Financial Planning Week: Case Study #6

This couple are set to retire abroad, so what steps can they take before they emigrate to ensure their money is working its hardest for them?

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Case Study #6

Michael, via e-mail (contact details supplied):

"We are emigrating to Turkey: it's warm & sunny. We are taking the proceeds of the house less mortgage, old-age pensions for both, her defined benefit scheme, my four pensions (small RAC, larger RAC, SERPS minimum contribution in with profits (!) and occupational defined contribution). I expect to transfer all four schemes to two SIPPs: one for current drawdown and one for life assurance-style death benefit until age 75. I am 64 and she is 60--we are both in good health. We shall be travelling and using Australian travel insurance and local medical insurance in Turkey (where surgery is okay though there is limited care). Pensions in payment are free of Turkish tax. I expect to be non-resident for tax purposes Turkey & UK. I have my own unformed ideas for investment, three years expenditure in cash (part sterling, part Turkish lira), medical pot, three years expenditure in government bonds, FTSE 100/international equities aping Neil Woodford, and a more speculative portfolio in oil, mining and recovery stocks. One bed flat in UK (in case it all goes wrong); small house in southwest Turkey.

"What is the best way to consider cashing in her small final salary scheme, annual pension (not in payment) £2,000?"

The Answer

Craig Palfrey, Certified Financial Planner with the St James Partnership

" Congratulations on your decision to move to an exciting, warmer climate, good luck and I certainly hope it does not go wrong so that you do not need to use the UK flat. Also my thanks for such a comprehensive breakdown of your current position. It looks like you have already done a lot of research into your options, especially given your use of financial terminology (some may call it jargon) with terms such as RAC, SIPPS and drawdown.

"If I deal with your question first about the best way to access the funds from your wife's small final salary scheme, which may provide a pension of £2,000 per annum, forgive me if I have not understood the question correctly. The fact that the pension is not in payment means that you may have some options. You may be able to apply to the trustees of the pension scheme for something called a Cash Equivalent Transfer Value, which may allow you the option to convert the fund into a personal pension style arrangement and draw from the funds in a way that suits you, however I would strongly recommend that you seek specialist advice on this, as the giving up of a guaranteed pension income is not often recommended. Also, if your wife has passed the scheme's normal retirement age, or is within 12 months of that age, the trustees can refuse to allow a transfer.

"You cannot "cash in" the pension scheme unless your wife's total pension funds, i.e. her defined benefit/final salary scheme you refer to, totals less than 1% of the lifetime allowance. To put that in English, if the total values, based on some calculations that need to be done, are less than £17,500, then you can release the funds as a lump sum, of which 25% is tax free, the remainder is taxable as income.(This is referred to as triviality).

"You mention that you are considering transferring all of your pension schemes into SIPPs (Self Invested Personal Pensions) and that you are looking to utilise something called drawdown. I would strongly recommend that you seek specialist advice on this, as drawdown, or Unsecured Pension as it is now called, is a complicated and tricky area and has lots of advantages and disadvantages that need to be weighed up in line with your circumstances. A SIPP may not necessarily be the right vehicle for your funds, and, as with any investment vehicle, you need to make sure that within the SIPP wrapper you have a carefully managed portfolio that meets your investment and income goals, and it should be under constant review, ideally at least once a year, which may be difficult if you are residing in Turkey and not coming back to the UK on a regular basis.

"The other area where advice needs to be taken is around the RACs (Retirement Annuity Contracts) you refer to. These are very old personal pension plans and a lot of RACs were set up with guaranteed income benefits at retirement for the individuals concerned and, in most cases, these guaranteed amounts can be very beneficial to most people, especially when compared to the current annuity rates available on the market. In some cases, RACs also allow more than 25% Pension Commencement Lump Sum (Tax Free Cash) to be taken and transferring to another arrangement may reduce this if not done correctly. So before you move these contracts into a SIPP, or into drawdown, you may want to ask your current providers if there are any guaranteed benefits attached to these plans, and then seek advice on what is available in the market place for comparison.

"I would also suggest you gather more information on your SERPS (State Earnings Related Pension Scheme) pension before you arrange any transfer. I say this because you have mentioned that the monies are currently invested in a with-profits fund. With the current investment market turmoil, a lot of insurance company with-profit funds are applying something called a Market Value Reduction (MVR), which means that if you transfer your fund now there could be a large penalty applied to your fund and this would obviously reduce your benefits. With a lot of pension companies there can be MVR-free dates, which with a pension would normally be your normal retirement age, so if you are adamant that you want to transfer the fund somewhere else, you may want to time the transfer to coincide with the scheme retirement date.

"Your occupational defined contribution scheme may also have some valuable guaranteed benefits in the scheme that, again, I would recommend you seek advice on before deciding to transfer.

"A final area that may need to be considered for you, given that you are planning to live abroad, and feel that you will no longer be a UK resident, is something called QROPS (Qualifying Registered Overseas Pension Scheme). This is another very technical area, that you would need to seek advice on, but can have a number of benefits for people who have built up UK pension funds but decide to live abroad and draw from the pensions.

"I admire your investment ideas, again it would appear you have done a lot of research in this area and you know what you want. As a fellow Certified Financial Planner referred to in Case Study #2 on Tuesday, it is important to understand how to build a broadly diversified portfolio and to diversify your investments. You seem to have an understanding of this, but my interpretation of what you have said suggests that you will be purchasing equities directly. I would suggest that you reconsider this, if this is the case, and consider taking advice and building an investment portfolio using collective investment funds, which allow you to diversify your investment in any given area across a number of equity holdings, whilst allowing a fund manager the chance to actively manage the underlying assets on a daily basis. This can potentially relieve you of the stress of having to make investment decisions, but will certainly allow your investment to be more diversified than if you tried to buy individual equities yourself. A Financial Planner can help in this area by asking you some detailed questions about your investment timescales and attitude to investment risk.

"The final thing I would like to point out is that you should review your current Will provision. Although you are moving away from the UK, you are still likely to be UK domiciled, this means that on your death your assets will be dealt with under UK legislation. You will need to ensure your UK Will is up to date, and you may also need to have a Will drafted in Turkey so as not to cause any problems for your family as and when something happens to you. This is very important as there are different rules in different countries that dictate how properties in that country can be passed down to the next generation.

"To summarise, I certainly feel that you have an understanding of some of the solutions available in the market place, but I would certainly recommend that you seek advice from a suitably qualified Financial Planner, as your situation and needs are quite complex, and are likely to change over the coming years. You should also speak to a specialist tax adviser with knowledge of the UK taxation rules and Turkish taxation rules. Good luck with your new venture, I hope the above is of use."

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Holly Cook is Site Editor of Morningstar.co.uk and Hemscott.com. She would like to hear from you but cannot give financial advice. Authors can be reached via our Analyst Feedback interface.

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