Pension transfers are food for thought

SO, YOU'VE APPLIED TO move to Australia and maybe you've even received your visa. You little ripper! – says Darion Pohl of financial advisers Prism Xpat.

But what are your plans for your UK pension assets? The recipe is as follows:

1) Prepare the ingredients

Check your pension pantry. Many people don't realise that by having worked in the UK for a number of years, they could have more than four types of scheme in their pension basket.

As well as the traditional personal pensions and company pension schemes, Basic State Pension and the State Second Pension (previously known as the State Earnings Related Pension Scheme – SERPS) also exist.

Furthermore, on the back of the shelf, you may also discover benefits that exist in old employer schemes. These could be lost in the wash when you move country if you don't at least inform the schemes of a change of address.

The employers that you should be contacting are those for who you've worked for at least two years. A good financial adviser can help you track these down. For example, just three years in a good scheme could produce a bite-size pension of £1,000 per annum, possibly worth £15,000 as a transfer value!

2) The sifting process

You now have the ingredients that go into making up your pension – great. But wait! Can you actually transfer all of these schemes to Australia? The answer is 'possibly', providing that:

- your intention is to move there permanently;
- you will work there; and
- the pension payments haven't started.

You can't transfer contracted in UK State Pensions and will not be able to transfer your Basic State Pension entitlement. Instead you will need to contact the Inland Revenue and Department of Works and Pensions from retirement age to get these paid to you.

3) The mixing pot

The most difficult decision is yet to come. Is it actually in your best financial interests to get your pensions to Australia? Not necessarily – the chef needs to consider the following pro and con factors in the mixing pot:

The pros include...

- you could choose to take all your transferred benefits as a lump sum on retirement in Australia;
- you could end up paying much less tax. This applies to many UK funds, but mainly depends on the details of the scheme and your age. A pension or lump sum received from a UK scheme is taxable in Australia, but a transferred benefit gets treated as an 'undeducted contribution' in Australia;
- provided the pension transfer is completed within six months of you becoming an Australian resident, you have no further tax to pay on the transferred amount – just the growth gets taxed at Australia's concessional superannuation rates;
- your retirement benefits would be in the same currency as your living expenses; and
- you would have local control over your pension funds.

And the cons...

- it's possible you could pay more tax if investment returns are high and your marginal tax rate is low;
- you may be forfeiting generous bonuses, enhanced terms, death benefits or discretionary benefits;
- the Australian dollar may go down;
- there might be hefty transfer out penalties from the UK scheme, such as market value adjusters on with profits schemes;
- the charges on Australian schemes could be higher than on the UK scheme; and
- you could get a very low (or even a wrong) transfer value. For example, underfunded schemes may provide reduced transfer values until they recover. An expert can advise on this.

So, what's the verdict? Should a transfer be undertaken? It depends on the mixing process – the combination of each person's ingredients is likely to be different.

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Authorised UK pension advisers do part of this analysis as a matter of course. Why? Because in the UK, it is now illegal to advise people to transfer a pension without it (due to pension mis-selling advice between 1988 and 1994 by under-trained advisers).

It is important that any analysis also considers the factors from the Australian end – so you choose your chef wisely!

4) Setting the table

What now? Start preparing the ingredients once you have decided to emigrate. Then, select your chef.

This will allow maximum time for the sifting process to be undertaken and the mixing pot analysis done. Should the verdict be to transfer your funds to Australia, it will also mean that you can get many of the potential banana skins sorted out before you leave the UK and before the six-month Australian pension transfer window even opens.

Furthermore, most of the onerous leg-work (with regulators, employers and schemes in both the UK and Australia) can be completed prior to departure.

Then once implementation is finally complete, you will be able to enjoy the fruits of your labour, the main meal – a tasty pension or maximum after-tax lump sum in retirement. Bon Appetite!

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