

Managing your pension: be prepared

Managing your finances can be a tricky business at any time, but when you are emigrating to a new country things can be even more complicated. Financial specialist Darian Pohl unravels the business of organising your pension

OK THEN. You've finally decided you want to emigrate to Australia and the cards are being dealt in your favour.

Your visa seems to be coming up trumps and the family is convinced it's a great idea to go. It's all under control – you can do it!

Then, you begin to wonder how best to preserve your hard-earned capital on emigrating. Maybe you have just run out of time and decide to ring a cross-border financial specialist...

"Hello, pre-emigration financial specialist speaking. How can I help?"

While there are methods to minimise tax or maximise wealth across most of your financial assets, I will use a pension transfer purely to answer the question.

In transferring pensions to Australia, callers ask a number of questions time and time again.

These include the following.

Should I transfer my pensions to Australia?

The answer to this question is one which anyone but a specialist would have difficulty answering.

UK tax authorities will only provide information relating to the UK system and vice versa in Australia. Neither will take responsibility for any decision you make and neither will provide a recommendation on what you should do.

A UK-based cross-border specialist can provide you with information specific to your UK pension scheme and the dual impacts of both the UK and Australian systems in unison and will be prepared to recommend how to act based on your own individual circumstances.

Can I undertake a pension transfer myself?

There are a number of steps you should take.

Co-ordinate all paperwork required by the average of seven to eight parties involved in a standard cross border transfer. This can easily take over six weeks each, and hassles occur if information is omitted, prolonging the process and agony as the 'six month rule' approaches.

In co-ordinating everything, you will need to be aware of the different rules and



Arranging your pension in Australia can lead to stress-free days in years to come

requirements for transferring different types of schemes, and different components within the schemes. Without this knowledge you may miss out on certain benefits and be caught up by unnecessary paperwork.

In many cases you will have the enjoyable task of educating the front line of many schemes who do not deal with pension transfers to Australia on a daily basis. Without proper education, a request for transfer information can lie in the scheme administrator's 'too hard basket' for a good few months.

You may also not know if the transfer value is fair, and what quirks you may be missing out on by transferring out.

This was a main factor underlying the UK pension mis-selling review which occurred in the early 1990s and cost the financial services industry billions of pounds in liability.

Now, any transfer out of a final salary scheme should be verified by an independent third party.

Of course, you will also need to understand the UK and Australian pension tax systems to ensure you get maximum

benefit.

To top things off, you will have to undertake this work across two completely different timezones, and all in a certain order which is not easily apparent, as well as arranging the correct type of funds in Australia to accept the transfer.

And of course there is the six month rule.

Surely, a walk in the park. Especially when you have two tax systems to consider as well and nothing else at all to worry about on emigration. Think again.

Is a pension transfer financially beneficial for me?

After allowing for Australian taxation impacts, the financial benefit ranges from being as high as 48.5 per cent of your UK pension funds, or less than zero per cent (that is, not worth doing at all).

The following topics need consideration.

For money purchase type schemes, consider protected pension clauses, penalty adjustments on transfer and investment performance, retirement enhancements, ongoing death benefits, unit value charges and differences in the treatment of

protected rights components.

For final salary schemes, fairness is a key component. Whilst you may be able to obtain a transfer value quotation from your scheme, you will likely have no idea whether this is a fair value or not, as you do not know what your fund should actually be worth pre-transfer.

The transfer value is calculated by a scheme actuary who will likely quote you a conservative transfer value.

In all reality, if you were quoted a final salary transfer value of £30,000 would you actually know if it should really be worth £50,000?

Further determinants include the value of the following:

- ☐ Early retirement benefits (which may otherwise enable you to receive your pension earlier from the UK than if you were to draw it from Australia);
- ☐ Guaranteed increases provided by the scheme in deferment and in retirement;
- ☐ Spouses and dependants pensions;
- ☐ Ongoing death benefits provided by the scheme;
- ☐ Directors benefits.

Each of these are valuable benefits you could lose when your funds are transferred.

Allowance also needs to be made for scheme underfunding, discounting the value of your retirement benefits to the transfer date and allowing for your average life expectancy in retirement which could impact on any transfer value quoted.

So then, what should you do? The choice is yours. If you feel brave and can understand everything above, go for it. Otherwise, make a phone call and ask the questions. To save yourself the hassle, potential financial loss and to know that your situation is being properly looked after, seek professional advice from a UK-based cross-border specialist.

They can provide you with advice on your UK pensions and other assets, understands all the issues, are independent, regulated and have alliances in Australia to provide continuity of service after you emigrate.

Darian Pohl is an independent financial adviser (UK) at the Fellow of the Institute of Actuaries of Australia. Contact Prism Xpat on, Tel: 01235 204104; or Email: www.prismxpat.com