QROPS- When things go wrong

A Qualifying Recognised Overseas Pensions Scheme (QROPS) is one of the first options to reveal itself when an expat starts to research the best way to handle their pension savings, pending a move overseas. Many within the expat community already have them, whilst some considering a future move abroad may already be actively looking into taking one out.

However, retirement pension planning for those who are intending to live and work overseas is a very complex area, and whilst a QROPS can provide greater flexibility for overseas workers in terms of investment choices and the payment of benefits, some aspects do require far closer examination, in order to ensure their total suitability.

By definition, a QROPS will not only allow its member to move their UK pension to another country, and in doing so benefit from the tax advantages they can offer, but it will also provide a freedom of movement which will better suit those who may find themselves having to change jurisdictions, sometimes several times throughout their career.

These benefits will see many expats having already converted their pension to a QROPS in order to take full advantage of the added flexibility they allow, whilst many more will doubtlessly be considering doing so, especially with the value of the current market now expected to grow from £5bn to £10bn over the next 3 years alone.

However, as with many financial products, a one-size-fits-all approach doesn't exist. A QROPS isn't for everyone and people need to be aware that things can – and sometimes do – go wrong.

Before delving into the specific problem areas, there is of course a basic checklist that all interested parties should always refer to before considering a particular scheme. One of the first ports of call should be the HMRC website where you can check that your proposed QROPS is listed. However it is also worth emphasising at this point that HMRC does state that the listing of a QROPS on its website should not be seen as a recommendation under any circumstances. Due diligence is still essential and you should always carry out your own investigations with regards to any QROPS provider being considered.

One of the biggest potential pitfalls from a QROPS can come from exit penalties and transfer fees that can be attached to such a scheme, and which can often be hidden in the small-print. Some QROPS providers aren't particularly transparent when it comes to stating their transfer fees, and so these can come as a nasty shock should the need to transfer the funds to another jurisdiction ever arise.

For example, anyone previously in a Guernsey-based QROPS will know all about the need to transfer when such schemes become prohibited, and in the case of Guernsey some of those affected will have already experienced some fairly eye-watering exit and transfer fees.

There are however some providers on the market who don't charge any exit or transfer fees and in order to locate these, seeking specialist assistance and support from an independent expert in this field, such as 'The QROPS Bureau' who can point you in the right direction, is always recommended.

Another potential pitfall associated with a QROPS is the commission that is often payable by the investor for the privilege of holding one. Traditionally QROPS have offered pension investors a choice of offshore bonds, however, with the landscape shifting and the relationship between the two now changing as we move more towards a Multi-Platform offering, the use of an offshore bond can expose the client to two separate layers of charging – one for the top wrap, the QROPS, with a second on the offshore bond itself.

By using a Platform, these costs can be significantly reduced, while still providing the client with exactly the same tax advantages available through a QROPS.

Using a Platform is one of the most efficient ways of investing within a QROPS, as not only will many clients already have become used to the functionality that a Platform can offer whilst living in the UK, but a strong existing affiliation towards a particular Platform may already exist.

Investors should also be given access to more than one Platform. A client's attitude to risk will change with age or circumstance as will the value of any assets that they hold on an individual Platform, due to the effects of market conditions and the introduction of new premiums. Furthermore, Platforms constant changing of their fees and charging structures, as well as the anticipated Platform consolidation, will also have an impact. For these reasons clients will benefit from access to a Multi-Platform solution that can adapt according to changing circumstances, for whatever reason, including different fund choices or asset classes.

Another area that people should also be wary of is the choice of jurisdiction itself, and to make sure that it is suitable for their specific needs. It is worth emphasising at this point that the jurisdiction that people are moving to doesn't have to be the jurisdiction in which their QROPS is held – so long as the scheme follows the rules stipulated by HMRC.

In terms of third party jurisdictions, Malta and Gibraltar are both within the EU, both are considered to be very well regulated, and are names that people know and consider trustworthy within the industry.

Regulation of QROPS

It is also worth emphasising at this point that QROPS schemes are not regulated by the FCA because, by their very definition, they fall outside of the UK's jurisdiction.

The FCA has been scrutinising the UK SIPP market for some time now, including analysing the underlying investments, in particular in relation to UCIS or esoteric investments. The FCA has also sought to introduce new disclosure requirements for Providers, as well as IFAs, in relation to transacting these types of investments within SIPPs. However, the FCA's objectives for protecting clients' pension pots could still fail, as those that are minded to do so could look to circumvent the new rules by simply transferring their funds into a SSAS or QROPS - something that should neither be allowed nor tolerated.

We strongly believe that there could be more of a joined-up approach applicable to both UK and overseas schemes, however this is a topic that should be covered another day. In the meantime, and in the absence of such a joined-up approach, I would strongly urge advisers and clients alike to seek out jurisdictions and QROPS Providers that operate similar regulatory standards to the UK, including those providers that also have a UK presence.

So in summary, obviously the main reasons for moving funds left behind in the UK to a QROPS still remain the same; that is the potential to avoid the 55% death tax for any clients that have been resident abroad for 5 or more years, as well as the mitigation of any currency risk by having the QROPS denominated in the same currency as the country where the client is resident.

However, they do have their potential pitfalls, and the biggest mistake that can be made is to assume that they are the right product for everyone who is looking to move or retire abroad – as the one-size-fits-all approach does not apply in this instance.

As previously stated, careful consideration needs to be given to well regulated jurisdictions and providers who are able to offer the added security and reassurance that UK-lookalike regulation and scheme governance can provide.

We believe that in the future it will be the familiar brand names coupled to a UK presence, and which can provide this UK-lookalike scheme governance, that will become the providers of choice, as such factors translate into added peace of mind for those considering a QROPS.

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Notes to Editors

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