

Pension Black Hole Hits UK's Biggest Companies

Time to Legally Move your Pension Out of the UK?

Actuaries Lane Clark & Peacock claim the financial crisis had helped send the combined deficit of FTSE 100 companies' pension schemes soaring from £41 billion a year ago to £96 billion today.

This deficit is the largest recorded - it was just £12 billion two years ago.

Plunging values are putting pressure on companies to stop offering pension schemes to employees. Only three FTSE 100 companies - Cadbury, Diageo and Tesco - now offer such schemes to new employees.

Barclays recently closed its final salary pensions and transferred its 18,000 staff members to a hybrid scheme instead. Supermarket chain Morrisons is replacing its final salary scheme with a career average policy for its 10,000 members.

Last month American Express suspended pension contributions for its UK staff for the next 18 months, saying the payments had become unaffordable.

Analysts say the funding shortfall faced by all the UK's defined benefit pension schemes now stands at a staggering £200 billion.

An MBMG Client Case Study

In 2008 the Head of Retail Sales for Adidas (Asia Pacific region) followed our advice and moved his final salary pension from MFI, a UK furniture outlet, to a Qualifying Recognised Overseas Pension Scheme (QROPS).

The administrators of the MFI scheme transferred the funds to the QROPS trustees in Hong Kong, who placed them in an Offshore Portfolio Bond wrapper.

The pension was transferred on 6 January 2009, and due to MBMG's active management, is up by 10.73%, whereas the MSCI World Index is down 36.34% over the same time. Our client's pension portfolio has outperformed the world markets by more than 47%.

What's more, MFI was placed in administration in late 2008, so if the transfer had not taken place, the entire value, £409,369.78, may well have been lost.

Our client has already used the fund to purchase a buy-to-let property in the UK and is now looking to buy a holiday/retirement home in Thailand. If the funds had remained in the UK, this would have been out of the question, as UK Pension rules prohibit domestic property purchases of any kind.

By October 2008, 265 pension schemes in the UK had failed and were looking to the government's Pension Protection Fund for help. By then the fund was already £517 million in the red and was only helping 66 of those schemes in trouble.

As the future for UK pensions looks increasingly bleak, transferring pension funds offshore makes increasing sense.

With our client in mind let's look at three different scenarios:

1. **He leaves his pension in the UK and retires there.**
He gets a letter saying his old MFI pension scheme has a deficit of £144 million and he will receive little or nothing. What he does receive will be subject to UK tax.
2. **He leaves his pension in the UK and retires abroad.**
As with the first example, if he is lucky enough to receive anything from his MFI pension, it is deemed a UK source income and subject to UK income tax, regardless of where he lives in the world.
3. **He moves his pension offshore and retires to Thailand.** Through active management, the fund achieves 8% growth per annum and is worth approximately £800,000 when he retires. He takes out 25% to purchase his dream retirement home and draws down 5% per annum of the residual income, giving him an income of £30,000 per year (rising every year). This is in addition to his state pension that will use up his UK zero-rate tax allowance.

By way of comparison - if his previous employers were not placed in administration and amazingly, the final salary scheme was still in existence in 2017, the indexation allowed on his paid-up fund would give far inferior returns to the projection above.

The income from a QROPS is subject to local tax wherever the client retires in the world. In Thailand there is no income tax or capital gains tax to pay on offshore investment income and therefore no tax is required.

Five Reasons to Move Your Pension Fund Offshore

The 2004 European Union Freedom of Movement of Capital Act gives anyone who owns a Pension Fund in an EU country the right to transfer their fund overseas. The UK Government launched their version, Qualified Recognised Overseas Pension Schemes (QROPS), on 6 April 2006.

There are many advantages to moving a pension fund offshore.

1. **The fund is no longer subject to UK income tax (up to 50%).**
If you have a UK pension, it is deemed UK source income and subject to tax wherever you live.
2. **The residual fund can be passed to loved ones when you die free of inheritance tax, with no obligation to purchase an annuity at age 75.**
In the UK you are obliged to purchase an annuity at 75 and the annuity has no value when you die.
3. **You can retire early without penalty.**
If you retire early from a UK scheme penalties may apply.
4. **A QROPS has an unlimited investment choice, subject to trustees discretion, including income generating domestic property.**
A UK pension scheme allows for very limited investment choice.
5. **A QROPS Personal Portfolio Bond is protected by the Isle of Man Investor Protection scheme and the underlying funds may be held in different currencies, including Thai baht.**
A UK pension scheme runs the risk of company insolvency and all funds are in GBP.