SKYBOUND
WEALTH MANAGEMENT

UK Pensions & Retirement Review 2022

Review Your UK Pension Schemes & Plan For Retirement

Plan Today For A Brighter Tomorrow

Many of our clients have old, frozen UK pensions which they intend to review but simply never get around to doing so. Often information is lost, or the thought of spending 30 minutes listening to automated telephone switchboards is enough to end a search before it ever began.

Specialist International Pension Support

No matter how big or how small your UK pension, Skybound is here to help you get your finances in order. From tracking down your pension and speaking to your Administrators on your behalf, Our UK qualified advisers and specialist pension support division can help you negotiate the minefield of small print and help you to understand just exactly how your pension is performing.

There are various types of pensions, each with numerous names or technical terms but in simple terms; whether you have a defined benefit pension, often referred to as a final salary scheme, a defined contribution or a 'workplace' or 'private' pension, it's likely the biggest part of your retirement plan. And for that reason alone, it's vital that you keep on top of its performance.

Defined Benefit Pensions

A Once In A Lifetime Opportunity?

Transferring your final salary pension isn't a new choice, it is however, an option that is often not discussed with scheme members and the general opinion historically has been that you are better to remain in a scheme.

In the UK, a final salary pension scheme was traditionally seen as the best type of pension scheme to have, so revered, it was often referred to as a 'gold plated' pension. Unfortunately, as the pension and economic landscape has developed in recent years, they may no longer represent a safe bet for retirement and a growing number of schemes have closed their doors to new members.

One in six private sector final salary schemes are at serious risk, with many representing an unwanted black hole on the company balance sheet.

There Are A Number Of Factors Making Transferring An Option You May Consider

Inflated transfer values

Firms are actively trying to de-risk their liabilities by incentivising members to transfer their pensions. This is typically in the form of either a cash payment or an increase in the transfer value on the condition that those benefits are transferred out to another pension arrangement. With so much uncertainty in the markets, investors seeking safe havens for their money poured into government backed bonds traditionally seen as low risk investments.

Brexit and the Bank of England holding interest rates has meant the expectation of yields remaining low for longer has increased.

As a result, Cash Equivalent Transfer Values (CETV) for final salary schemes have hit new highs. When calculating a CETV, the most important investment return factor used by a scheme actuary is the risk-free investment return based on UK gilt yields which are currently at a record low level.

Companies Encouraging Transfers

Final salary schemes represent a vast black hole on the balance sheets of countless businesses. Even though the employer would most likely have to take a hit in terms of initial costs, offloading their pension commitments takes away any long-term liability and risk presented to the future of their company.

You can choose to transfer away from a final salary scheme if you are still working for the employer and although this is less common, some companies are actively incentivising members with cash payments or salary enhancements offered in return for members agreeing to surrender their final salary benefits.

UK Pension Reforms

In 2015 the UK Pension System changes announced by then Chancellor George Osborne came into effect, meaning that anyone with a final salary scheme had the option to transfer out of their scheme to benefit from greater investment freedom upon reaching 55.

What Is A CETV?

This is essentially the cash value placed on a person's future pension benefits if they were to move to a different plan and surrender any further rights they would be entitled to. The cash value represents a lump sum that would be paid in lieu of those benefits and is determined by how much would be needed in today's money to ensure those benefits were provided at retirement.

UK Gilts (Government Bonds)

The Pound

The pound has recently been buoyed by an efficient vaccine rollout across the UK and the markets see the UK economy moving out of the COVID-19 restrictions faster than other nations.

The strong pound and positive growth forecasts have led to the largest rise in Government bond yields since 2016.

Chris Turner, the global head of markets at ING, has said “(The pound) continues to reap the dividends of a successful vaccine roll-out and momentum is building towards a reopening of the economy”.

If bond yields continue to strengthen, then the transfer value of your pension may be affected. If you are thinking of moving your pension, particularly if you live overseas, then it would be preferable to obtain a CETV before bond yields strengthen further.

Once you have your CETV, it is guaranteed and valid for three months. During this period, you have time to consider whether you wish to proceed with a transfer.

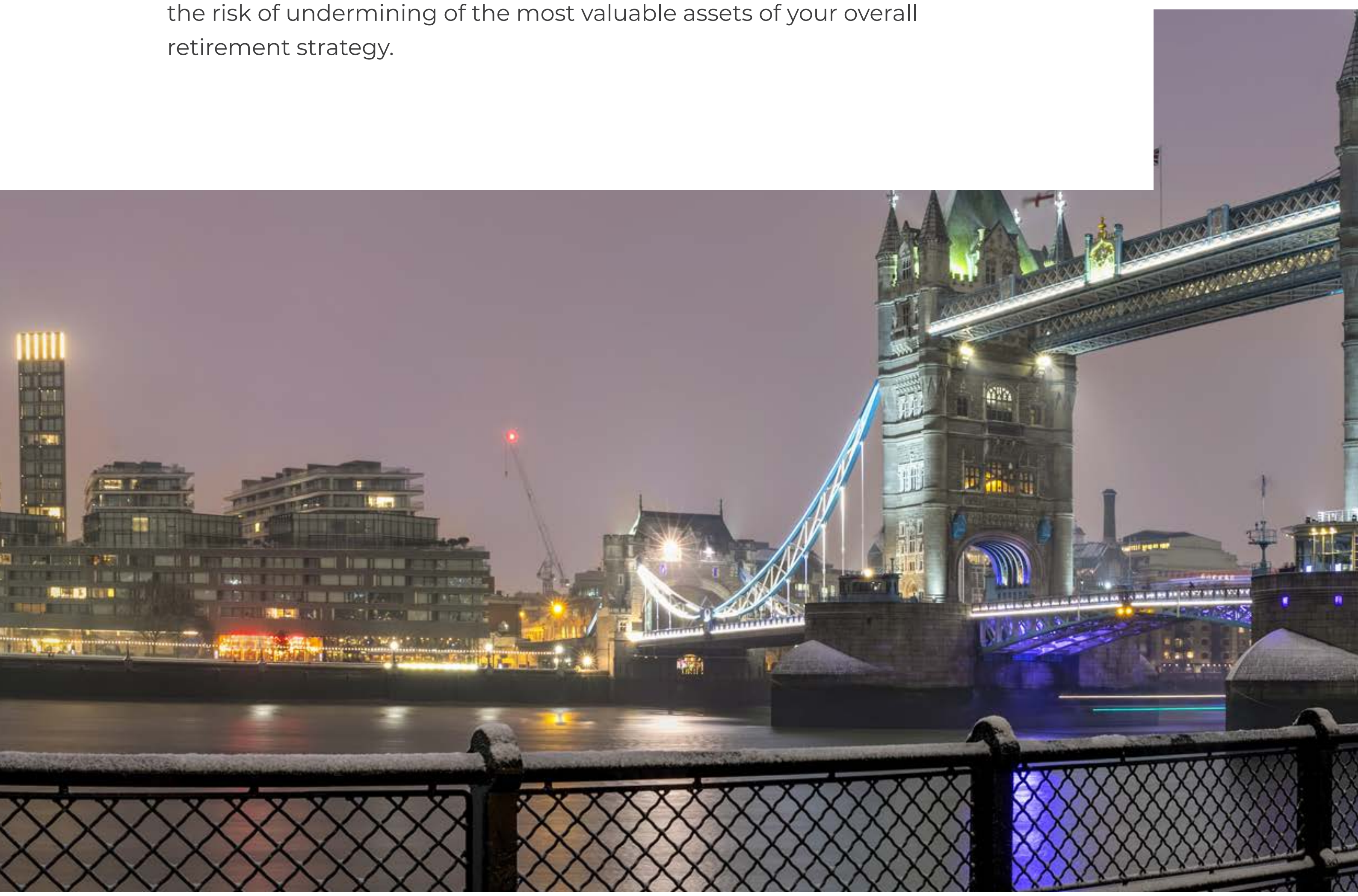
Workplace Pension Review

Your Pension May Be At Odds With Your Aspirations

While the number of active Defined Benefit pension schemes has decreased in recent years, Defined Contribution pensions in the workplace have become more common, especially following the UK Government auto enrolment scheme in 2017.

In an attempt to cover all bases and provide a scheme that is suitable to all, most workplace pension schemes opt for the 'catch all' approach. However, with something as important as a pension it's only to be expected that the priorities of a director approaching retirement age will be markedly different than the needs of a second-year associate.

In fact, its more often the case that your pension will be at odds with your aspirations and by choosing to ignore this, you could be running the risk of undermining of the most valuable assets of your overall retirement strategy.



Regularly Review All Your Investments

As a rule, it's always good practice to be proactive and regularly review all your investments. And as an expatriate there are a number of additional opportunities afforded to you because of your international status. In this guide we will take a look at some of the things to consider if you hold a UK work based pension but with something as important as your future at stake, it's always a good idea to speak to a professional who can give specific advice tailored to your individual circumstances.

Workplace Pension Review

Asset Allocation

As mentioned previously, and perhaps the strongest reason to review your workplace pension is how your money is invested compared to your attitude to risk and long-term goals. Most of the time, investments will not have been selected following analysis of an Attitude to Risk Questionnaire or consideration of their capacity for loss. Even if it has, it is likely to be out of date as workplace pension asset allocations tend not to be reviewed after the initial set up stage.

Investment Performance

An occupational scheme will usually have a limited number of funds available to their members. This is often more cost effective, and it's makes it much easier to manage. However, limited investment options can limit potential investment growth. At Skybound, our in-house investment team are constantly monitoring funds and looking for ways to maximise performance right through to your retirement.

Pension Functionality

Some older schemes have not adapted their structure following 'The Pension Freedoms Act 2015.' As a result, the scheme may not allow for Flexi-Access Drawdown and instead, the member may have to enter the less flexible Capped Drawdown, or in some cases the only option may be to purchase an annuity.

Consolidation

With the average person having 12 jobs in their working life, it's likely that if you are reading this you will have more than one UK pension. And if you are managing numerous schemes it can be difficult and time consuming. Consolidating all your plans into one place makes retirement planning much more manageable.

Furthermore, upon consolidation, beneficiaries of the plan can be nominated which would ensure a smooth transfer of funds should the worst happen. What's more, the beneficiary would only be dealing with one scheme as oppose to numerous different schemes.

Currency

If you have no intention of ever returning to the UK, holding your funds in sterling and having to transfer into another currency can prove to be incredibly costly. The fall in sterling following the Brexit referendum has left pensioners living outside of the UK vulnerable.

Having the ability to hold multiple currencies within your pension gives you more control to decide how and when to switch currencies, and removes some of the vulnerability placed on expats since the fall in sterling that followed the UK's decision to leave the EU.

Investment Control

A UK scheme will typically be invested in sterling and UK based assets, by transferring away from your existing arrangement you are able to choose the location and which currencies to use for your investment, both of which can be a valuable benefit to international workers seeking to achieve a greater return on their investment.

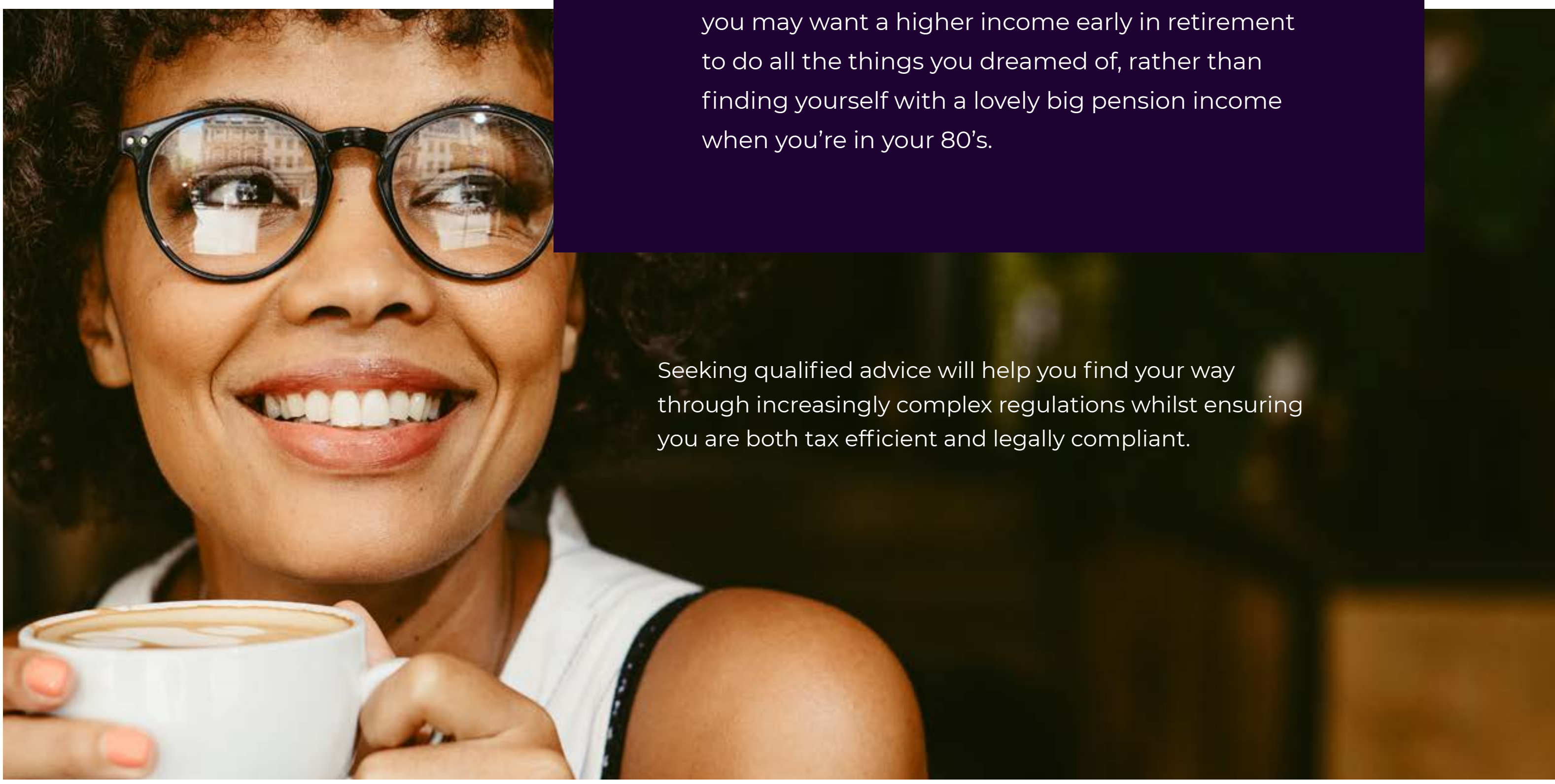
Improve Tax Efficiency

By transferring your pension offshore, your wealth becomes subject to a lifetime allowance test based on the value at that time. This could be advantageous if your retirement fund looks likely to exceed £1,073,100 (Pension Lifetime Allowance) in the future as otherwise you will pay tax on anything above that amount.

What's the difference between a private pension and my final salary plan?

A final salary plan is structured in advance, the benefits are pre-defined and rigid. While this sort of policy is structured and secure, it cannot adapt to your changing circumstances and requirements. For some, an increasing income for life is most appealing, but there is more to consider.

- UK taxation, deducted at source from your final salary income
- Death benefits
- Are you aware of the rules around Inheritance Tax?
- Flexibility over income
- The need for lump sums for one-off purchases
- The potential for investment growth beyond inflationary increases
- Control – over investments and costs
- The ability to structure your own income benefits, you may want a higher income early in retirement to do all the things you dreamed of, rather than finding yourself with a lovely big pension income when you're in your 80's.



Seeking qualified advice will help you find your way through increasingly complex regulations whilst ensuring you are both tax efficient and legally compliant.

So, What Are My Options?

Contrary to what some might say, QROPS is not the be all and end all for UK expats when planning for retirement. Indeed, with the changes announced by then UK Chancellor Philip Hammond in 2017, the instances when a QROPS is suitable have considerably reduced. Depending on your circumstances and retirement goals, solutions such as a SIPP or a regular savings plan may be more suitable.

What Is A SIPP?

A Self-invested personal pension is effectively a straightforward UK-based private pension plan that allows you, with the help of your financial planner to invest in a wide range of products to build a pension that suits your attitude to risk and long term financial goals.

A SIPP is simply a pension ‘wrapper’, your financial planner acts as the SIPP administrator to ensure the pension structure you require is in place, and that your plan adheres to all of the UK’s rules and regulations surrounding pensions and retirement planning.

What Do We Mean By A Pension Wrapper?

A wrapper is the name given to tax friendly investment products. With a Pension, this affords you a tax rebate on your income in return for restricted access to your funds i.e. until your 55th birthday.

Within your ‘pension wrapper’ you can invest in a wide range of opportunities, and design your pension plan to best suit you, both leading up to and through your retirement.

SIPP Key Points

- Is a UK based plan, subject to all the benefits and drawbacks of UK legislation
- Is fully UK friendly, and will continue to function for you whether you are UK resident or living overseas
- Can invest in a wide range of opportunities including commercial property and land, direct company shares and has access to thousands of investment funds
- Upon taking income, it may be taxed in the UK. However, double taxation agreements may be in place which can benefit you depending on your country of residence at retirement

Can be better for those -

- Retiring in the UK or a jurisdiction with a double-taxation agreement*
- With total pension funds that are unlikely to exceed the lifetime allowance which currently stands at £1,073,100

Dispelling The Myths

Your future is in your hands.

“It’s too late”

It’s not! Even those who have already stopped working may find it useful to take stock of their pension plans and find out how to make them work for the best now, and for the future.

“You can’t trust pensions!”

Private pension plans are simply savings schemes treated differently by law, offering additional benefits and tax efficiency whilst keeping to certain rules and limits. The only reason you may have heard a ‘bad news’ story about private pensions will likely be related to poor investment performance. When we review your pensions we concentrate on two key areas; ensuring your investment strategy is fitting to your circumstances and attitude to investment risk then, reviewing the costs within your pension to ensure you aren’t paying too much (This can itself inhibit growth)

It is never too late to take stock of your pension and make sure you can live the lifestyle you want to live in the future. Your future is in your hands.

"I can't afford to save"

The trick to retirement planning is to start saving as soon as possible. A fund with 40 years to grow is more beneficial than one you create the year before you retire with no time to grow. Save what you can as soon as you can.

"The state will provide for me, I've paid taxes all my life"

The state pension is a popular toy for politicians, these days it is most commonly used for government spending cuts. It is only within the last few years that it was announced the age women can claim their state pension will eventually move to 68.

In addition, the required number of years' national insurance contribution (NIC) has shifted from 30 to 35 years'. While the flat rate pension has been much-talked about as a benefit, it is not as simple as you would first think; there are many complex adjustments according to your NICs contributions over the years. It is highly likely that such a large cost to the government will be cut further as recent rumours include making state pensions means tested and reducing the annual inflationary increase

"My business is my pension"

This is a common but dangerous statement. Even those with the most successful business, the most brilliant successors and the perfect partners can find themselves in turmoil at retirement.

Will you sell? Will you continue to claim dividends? Will you remain a decision maker or depend on the strategy of new owners? How will you extract your cash?

By adding a proper retirement plan to your portfolio, you will be providing yourself with a backbone to your retirement, even if your business will supplement this.

Talk to us about some of the ways pensions can support and protect your business and its assets. Did you realise that many private pensions can purchase a commercial property? This could allow your business to sell the property to your pension plan, meaning it collects rent from your business and grows in value, while protecting the property from creditors ensuring your financial security

"My house is my pension, I'll downsize at retirement"

It seems strange that many rely on releasing funds from their property in order to fund their retirement. You may justify it in your mind that the children have left and you don't really need all that space, but would you really want to get rid of something you've worked for all your life?

Chances are you will have developed and cherished your home, so why should you abandon it when you finally have the time to enjoy it? The property market can be fickle, it's hard to rely on one single asset to supplement your income, perhaps downsizing should be a consideration if your health deteriorates and you struggle with the upkeep. For your first ten years of retirement when you're still fit and active, you surely should enjoy the fruits of your labour.

How Can We Help You?

We help clients arrange their affairs to best position themselves for their future, and support them along the way. We are here for you up to and throughout your retirement. Any financial adviser will admit that the hardest conversation to have with a new client comes when we audit their pensions and find that they need to make serious cutbacks or cancel their grand plans for retirement.

Specialist International Pension Support

No matter how big or how small your UK pension, Skybound's dedicated Pensions Division is here to help you get your finances in order. From tracking down your pension and speaking to your Administrators on your behalf, Our specialist team can conduct your UK pension review and help you negotiate the minefield of small print and help you to understand just exactly how your pension is performing.

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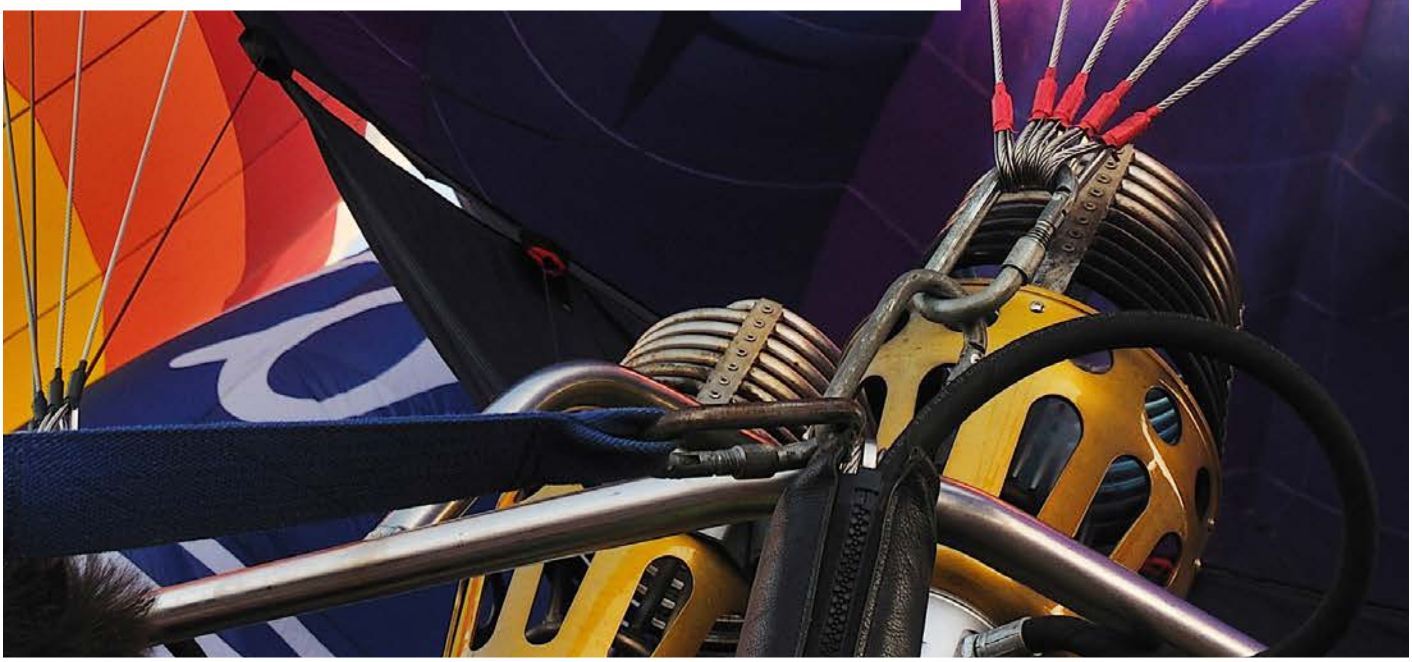

Ongoing Advice

As a Skybound Wealth Management client, you will receive regular reviews of your policy. The findings of each review allow us to adapt your financial plans should you have a change in circumstances, such as relocation, inheritance, or any changes to your long-term goals an investment strategy.

Skybound is part of a group of several organisations, each of which is regulated in the respective jurisdictions where they are based. With specialist product divisions covering matters such as Pensions, Repatriation and Investments, and specialist teams dedicated to assisting international workers from nations such as the UK, US, South Africa and Australia, we are perfectly placed to help you wherever your expat journey may take you.

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Securing Your Future.

Wherever You Are Today.

We exist to educate and guide you through the important decisions required today, to ensure you benefit from the freedom of tomorrow.

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