PLAN FIRST

WEALTH

UK PENSIONS AS A US RESIDENT

A FINANCIAL GUIDE

MAXIMISE THE OPPORTUNITY.
AVOID THE PITFALLS.
LIVE YOUR GREAT LIFE.

As an expatriate living in the USA with one or more UK pensions you may be wondering what your options are and what you should be considering. In this guide, we will give you a high-level introduction to the topic by hitting on some of the main issues.

We are not tax advisors, although, in our line of work it is inevitable that we will touch upon the subject briefly. We advise that you seek a professional opinion before acting. Pension advice – especially final salary transfer advice – is a hugely complex and personal matter and we only discuss it at a high level in this guide.

So if anything piques your interest and you'd like to know more, please **get in touch.** →

THIS GUIDE IS SPLIT INTO TWO PARTS

1. General Pension Considerations

2. Final Salary (also known as Defined Benefit) Pensions opinion, they should be avoided by US connected people.

UK PENSIONS

If you have one or more pensions in the UK, there are usually three options:

1. Leave them as they are

2. Move them into a SIPP (Self Invested Personal Pension)

3. Move them into a QROPS (Qualifying Recognised Overseas Pension Scheme)

For the purposes of this guide, we will be working on the assumption that leaving your pensions where they are is not the best option. Whether to transfer your pension is based on many factors including your personal circumstances.

In our experience, we find that our clients' legacy pensions are often expensive, inflexible and lack attractive investment options.

Furthermore, as of 2017, transfers into QROPS are unlikely to be attractive following the introduction of a 25% tax charge levied by the UK government on transfers from 9 March 2017. Until (if) this changes, we are unlikely to ever recommend a QROPS transfer for US residents.

That leaves a SIPP, or more specifically for US residents, a SIPP specifically designed for international members.

The potential reasons for moving your UK pensions into an international SIPP include:

1. CURRENCY OPTIONS

This is number one for a reason - UK pensions are generally locked into GBP. We've seen an enormous devaluing of GBP over the last few years – imagine if you were retired and some/most of your pension income was locked into GBP. By transferring your pensions into a SIPP set up for international members, you can switch between GBP and USD (or indeed many other currencies) and get your pension into the currency which best suits your future.

2. CONSOLIDATION

We see many clients with several "pots" of pension money all over the place with different insurers and no clear or coherent strategy. By amalgamating them into a SIPP you can get them all under one roof and pulled in the same direction.

3. COST

Whilst this depends on costs associated with your existing arrangement(s), it is possible that even after accounting for product and investment charges and advice (initial and ongoing) the cost of an international SIPP costs less than your existing arrangement(s) - older pensions in particular are often very expensive.

Even if that is not the case and an international SIPP is more expensive, once you consider the value of the ongoing advice, which may encompass more than simple investment management, and the additional features of an international SIPP (benefit taking, drawdown, multi currency etc) the small cost premium is relatively insignificant.

4. INVESTMENT OPTIONS

UK pensions are traditionally very basic wrappers – they may offer the ability to invest in a range of 10 – 200 funds, most of which are expensive, frequently proprietary and possibly with no passively managed low-cost options. SIPPs are open architecture, meaning we have access to a much broader range of investment options, including both active and passive options, and well known investment companies such as Vanguard and PIMCO.

5. OPTIONS UPON RETIREMENT

It is highly likely that your current pension(s) give you no options other than purchasing an annuity when you come to retire. Given that annuity rates have plummeted in the last few years, it is unlikely that you will want to buy a UK GBP annuity with your UK pension funds.

As a result, you will have to look at a more flexible and modern arrangement and, as a US resident, we often determine that an international SIPP is the most appropriate vehicle (this is especially true if you think you may retire outside the UK).

6. PROFESSIONAL MANAGEMENT (AND MORE)

By engaging a firm like Plan First Wealth to investigate your UK pensions and potentially transfer into and manage a SIPP for you, you will get not only UK pension/SIPP advice, but you will get access to all encompassing financial planning advice from a firm focused on the specific needs and nuances of people just like you – British expats living in America.

FINAL SALARY PENSION CONSIDERATIONS

A WORD ABOUT CETVS

A Cash Equivalent Transfer Value – or CETV - is the amount of cash that your final salary pension provider will offer you to give up your rights to an income stream from them. The resulting cash can then be transferred into another pension scheme.

For example, you can give up your right to £50,000 p.a. inflation adjusted income from your Final Salary pension scheme for a "cash equivalent" lump sum of, say, £1m, that must go into a registered and recognised pension vehicle, such as a SIPP. Once undertaken this process is irreversible and, although still in a pension wrapper, this capital value becomes a part of your estate.

SEVEN REASONS TO CONSIDER A FINAL SALARY PENSION TRANSFER:

1. PROVIDING FOR LOVED ONES

You may be able to turn your Final Salary pension into a significant family asset.

2. HIGH VALUES CAN REDUCE NEED TO TAKE RISK

CETVs are historically high and may reduce the need to take significant investment risk with the resulting SIPP to match or even surpass the income expected from your Final Salary pension.

3. MORE OPTIONS AND FLEXIBILITY

A transfer into a SIPP opens all the flexibilities and options that you don't have in a Final Salary pension. Choose when to start taking benefits without penalty (from age 55, or 57 if born after 1973) and how much to take. Have the option of taking the "Pension Commencement Lump Sum" (25% lump sum) and not be forced to start income payments immediately. If you need more – or less – income in any given year, you have that option.

4. AVAILABILITY OF LUMP SUM

25% PCLS (tax free – certainly in the UK, but needs discussing with a tax advisor in the US) from age 55/57 with no need to start drawing an income thereafter. Pay down your mortgage, buy a second home, put the kids through college – it's up to you.

5. TAKES AWAY LIFE EXPECTANCY GAMBLE

Capitalising your pension now removes the gamble that you will pass early and never receive a lot of the benefits expected. When you pass away with a Final Salary pension, 50% (usually – sometimes it's slightly more, sometimes slightly less) of the income you were receiving is passed to your spouse. If you have no spouse, your pension ceases to exist (although there is often a five-year guarantee period and provision for children in full time education). By capitalising your pension, you can pass it to your spouse in full – possibly tax free – and if you have no spouse (or upon their passing) you can leave what's remaining to your children (or any other beneficiary for that matter).

6. ABILITY TO BE MORE TAX EFFICIENT

By taking control over how, when and how much your draw from your pension there is usually the opportunity to be smarter regarding tax. For example, you can usually expect to enjoy a significantly higher tax free lump sum, and you can set and change income payments to keep you under the different bands, and/or draw more or less income depending on your other income in any given year.

7. CURRENCY OPTIONS

As mentioned earlier, your pension should be in the currency that you plan on retiring in. If a significant chunk of your retirement income is in a foreign currency, this is a risk to you. Only as recently as 2008 someone with a £50,000 (GBP) p.a. pension income was receiving nearly $100,000 (USD) p.a. In 2016, post the Brexit vote, this bottomed out at $61,000 (USD) – that is a very hard swing to manage and budget for.

Additional Considerations for Transferring your Defined Benefit Pension →

A Defined Benefit / Final Salary pension is a guaranteed, inflation linked income in retirement. No matter how attractive or generous a transfer value is you should never underestimate just how valuable this is, especially in an age when we are living longer and enjoying multi-decade retirements.

Similarly, a final salary pension is not your responsibility. The responsibility - most of the risks and all of the costs - rests entirely with the pension scheme (and the sponsoring employer). By taking advantage of a transfer value and leaving the final salary pension you are assuming all of this responsibility, all of the risks and all of the costs.

A SIPP could run dry one day, if mismanaged and/or if investments underperform or are poorly selected. A final salary pension will only stop when you die. Even if the scheme and/or employer goes bust there is a robust back up scheme (www.ppf.co.uk) that steps in to take over and guarantee much of the benefits (subject to certain limits).

HOW PLAN FIRST WEALTH CAN HELP.

Plan First Wealth is a US-based Registered Investment Advisor, specializing in cross-border retirement planning and investment management for successful British expats living in America.

WE ARE HERE TO HELP YOU

- Invest wisely and make good returns.
- Pay less tax and be tax compliant.
- Avoid the expat landmines.
- Organize and maximize your UK pensions.
- Organize and maximize your US retirement accounts.
- Live and retire in confidence with peace of mind.
- Do all of the above within the context of two countries, two tax jurisdictions, two currencies and two government pension systems.

WE INVITE YOU TO START SECURING YOUR RETIREMENT

1. Schedule a free consultation with us.
2. Tell us your goals, frustrations and concerns and we will tell you if we can help and how.
3. Become a PFW client and build a plan to secure your worry-free retirement. commissions, no revenue sharing, no hidden fees - no funny business!

Our fees are reasonable for the work and expertise involved and competitive in relation to the wider market.

Please contact us at info@planfirstwealth.com and/or +1.646.201.4865 to schedule a free consultation.

Alternatively, you can visit our website planfirstwealth.com and book a meeting with us directly there.

WHY CHOOSE PLAN FIRST WEALTH

We designed our Cross-Border Retirement Roadmap around British Expatriates living in America.

We use market leading technology to deliver on our proposition.

We have multi-currency investment solutions tailored around you.

We are a fiduciary (we put our clients' interests above our own).

We are fee-only advisors – no one pays us a penny but our clients! No commissions, no revenue sharing, no hidden fees - no funny business!

Our fees are reasonable for the work and expertise involved and competitive in relation to the wider market.