



# UK Pension Update 2023

A Guide For Expats  
Living Overseas

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**A UK pension transfer isn't a new choice, it is however an option that is often not discussed between client and advisor. However, for a number of reasons, many international workers with a UK pension are now considering this option in the search for greater investment freedom.**

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.

It is often said that retirement can be either the longest holiday of your life, or the longest period of unemployment. Your pension will most likely play a big part in which path you follow. Failing to make the most of your investments now can have a massive effect on whether you achieve your retirement goals.

When compiling this e-book, we asked some of our most experienced international financial planners for their take on the pros and cons of transferring, the current state of the UK pension market, and the unique options available to international workers. Of course, when it comes to something as important as your pension, it's not possible to cover all eventualities within a single e-book, so we would always recommend seeking the advice of a professional advisor.



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

## **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.



# The State Of Play In The UK

Whilst the UK may seem a million miles away at times, when the UK economy sneezes, often it's pensions that catch a cold. Since the EU referendum in 2016, it might seem like extra-ordinary events are now the norm. Brexit, a revolving door on both number 10 and 11 Downing Street, Russia – Ukraine conflict, and of course a global pandemic, have all had an effect on pensions and the UK economy in general. But it was the mini-budget of then Chancellor Kwasi Kwarteng in September that caused the most concern for UK pensions..

In the days that followed, the Pound took a hit and then less than a week later, The Bank of England claimed that pension funds were on the brink of collapse as the widespread sell-off that occurred on the stock market meant many funds suffered significant losses.

The bank implemented measures such as increasing liquidity in the financial system and working with other regulators to provide support to these pension funds and prevent a total collapse.

In a statement at the time, the Bank warned that the economic turmoil caused by the pandemic is not over yet and urged pension fund trustees to review their investment strategies and diversify their portfolios to mitigate the ongoing risk and volatility in the markets.

In the weeks that followed, new Prime Minister Rishi Sunak and his new administration have brought some stability back to the markets and focused on increasing investor confidence in the UK.





## Defined Benefit Pensions

In the UK, a Defined Benefit 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 all schemes have closed their doors to new members.

**Defined Benefit schemes do remain a great benefit for some people to hold. If any of the following points apply to you, transferring might not be the best route to take.**

- If you are looking for a low risk, guaranteed lifetime income and your existing pension will provide this
- If your employer has stated that transferring will result in a substantial reduction in the valuation of your benefits
- If you have a low attitude to risk and do not feel comfortable being invested in the markets
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In some cases, a Defined Benefit pension transfer is not possible. Public sector unfunded Defined Benefit scheme members are prohibited from transferring, and where an employee is within one year of their retirement age, it is left to the discretion of the trustees of the scheme.



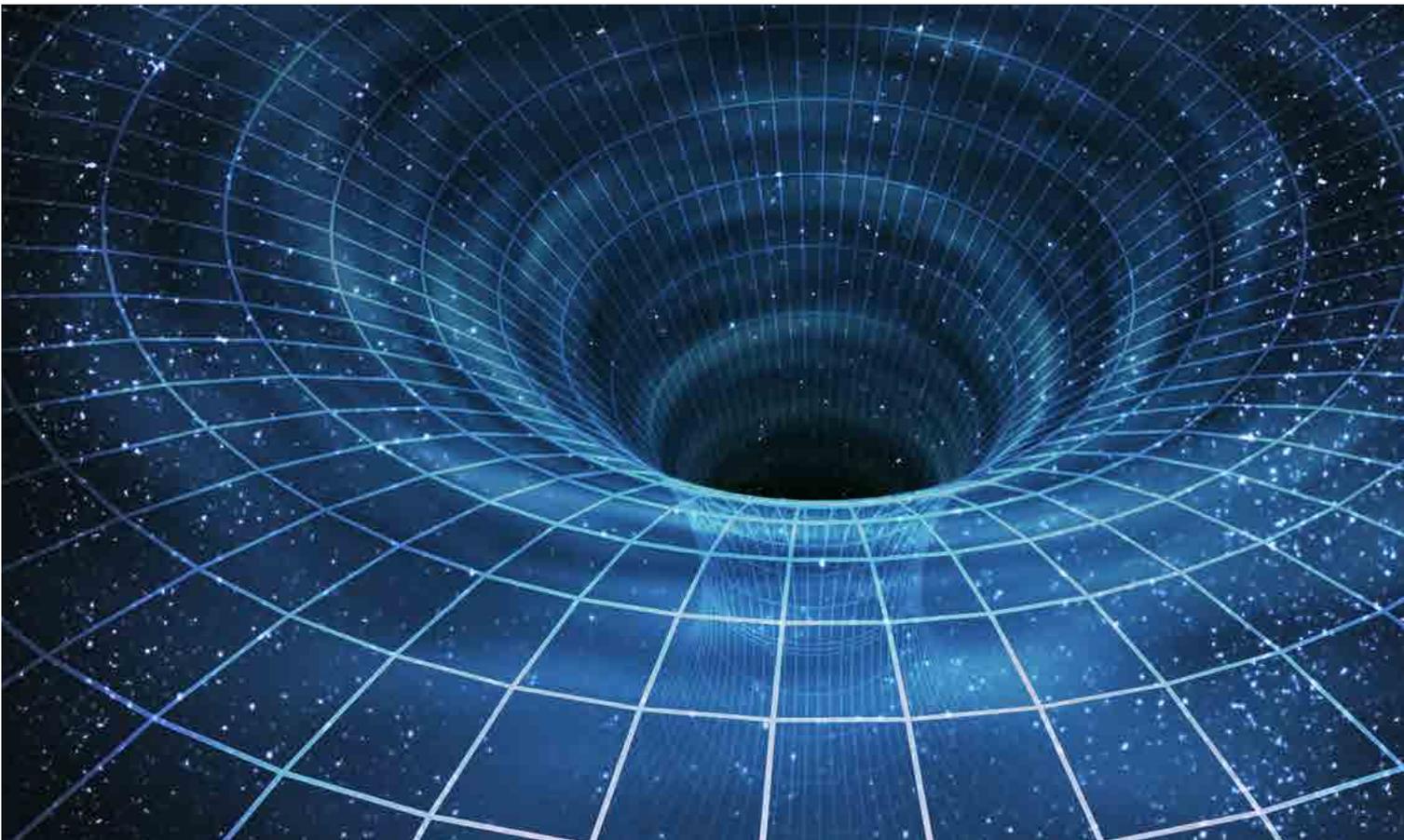
## Defined Benefit Pensions



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, it's 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.



## What Are The differences Between A Defined Benefit Pension And A Personal Pension?

### Personal Pension

### Defined Benefit



#### Access And Income Drawdown

With a personal pension you can control the amount you draw down. This can be beneficial in the earlier years of your retirement when you may be receiving other forms of income and it may prove tax efficient to draw a lower amount.

Upon reaching retirement age, a Defined Benefit pension will begin paying you an income that is guaranteed for life. While the amount will increase in line with inflation, once you start drawing your income you can't make any changes.



#### Investment Control

A personal pension allows you to choose the location, which currencies and different asset classes you invest in.

Your scheme will determine how the money within the scheme is invested and they will bear the investment risk.



#### Passing On Your Wealth

When you pass away, whoever you nominate as your beneficiary will receive 100% of your personal pension. You can nominate anyone you like as your beneficiary.

While a Defined Benefit pension in the same circumstances is often scheme specific. Typically 50% is passed onto your spouse, however some offer more, others offer less. Also, most schemes will offer some form of children's pension.



#### Currency

A personal pension can be structured to offer drawdown access in a range of major currencies meaning the risk of losing funds to fluctuating exchange rates can be mitigated.

The recipient of a Defined Benefit pension will always be paid in GBP into a UK bank account. For international residents this will mean transferring their income into an overseas bank account at which point you are at the mercy of exchange rates.



#### Lump Sum Draw Down

Since 2015, members of a personal pension scheme have been able to take up to 25% of their fund in tranches as a tax-free lump sum which can help mitigate against falling into a higher tax bracket. However, this only applies for UK tax residents.

Often lump sum withdrawals are available to members of Defined Benefit schemes in return for a reduced annual income. However, the terms differ from scheme to scheme.

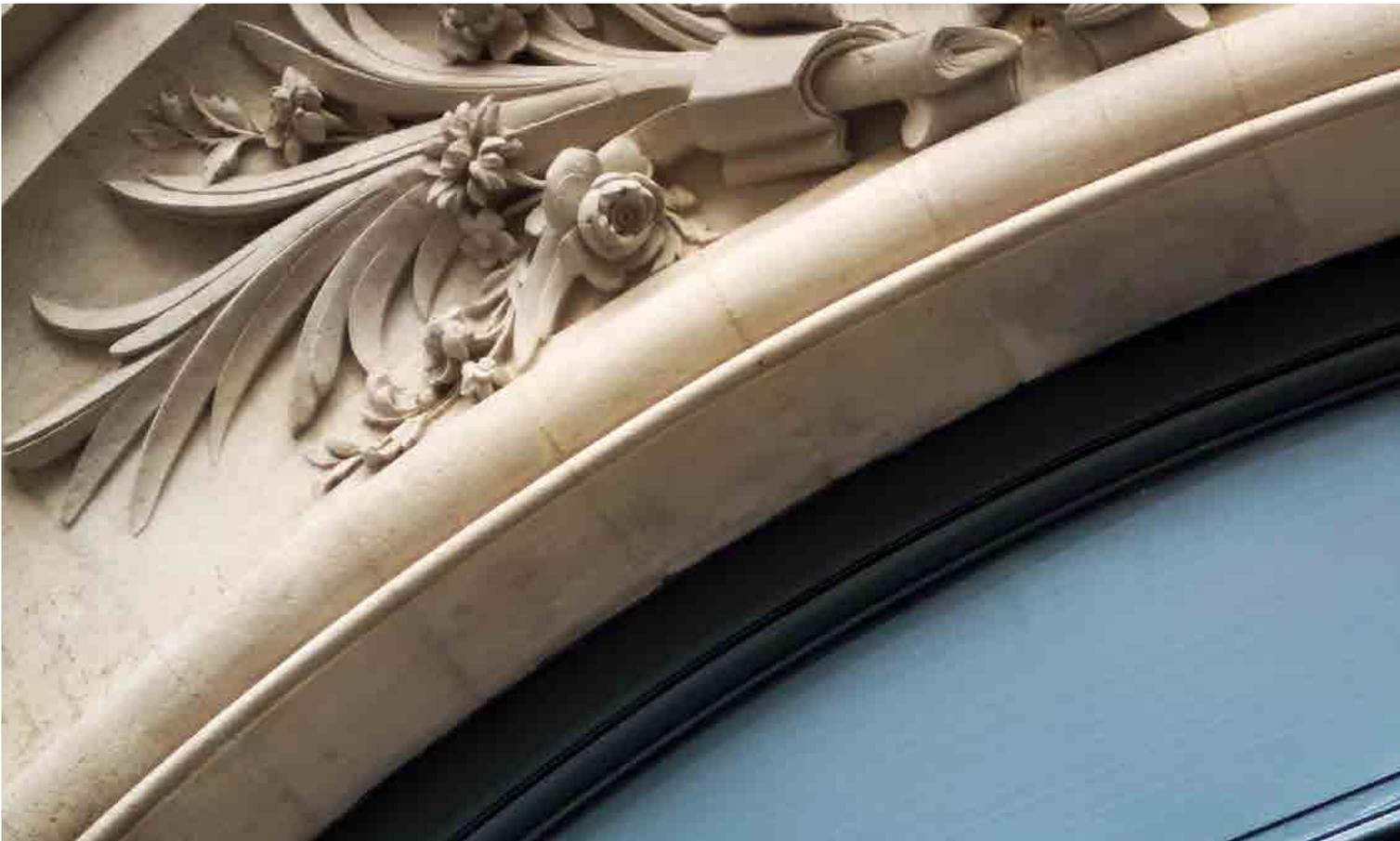


# If You Are Considering A Pension Transfer

**You are required by law to take qualified advice before any transfers above £30,000 can take place. Although with something as important as your retirement plans it could be argued that any transfer, regardless of size should only be completed after receiving advice.**

If you wish to establish whether a pension transfer is the right option for you, you must contact your scheme administrator in the first instance to request a transfer valuation quotation. You can do this yourself or via a financial advisor.

At this stage an offer will be calculated, known as a Cash Equivalent Transfer Value (CETV). Each offer is usually guaranteed for three months, which gives you a reasonable window to seek advice and explore your options. If for some reason your offer expires, you can request a new valuation but there is a possibility that you will incur a charge for this.



# Regularly Review All Your Investments

A financial actuary will take into account a range of factors such as; your age, the schemes retirement age, your marital status, the cost of living and current gilt values, and the pension transfer value index. When the index is high, higher transfer values are available, meaning you'll receive a higher offer should you choose to move your pension into another scheme.

## **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 Wealth, our in-house investment team are constantly monitoring funds and looking for ways to maximise performance up to, and through 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, 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 opposed 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**

By transferring your pension, 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.



## Understanding the Bigger Picture

### How Skybound Wealth Can Help

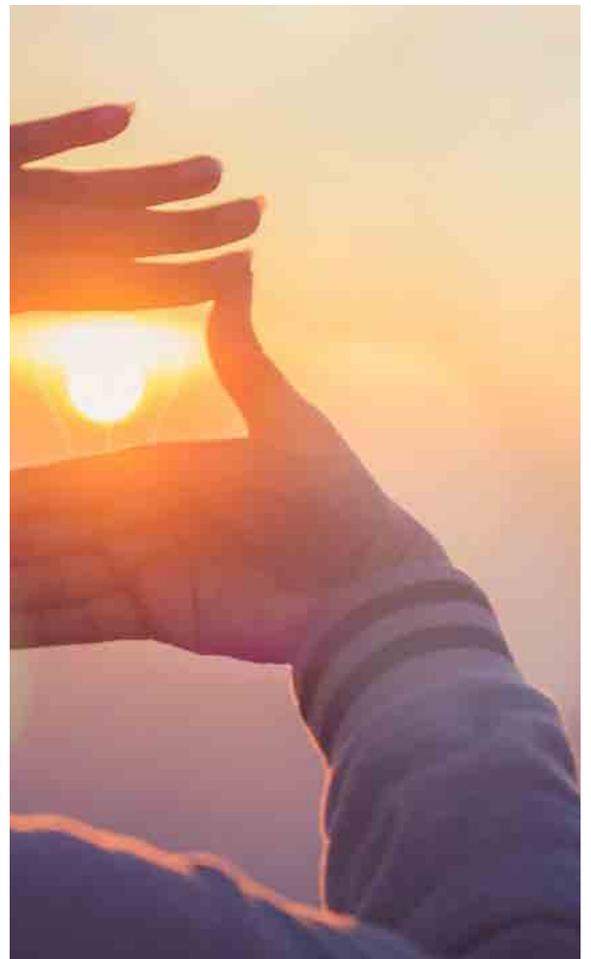
We know how dangerous generic advice is when your future is at stake so it's vitally important we understand your needs objectives and priorities before we talk through your options.

**Our advice will depend on the answers you give to the following questions:**

## Making the most of your journey

- What existing plans have you got in place? You may not need to change anything.
- Where do you live today, where may you move to before and through retirement?
- What is the total value of your pension plans?
- What are your circumstances – are you married? Do you have children? If not, do you plan to?
- How is your tax status affected by both the country you reside in and plan to retire in?
- What are your priorities? We need to ensure your priorities are met, even if at the expense of other potential benefits
- What does your investment risk profile look like?
- How long until you will retire? Do you want to work part time? Will you return to work?
- Do you need flexibility?
- Do you need a lump sum to pay off a mortgage or even buy that yacht?

With all of the above, plus any additional questions that may arise covered, we will build a picture of your overall financial planning and wealth.





### **Compare And Contrast**

The next stage is where we will provide a breakdown of all options available to you including income projections, tax benefits and an overall cashflow forecast based on your entire investment portfolio. It might be there are a number of options that appeal to you, rest assured our team of international wealth planning experts are on hand to answer any questions you may have at this time.



### **What Happens Next?**

No matter how big or how small your UK pension, Skybound Wealth'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 team can conduct your UK pension review and help you negotiate the minefield of small print, help you to understand just exactly how your pension is performing and explore the options available to you.

# What Our Clients Say...

At Skybound Wealth we are constantly asking our clients for feedback to enable us to gauge the service provide and identify ways we can improve.

With over 400 reviews rating Skybound Wealth 4 star or above on Trustpilot, here are some of our most recent reviews:

## Charles says...

The review was based on facts and statistics. Informed advice was given based on the review of my financial position, balancing the risks and benefits associated with my current and future financial position. Outlook of future investments with attractive returns was provided based on historical data.

## Bobby says...

Just had my review. Professional as always. Being able to meet online was a great help too, even if I do struggle with the modern technology, my advisor talked me through how to use Zoom!

## Anthony says...

Professional and efficient team based in UAE providing clear advice on investment structure and portfolio spread removing the headache from day-to-day management.

## Magdalena says...

Skybound Wealth Management financial advisors have been helping me for few years to manage my finances. They never go wrong with advice or switching the funds.

## Mandy says...

I continue to have good working relations with Skybound Wealth Management. The team is professional in responding to requests and also follows up to ensure action is taken timely. They are responsible, flexible and take into consideration the concerns of their clients.

## Ebix says...

My experience was very cordial, informative, and professional. I got the impression that I was dealing with a very knowledgeable and experienced individual. I am a very satisfied customer and cannot wait for the next review.



# Working Together For A Brighter Future

Through a combination of passion for what we do, a desire to innovate and our ambition to define the future of the offshore wealth advice industry, Skybound Wealth Management exists to guide you through the important financial decisions required today, to ensure you benefit from the freedom of tomorrow.

## Award winning international financial planning advice from Skybound Wealth Management.

In the words of International Adviser, "Skybound Wealth is an established business with an impressive track record, impressive plans, extensive regulations a great strategy and all-round client focus."

Skybound Wealth received seven awards across three jurisdictions, which recognise the efforts of every member of the Skybound family.

## Our International Adviser Awards 2022



## Our International Advisor Awards 2021



Skybound Wealth Management is a signatory of the United Nations Principles for Responsible Investing (PRI).

As signatories, Skybound Wealth commits to upholding PRI principles that aim to develop a more sustainable global financial system. Part of how we do this is by integrating ESG considerations into our investment portfolios.

Signatory of:



HENDERSON  
(NEVADA)

MIAMI

LONDON

SHEFFIELD

GENEVA

ABU DHABI

DUBAI

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WEALTH MANAGEMENT