there was nothing wrong with this as long as the client maintained their contributions for the contractual term. The rub came if the client stopped paying early which then resulted in, sometimes, severe penalties to cover the charges and the commission paid.

Fortunately, with the banning or absence of commission on investment products in most mainstream markets – the USA, UK, Australia, Netherlands etc, imminently in South Africa, and the Isle of Man authorities saying that they will ban commission from 2019 – these types of plans are now becoming extinct and most good providers are offering single-priced contracts with no entry charges or exit penalties

QROPS – Now Known As ROPS – Recognised Overseas Pension Schemes

There have been two major changes in this market in the last 18 months:

1. Her Majesty's Revenue and Customs (HMRC) preventing transfers of UK pension funds to 'offshore' ROPS plans that were not set up in the countries in which the expat lives has put a stop to many transfers which were, frankly, badly advised. The exception being anyone living in the EU could take a transfer to any other country in the EU. For now at least this has killed the Australian market.

2. Last year the UK authorities insisted that any overseas non-UK regulated adviser needed to have their advice to take a transfer of any defined benefit/final salary scheme to be signed off by a properly qualified UK adviser.

Dos And Don'ts

- If you want to save regularly for retirement, invest in a non-contractual single priced investment /savings account.
- If you are offered a QROPS product that has the investment 'wrapped' in a single premium bond, ask 'why?' It is more than often unnecessary, increases the charges solely for the purpose of paying commission.
- If you are in the USA when you are considering a transfer don't use a QROPS, the IRS can conceivably tax the transfer.
- Wherever possible always deal with a fee-based adviser.

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