

Transfer to QROPS from one of our SIPPs - what you could be up against!

Dear Mr C

Your IFA has forwarded your email to us, and although we were not asked to comment before your recent meeting with Mr M, I feel that I should make you aware of certain issues with QROPS before you sign any paperwork.

Although I understand that you have had an address in Spain for more than 5 years, I do not know how this will affect your position as a UK resident, particularly in the light of the recent Gaines-Cooper case. I note that your wife still retains property in the UK, although this appears to be purely for rental purposes.

Assuming that you are not treated as UK domicile for tax purposes, I have two general concerns about QROPS: the advisers are not regulated by the FSA and you will have no recourse if you feel that you have been mis-sold a QROPS and the schemes themselves are not approved by HMRC. The fate of those who transferred to Singapore QROPS remains uncertain after they were all removed from the HMRC list a couple of years ago.

Turning to the particular points made by Mr M:

“I am delighted to confirm that your UK pension can now be transferred into a HMRC approved QROPS.” As explained below HMRC does not ‘approve’ QROPS, it merely recognises them.

“No compulsion to purchase an annuity.” This is a red herring, as in practise most people cannot afford not to buy an annuity. Whilst at your current age you will not benefit significantly from mortality cross subsidy, this will have a continuing greater significance as you get older. Once you get to age 75 this could add 4% p.a. to the income attainable. On current rates you could receive about 9% p.a. from an annuity at 75.

“Pension removed outside of what some may consider punitive and restricted UK pension rules.” Some may consider the rules punitive, others might not. In any event the words “removed outside of” are questionable. This is the HMRC definition of a QROPS:

A recognised overseas pension scheme is a qualifying recognised overseas pension scheme if it satisfies certain HMRC requirements. The scheme manager must notify HMRC that the scheme is a recognised overseas pension scheme and provide evidence to HMRC where required. The scheme manager must also sign an undertaking to inform HMRC if the scheme ceases to be a recognised overseas pension scheme and comply with any prescribed information requirements imposed on the scheme manager by HMRC. The recognised overseas pension scheme must not be excluded by HMRC from being a qualifying recognised overseas pension scheme.

“Greater freedom of where and how your pension is invested.” “In addition there would be a far greater range of holdings you could have within the pension to improve its performance and perhaps provide an income greater than your current pensions provide by benefiting from an offshore portfolio bond to manage the underlying assets.”

The same point made twice, but you might ask what the advantages of this greater investment freedom is, given the recent growth in your Select SIPP. You might also ask what an offshore portfolio bond can achieve that a UK tax exempt pension cannot.

“In the future when exchange rates are more favorable you will be able to hold your pension entirely in another major currency to detach yourself from exchange rate fluctuations.” You already have the option to hold other currencies in your SIPP, but I wonder how you will know when ‘in the future’ exchange rates are right for currency trading? And I wonder too which other ‘major currency’ apart from the Euro would protect you from exchange rate fluctuations.

“The window of opportunity with HMRC may close in the future, so time may be of the essence. As you may be aware there is a vast amount of money leaking out of the UK through pensions; however once transferred into a QROPS your pension would be overseas in Guernsey outside of UK rules and cannot be forced back retrospectively.”

Whilst your pension could not be ‘forced back retrospectively’ as QROPS holders in Singapore have discovered that may be of little assistance if schemes are de-recognised.

You might find the articles below of interest.

PFS Conference: Morrison advises vigilance over Qrops scams

<http://www.citywire.co.uk/adviser/-/news/pensions/content.aspx?ID=321169>

Instone points the finger over Qrops mis-selling scandal

<http://www.citywire.co.uk/adviser/-/news/pensions/content.aspx?ID=381512>

<http://www.citywire.co.uk/adviser/-/news/pensions/content.aspx?ID=382522>

Although this article is about Gibraltar QROPS I think you will find the comments useful.

It may be that notwithstanding my comments a QROPS is appropriate for you. If Mr M were a UK based financial adviser you would have the protection of knowing that you had recourse to the Financial Ombudsman Service in the event of any problem.

You do not need me to tell you that the annual charge of £1,250 applied to the plan is greater than the annual charge applied to your SIPP, and I am pretty sure that the wonderful array of funds offered by Mr M will be charged at more than 0.75% p.a., which is the charge applied to Select funds – and includes James Hay’s administration charge. No doubt Mr M has given you details of the fund charges and of the cost of the various currency switches he is proposing.

David Trenner , Technical Director, Intelligent Pensions Ltd