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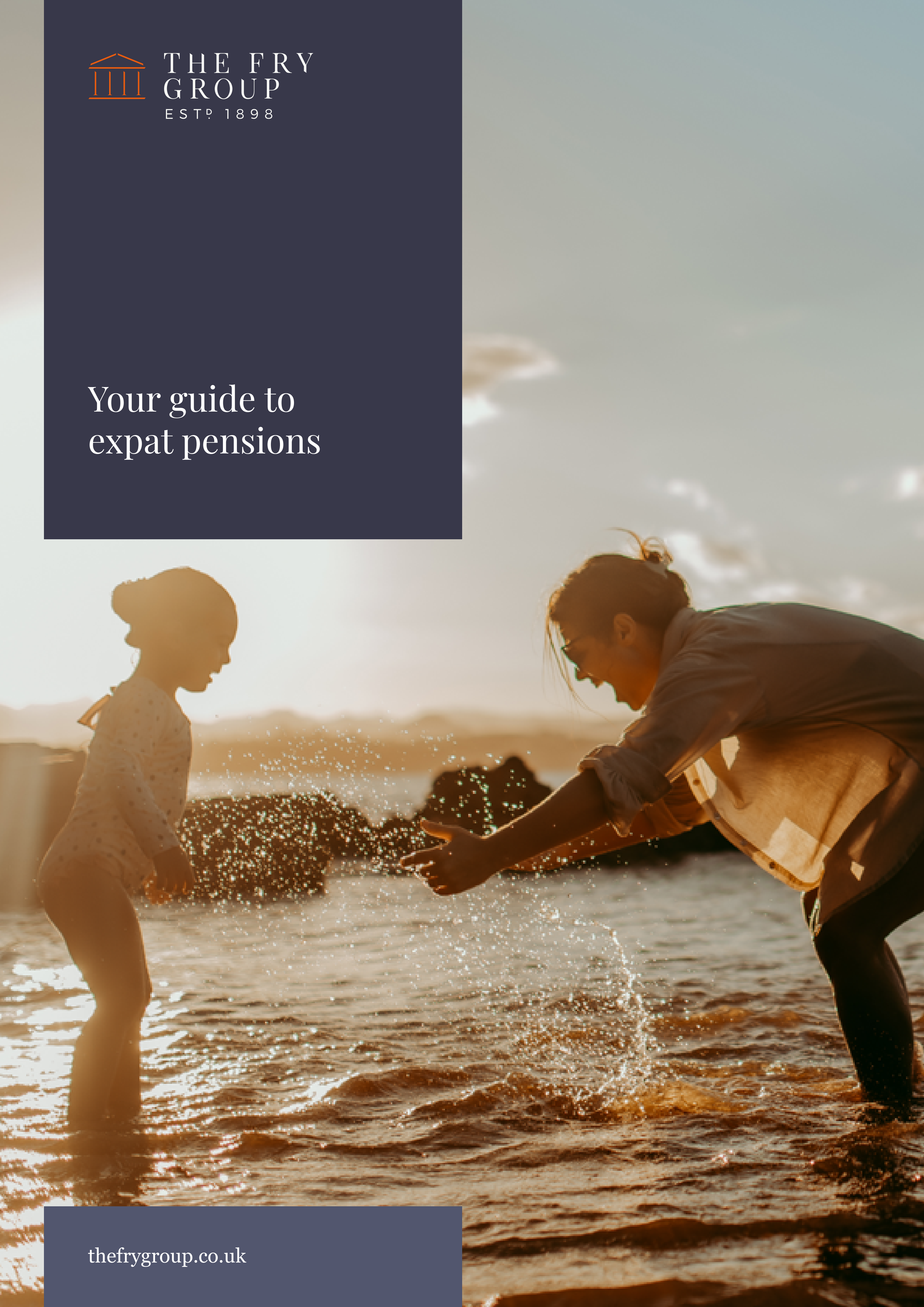

Your guide to expat pensions

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01

What you'll learn in this guide

Choosing to move abroad and begin life in a new place can be exciting.

Yet the logistics of a move overseas can make it easy for certain tasks, such as personal finance and pension planning, to drop down the priority list. If you're already living abroad and need to consider your pension and retirement saving options it can be difficult to know where to start.

Although you may be enjoying a higher salary and/or lower tax rates as an expat, in many countries a workplace pension scheme is not a statutory requirement. As a result, it will be important to ensure you have your own robust pension or retirement savings plan in place.

Understanding some of the key steps when retirement planning as an expat can be confusing. This guide is here to help.

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What is a pension?

A pension is a savings vehicle which you can use to fund your income through retirement. Most pensions share similar characteristics – they are a long-term investment tool which can be accessed in later life. Many have tax advantages too.

Your UK pension is likely to fall into two alternatives: a Defined Benefit Pension or Defined Contribution Pension.

Defined Benefit Pension

This is a retirement plan where your employer guarantees to pay you a specified benefit at retirement age. The benefit amount is typically based on a number of factors including your length of service, salary, and other aspects.

Defined Benefit Pensions are becoming less common in the private sector but are still offered by some government agencies and large corporations.

Defined Contribution Pension

This option involves both you and your employer contributing a specific percentage of your salary into a workplace pension. The contributions are invested in a variety of investment options such as mutual funds, stocks, and bonds, and the value of the account grows over time based on the performance of these investments.

The benefit you receive at retirement is based on the total value of your pension pot, including any investment gains or losses that occur. Unlike Defined Benefit plans, the scheme doesn't guarantee a specific income at retirement.

There are several other pension options – some of which can only be accessed if you are living outside the UK. Here's a quick overview of some that you may have come across.

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We can help you with all aspects of your financing planning needs. Click here to contact us.

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What is a pension? *(cont)*

SIPP (Self Invested Personal Pension)

A SIPP, or Self-Invested Personal Pension, is a UK government approved scheme enabling a pension to be created from a range of investments approved by the UK tax authorities – HMRC.

SIPPs offer greater investment freedom and control. Recent developments mean they are suitable not just for high net worth investors but a wider audience too, including British expats.

A SIPP can invest in collective investment funds, commercial property, exchange-traded funds (ETFs), cash deposits, equities, corporate bonds, and government bonds. SIPPs holding specialist investments may face higher charges than those using 'mainstream' investments. A SIPP also tends to offer increased flexibility at retirement.

UK SIPPs are a flexible and tax-efficient way to save for retirement, with greater control over how funds are invested.

Is it possible to contribute to a SIPP whilst living overseas?

If you've recently left the UK and have a defined contribution pension from when you were resident, you can contribute in the tax year in which you leave and for up to five tax years. You can make contributions of £3,600 gross each year to any existing personal pension schemes held before moving overseas. In certain circumstances, if you have taxable employment income in the UK, you can contribute higher amounts.

It's important to carefully consider investment options and seek professional financial advice before making any decisions.

02
What is a pension? *(cont)*

QROPS (Qualifying Recognised Overseas Pension Scheme)

QROPS is a pension scheme established outside of the UK, but which meets certain standards set by the UK government. It offers British expats the option of transferring their UK pension benefits to a foreign pension scheme, while retaining certain UK tax benefits.

To be formally recognised a QROPS must meet certain conditions set by HMRC.

QROPS can offer greater investment freedom and an opportunity to minimise current and future tax charges, depending on your circumstances.

Generally, the benefits of QROPS include:

- Tax-free lump sum of up to 30%
- Income taxed in country of residence, which may have lower tax rates
- Access to a range of global investments
- Ability to consolidate multiple historic pensions
- Freedom to leave to a beneficiary of choice free from UK Inheritance Tax
- Access to pension benefits from age 55
- Can be invested and paid out in different currencies

While these benefits may make the decision to switch to a QROPS seem easy, it's important to seek advice. There are risks when transferring pension benefits. The tax and regulatory rules can be complex; one example would be understanding if you are liable to pay the 'Overseas Transfer Charge'. A specialist can help review your personal situation and decide if it's in your best interests to move to a QROPS or consider other options.

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02
What is a pension? *(cont)*

Workplace Pension: Provided by an employer to employees. Workplace pensions can be Defined Benefit or Defined Contribution pensions.

Occupational Pension: A workplace pension set up by an employer for a specific group of employees.

Personal Pension: This plan can be set up by an individual. They offer flexibility and control over how the pension pot is invested.

Stakeholder Pension: Another personal pension that is subject to certain government regulations, such as a cap on charges and flexible contribution levels.

The UK State Pension

You shouldn't forget about your UK State Pension either. This is a government pension plan that pays a regular income from state retirement age. The State Pension is funded through taxes or other government revenue sources and is intended to provide a basic level of income to individuals in retirement. Your eligibility is determined by your National Insurance contributions; you can check your forecast online here: www.gov.uk/check-state-pension

Please note that the different types of pensions have different features, benefits, and risks. It's important to carefully consider which type of pension is right for your individual circumstances and always seek professional financial advice.

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Contributing to a UK pension while living abroad

As a British expat you can generally continue contributing to your UK pension scheme while living abroad, for up to a maximum of six tax years. This includes any personal pensions, workplace pensions, and the State Pension.

However, the rules and regulations surrounding contributions and tax treatments may vary depending your country of residence and the specific pension scheme in question.

It's important to carefully review the rules and regulations related to pension contributions and withdrawals and seek professional financial advice to ensure you're complying with all applicable laws and regulations. This can help to avoid potential issues such as double taxation or penalties.

It's also worth noting that some UK pension schemes may have specific rules or limitations on contributions from non-UK residents. It's important to carefully review the terms and conditions of your pension scheme and seek professional advice on your personal circumstances.

If you are receiving pension income while living overseas, check if a double tax treaty exists and covers this. You can elect to not have UK tax deducted at source from your pension if you live abroad, but you will need to pay tax locally. You should be mindful of having to pay tax twice on your pension income, if no double tax treaty is in place.

03

Contributing to a UK pension while living abroad *(cont)*

Top tips when pension planning overseas

Maintain the level of pension savings you were making as a minimum (not necessarily through the existing pension). As a general rule, you should aim to save at least 20% of your income towards your short, medium and long-term goals.

Ensure any investment strategy considers both your present and future tax position, where possible.

Make sure the new savings for retirement are flexible. This might seem simple but being an expat means you could return to the UK or move to another country at relatively short notice. Always make sure there are no tie-in periods, so you can access your funds with no penalty.

Continue to pay National Insurance contributions to accrue the necessary qualifying years for your UK State Pension.

If you already have a Defined Contribution pension, you can continue paying into it during the tax year in which you leave and for up to five tax years after. The limit if you have no taxable earned income in the UK is £3,600 gross (costing you £2,880 net with 20% income tax relief). If you continue to have earned income and pay tax on it in the UK, then you may have higher contribution amounts.

When your circumstances change, make sure you speak with a qualified adviser, to ensure there is nothing you have missed. Often finding out afterwards means it's too late to make any changes.

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Claiming tax relief

If you are a British expat your entitlement to UK tax relief will depend on your residency status and source of income.

To determine your residency status for tax purposes, HMRC will consider a range of factors including:

- Your ties to the UK
- The amount of time you spend in the UK
- The purpose and duration of your stay overseas

If you are deemed to be a non-resident, you may not be entitled to the same tax relief as a UK resident.

However, even if you are a non-resident, you may still be able to reclaim or offset tax on tax due or paid, such as donations to UK-registered charities, contributions to UK pension schemes, and expenses incurred while working in the UK. There may also be options to claim on the tax due on some investments.

It's important to note that the rules regarding tax relief for overseas residents can be complex, and may vary depending on your personal circumstances. Therefore, it's recommended that you seek professional advice to ensure that you are claiming all the tax relief that you are entitled to. You can contact HMRC or consult with a qualified tax professional for guidance.

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Expat pensions in action

Sarah and Russell Pearson moved from the UK to Dubai in May 2021 with the intention of remaining overseas for at least 10 years. Both were previously employed in the UK with good company pensions totalling £450,000.

After their move, each of them is able to contribute £3,600 gross every year into their existing pensions. This will only cost them £2,880 net each tax year and they can keep the payments running for up to six tax years, including the tax year in which they left.

Using this option means the Pearsons can continue to top up their pensions and each enjoy 20% tax relief on contributions, boosting their pension pots. Their contributions began in 2022/2023 and have been set up to run until the 2026/27 tax year. They will also continue to make National Insurance contributions to ensure they meet the qualifying years needed to achieve their maximum UK state pensions.

By adding money in this way both Sarah and Russell will boost their pension pots by £18,000, at a cost to each of them of £14,400. In short they will each enjoy an extra £3,600 at no cost to themselves. Their pensions will also grow tax free, and they will each be able to take 25% of their pension funds free of tax once they reach retirement age.

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Why is pension planning important?

Pension planning is an essential part of lifetime financial planning for several reasons:

1. Income security in retirement: your pension provides a source of income in retirement, helping to ensure that you can maintain your standard of living and cover your expenses.

2. Long-term planning: pensions are long-term investments that require careful planning and management. Starting to save for your pension early in your career can help you to build up a significant retirement fund. Leaving pension planning until later in life may limit your options.

3. Tax advantages: pension contributions benefit from up to 45% tax relief, which means that the money you contribute to your pension will be topped up by the UK government. Money inside a pension also grows free of Capital Gains and Income Tax, making it a more efficient vehicle in which to grow your investments.

4. Legacy planning: pensions sit outside of your estate for Inheritance Tax (IHT) purposes which means they can be passed onto your loved ones or beneficiaries completely free of this very high tax.

Make sure your beneficiary nomination forms are always kept up to date to ensure your pension assets pass to the right person in line with your wishes.

06
Why is pension planning important? *(cont)*

A pension means you can enjoy income and security in retirement. By setting up your pension as soon as you can and working with an expert, you can make the most of any tax advantages and other benefits, and build a solid foundation for your future financial security.

If your career plans mean that you move between companies, don't leave it until retirement to review your pension assets. A financial planning professional can review multiple pension pots, and help you decide whether to move, consolidate or retain them to make the most of the benefits.

Taking money out of your pension

It is usually rare, unnecessary and in some cases not possible to take money out of your pension before retirement. If you are considering withdrawing any funds, do consult a qualified financial planning professional for individual advice first.

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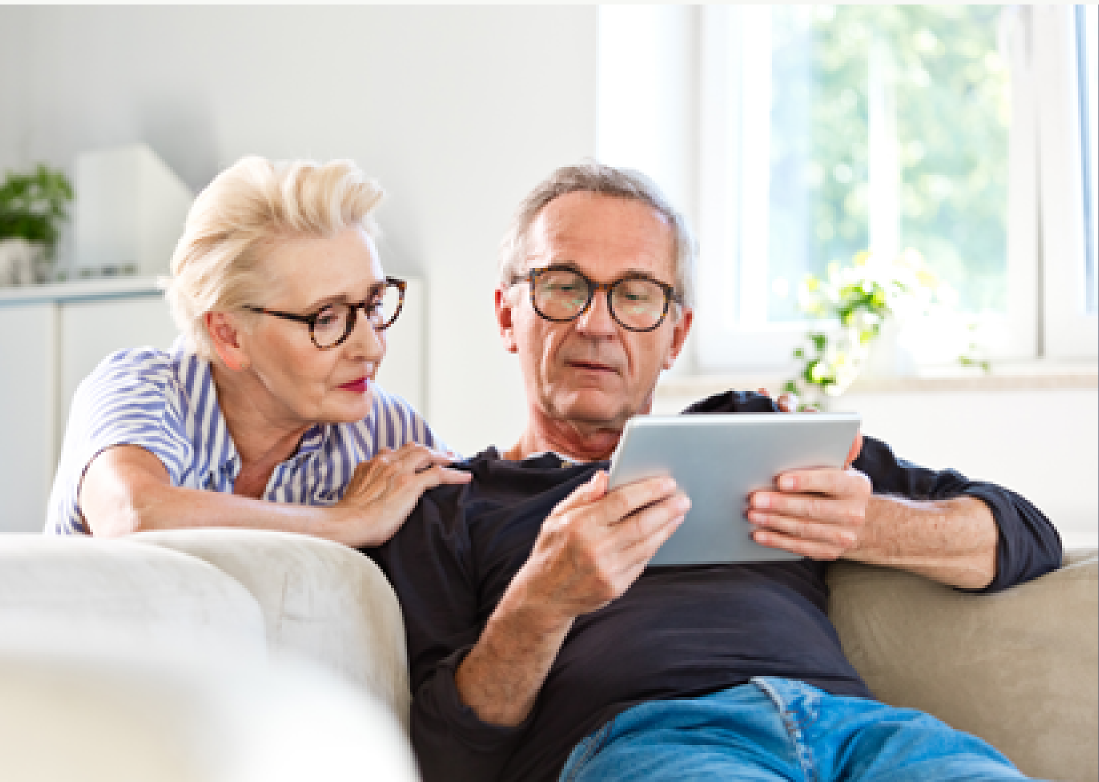
Saving for retirement without a pension

While many companies outside the UK will offer a workplace pension scheme, in some parts of the world, this might not be available. If you're in this position you may need to explore other options.

A qualified financial planning professional can work with you to review your current assets, UK pension plans, current circumstances and long-term goals. They can then create an investment portfolio that you can contribute to on a monthly basis in place of pension contributions. This option can be used not only while you are living abroad but throughout your life - even if you were to return to the UK or move to another part of the world.

It's also worth being wary of schemes which have lock-in periods and exit penalties; these options may not offer you the right level of flexibility in the future.

How and when are you going to achieve your financial freedom? Our financial planning experts are here to help, wherever you are in the world.



08
Pension planning before moving abroad

If you're planning a move abroad, it's important to consider the implications for your UK pension. Here are some key questions to consider:

What type of pension do you have?

Understand whether you have a Defined Contribution or Defined Benefit pension. Defined Contribution schemes are easier to manage from abroad, as you can usually continue to contribute and manage your investments online. Defined Benefit schemes can be more complicated.

How old are you?

Depending on your age, you may have different options available for accessing your pension. If you're under 55, you are unlikely to be able to access your pension at all. When you reach 55, you can currently access your pension by taking income and/or a lump sum. Regardless of your age you may be able to transfer your pension to an overseas scheme or consolidate your pensions, but you'll need to consider the tax implications and consult a qualified financial planning professional to determine if this is the right decision.

What tax will you pay?

Moving abroad can have significant tax implications for your UK pension. You may need to pay tax in both the UK and your new country of residence, depending on the tax laws in both countries. You should seek professional advice on the tax implications of moving your pension abroad and if this is the right course of action for your personal circumstances.

08
Pension planning before moving abroad *(cont)*

Do you need to think about currency exchange?

You should consider the impact of currency exchange rates on your pension payments. Fluctuations in exchange rates can affect the amount of contribution you make or income you receive.

What rules does your pension have?

Check the rules of your pension scheme to see if there are any restrictions on moving your pension abroad. Some schemes may require you to take professional financial advice or obtain a transfer value analysis before making any moves.

It is important to seek professional advice before making any decisions, to ensure that you are fully aware of the options available to you and the potential risks and benefits.

09
What next?

Overall, moving abroad as an expat can have significant implications for your UK pension. Dealing with expat pensions can be complex, especially if you're also trying to relocate your career, family and life overseas.

Our team of financial planners have many years of experience in dealing with expat pensions, tax and retirement planning, and are here to help.

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