

QROPS: Not regulated, not registered, just recognised

David Trenner, technical director at Intelligent Pensions, examines the risks to clients of unqualified overseas salesmen.

QROPS have created an opportunity for abuse and mis-selling. There are valid reasons to use a QROPS, but clients need to be aware many QROPS are being sold by advisers who are not regulated and who are taking commissions as high as 8% of the fund.

These commissions for investing the funds within the QROPS in a bond are on top of the set-up charges of the QROPS provider.

QROPS are likely to be particularly attractive to those who have been abroad for more than five years and have no intention of returning to the UK. They have advantages which could include taking a little more than 25% of the fund as tax free cash, as HMRC's requirement is that at least 70% of the fund be used to provide an income.

It has been suggested that New Zealand QROPS could be used to allow 100% of the fund to be taken as tax free cash, although there is concern in New Zealand that this could lead to loss of recognition.

We have already seen QROPS in Singapore and Hong Kong lose their recognised status, and clients need to be sure that if there is a problem with the jurisdiction where their QROPS is based that at least they have some comeback against the financial adviser who sold it to them. Sadly in most cases this will not be so.

Clients with SIPPs and other UK pensions who decide to live abroad can retain their plans and benefit from tax exempt growth, and they will still qualify for 25% of the fund as tax free cash when benefits are drawn.

So in many cases leaving funds in the UK makes a lot of sense. If a client is not sure whether they will remain abroad then it will almost always be best to leave funds in the UK scheme.

My message to UK advisers is you should not assume an overseas QROPS salesman knows more about the scheme, and walk away from expat clients looking to transfer. Not only will you be losing a client, but your client could be losing 10% of his fund in charges and commissions which the overseas salesman does not have to disclose.