
# How do you plan a long-term successful retirement?

## Making your Retirement Plan

Putting you in control

# Who are we?

OpesFidelio is a network of international financial advisers and is a constituent part of the Aisa Group of companies. Your adviser is a member of OpesFidelio and has undergone due diligence requirements to join this prestigious network. Each year your adviser also takes ongoing CPD training and updates knowledge to ensure they provide you with ongoing best advice.

The OpesFidelio network is run and managed by Aisa International sro, an advisory firm that runs out of the Czech Republic, and it is from this regulated entity that OpesFidelio advisers acquire their licensing and passported rights to operate across the EEA. Apart from OpesFidelio, the Aisa Group incorporates several regulated firms and offices around the globe, offering an international service to the same high standards. Aisa was formed in the 1990s and the UK company has been a Chartered Financial Planning firm since 2011 and a member of the US SEC since 2013.


# What services do we provide?

**OpesFidelio advisers provide:**

- International financial planning advice for expats
- Tax outlines based on double tax treaties, and localised knowledge of taxes relevant to your jurisdiction
- Inheritance tax planning, as relevant to your tax jurisdiction
- Potential access to UK pension advice, including options of transfer (including options of SIPP and QROPS)
- An ongoing and award-winning investment service

Both the OpesFidelio network and Aisa companies have won several awards, including being been finalists on many occasions from case study responses or nominations.

# Accessing your pensions?

This guide is for those of you thinking of retiring in the next few years and is designed to assist you in your planning.

The first key question to ask yourself is:

# How do you plan a long-term successful retirement?

### Making your Retirement Plan

How would you feel if your pension income sometimes was lower this year than the year before or over time your retirement fund value reduced or became exhausted (exhausted means decrease to zero)

Unfortunately, this is what many retirees are facing because of a failure to plan properly.

### Ask yourself:

1. What income would cover your essential needs both now and in the future?
2. Is it important that these essential needs are covered by a guaranteed income?
3. Would a flexible income meet your needs better than a guaranteed income?

A little planning now can make a significant difference 10 years from now!

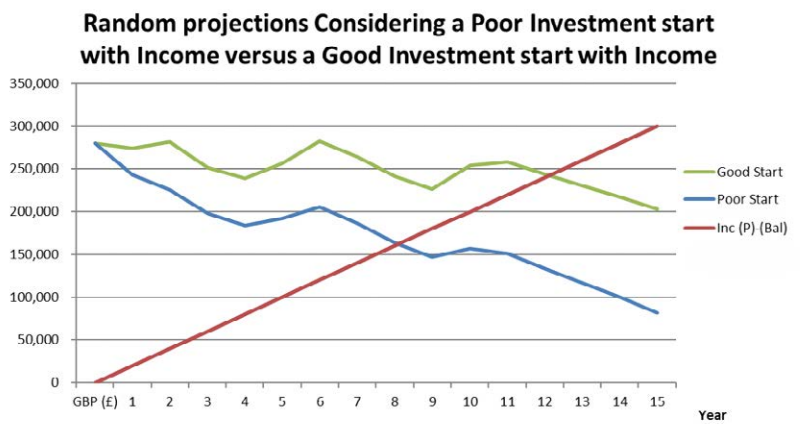
### What are your choices?

Take a guaranteed income from a final salary pension or a pension with a guaranteed annuity rate.

Take an open-market option to change pension provider to obtain a better annuity rate.

Transfer to a flexi-access drawdown pension.

Take uncrystallised pension fund lump sums on a regular basis.




*Assumptions are detailed on page 8.

For those living overseas and some high-net-worth clients, a Qualifying Overseas Pension Scheme (QROPS) may be considered.

# Key Questions for you to consider

- How important is it to you that any income increases throughout your retirement?
- What is the most tax efficient way for you and your spouse to retire?
- On death, do you want to leave any retirement funds for your spouse, partner or other generations?

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## Your Priorities

You can start your planning by understanding what your priorities are. Give it a try by numbering the options below from 1 (most important) to 7 (least important) so you understand your goals.

| | | |
|---|---|---|
| A | To be able to increase my pension at my realistic retirement age | |
| B | The security of my pension fund | |
| C | Control and flexibility of pension funds | |
| D | Provision for partner's and dependent's pension | |
| E | Lump sum benefits on my death before retirement | |
| F | Tax free cash lump sums at retirement | |
| G | The ability to retire early | |

Once you have identified your priorities, you then need to consider your needs for your whole retirement which could be as long as the period you have worked.

## Questions you should ask of yourself

### Certainty of income in retirement versus flexibility

Fixed expenditure (e.g. household bills, food, transport)
Desired expenditure (e.g. leisure and holidays)
How important is it to you that you have a guaranteed increasing level of income throughout your retirement?
Will income flexibility support your retirement goals?

### Importance of benefits in meeting expenditure

How do you plan to meet your total income requirements in retirement? (consider other pensions or investments you hold that you could rely on in retirement)

### Security of pension funds

Would you consider giving up an underpinned guaranteed income (and benefits) perhaps with escalation in payment? If yes, what would make you give up guarantees?
Is it a problem if your pension fluctuates in value (up and down) each year? **Be honest and consider whether you would save money in the good years and be able to spend less in the bad years?**

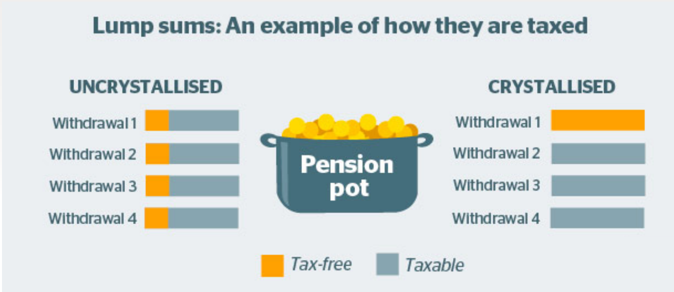
### Death benefits

Upon your death, what level of income would your dependents need in order to maintain their standard of living?
What level of benefits would you like to provide your beneficiaries and/or dependents in the event of your death, and why?

# Pension Commencement Lump Sum at retirement

Most pension schemes allow the option for you to exchange part of your annual pension for a lump sum and a reduced annual pension. Pension payments are taxable whilst the lump sum may or may not be tax-free (not tax-free in every country outside the UK).

Do you have any plans which require you to access a capital lump sum before and/or during your retirement? If yes, what will the capital be needed for and how much will you require?




**Note:** The crystallised column assumes the whole fund is crystallised at once and the full PCLS taken. However, we explain another option called partial crystallisation later; it is known as a phased strategy, with a similar outcome to the 'uncrystallised' column.

Do you know that in many countries the lump sum is taxed. This is why professionals do not call it a "tax free lump sum", instead it is called the Pension Commencement Lump Sum (PCLS). T**herefore, make your plans before you live overseas to take advantage of the best tax position.**

If you do not need the PCLS, why take it just to invest in a less tax effective investment and why increase your potential Inheritance Tax bill if you are still UK domiciled (and if not UK domiciled still subject to UK IHT on UK assets/funds).

## Tax planning

Do you understand when accessing a British pension that you can do this in a way which suits your circumstances utilising FAD or UFPLS – what is the best way for you? (*FAD / UFPLS explained later)

(NOTE: These options are not available in every country and with every provider)

## Risk and reward

How would you feel if you took the risk of not taking a guaranteed income but then had to accept less than expected income in some years and/or saw the pension fund run out? For some people, they should take a guarantee even if it means a lower maximum income in some years. You should consider taking a risk profile and discuss the outcomes with a professional.

## Main Considerations often neglected when planning

Have you a debt to repay? This would be a priority if you do have debt as you retire.

Do you have life assurance? Do you need life assurance? Can you still obtain life assurance?

How do you wish to consider all your beneficiaries in your planning? They may or may not be a priority for you. Your partner may have substantial benefits of their own; so how does that impact your planning?

## Security versus Flexibility

Most people value security but also want to have flexibility. The trade off with retirement is that you can guarantee an income, but it often reduces flexibility. However, people underestimate the value of guarantees, and simply equate value to flexibility. How would you feel if you decided to take risk over guarantees but investment performance meant you needed to take less income in some years or risk running out of money?

## Ongoing investment decisions and control of the fund

What experience do you have of managing investments or paying for ongoing investment advice? How would you feel about having the responsibility for the investment decisions regarding your pension fund which will continue until your fund is depleted or your death (whichever is earliest)?

# What is a Qualifying Recognised Overseas Pension Scheme (QROPS)?

A  QROPS is an overseas pension scheme that meets certain requirements set by Her Majesty's Revenue and Customs (HMRC), and may receive transfers from British pension benefits as well as other registered schemes.

A QROPS is deemed either a trust or a contract based offshore pension. As such the tax residence of the beneficial owner or beneficiaries is critical as some countries do not recognise trusts, the result being the prospect of taxation at source or upon receipt. Examples could include France and Spain.

A QROPS can be appropriate for those that have British pensions. Examples could include where there is a possible breach of the Lifetime Allowance, an improved tax position, or an unfavourable Double Tax Treaty between your country of residence and the UK.

### Overseas Tax Charge (OTC)

The OTC was introduced for transfers requested on or after 9 March 2017 by the Finance Bill 2017 which applied a 25% tax charge to UK pensions transferred to an overseas pension if the following exemptions were not met:

1. The individual and the pension scheme are in countries within the European Economic Area (EEA) or
2. If outside the EEA, both the individual and the pension scheme are in the same country, or
3. The QROPS is an occupational pension scheme provided by the individual's employer

If the individual's circumstances change within 5 tax years of the transfer, the tax treatment of the transfer will be reconsidered.

### QROPS Rules or considerations

Flexible access drawdown is available to some QROPS- dependent upon jurisdiction. Additionally,  up to 30% may be taken as a PCLS at retirement. On death the full residual fund would be paid without tax deduction by the QROPS provider, though local taxes may apply to the beneficiaries. A transfer to a QROPS will be tested against the LTA (BCE8) but will not be tested again after that if the individual remains overseas. Benefits cannot be accessed prior to a published minimum age. (The above assumes continuous non-UK residency)

### QROPS transfer to UK Pensions

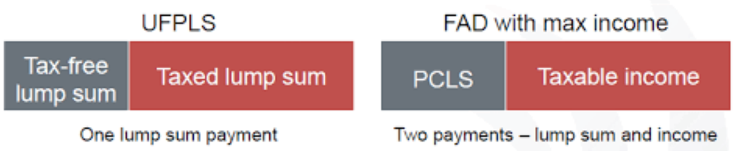
QROPS members are able to repatriate their QROPS to a UK regulated pension currently (but cannot be guaranteed). Reasons could include returning to live in the UK or to reduce costs and fees.

Bringing your pension back into the UK could also have Lifetime Allowance (LTA) implications although there could also be a an LTA enhancement for the period you were not UK resident and the monies were in the QROPS. This is a complicated matter which you must take personalised advice on.

# Different ways of accessing your pension pots

Most people do not know there are different ways of accessing their "defined contribution" pension which has serious implications on tax, future contributions and flexibility. **Therefore, understand the difference before making your plans and take advice from a professional.**

As well as the option of buying an annuity, there are two different methods called Uncrystallised Funds Pension Lump Sum (UFPLS) and Flexi-access Drawdown (FAD) and they are listed below with outline considerations. However, you need to take advice for your own personal circumstances.




### How is an Uncrystallised Funds Pension Lump Sum taxed? (UFPLS)

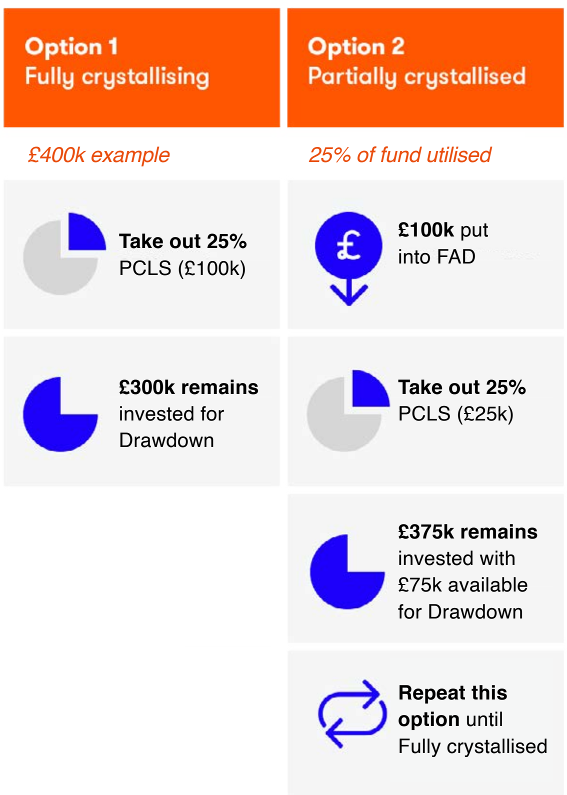
If an investor wants to access some or all of their money purchase pensions savings without designating funds as available for drawdown or buying an annuity, then UFPLS allows this-

- 75% of the lump sum is taxed as if it were an instalment of pension and only the remaining 25% is tax-free.
- Each amount paid as an UFPLS will have 25% of the sum paid "tax-free" and the remainder will be taxable as pension income.

Note the tax on the lump sum and residual 75% will depend on the Double Tax Treaty with the UK and the residency of the investor in the case that the investor is non-UK resident.

### Flexi-access Drawdown (FAD)

By utilising a Flexi-access Drawdown Pension, someone can crystallise their pension fund and take 25% of the pension fund as a Pension Commencement Lump Sum (PCLS). The other 75% remains invested. Then an investor can draw as much or as little of the crystallised fund as required (no limits as before). Withdrawals can be taken as a regular income stream, or one or more lump sums. Income tax will be chargeable on any withdrawals, at the pension holder's marginal rate in the year of withdrawal



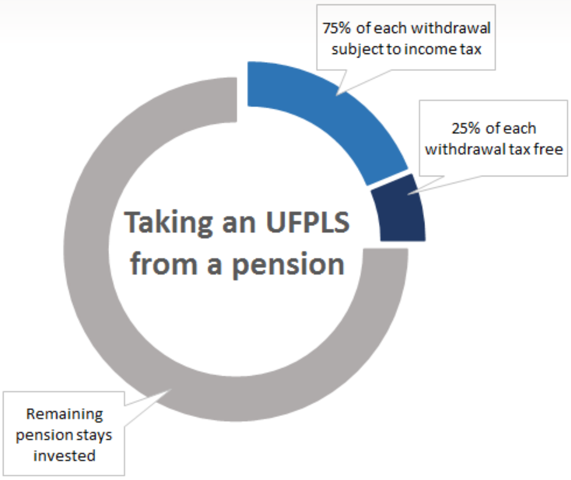

### Annuities

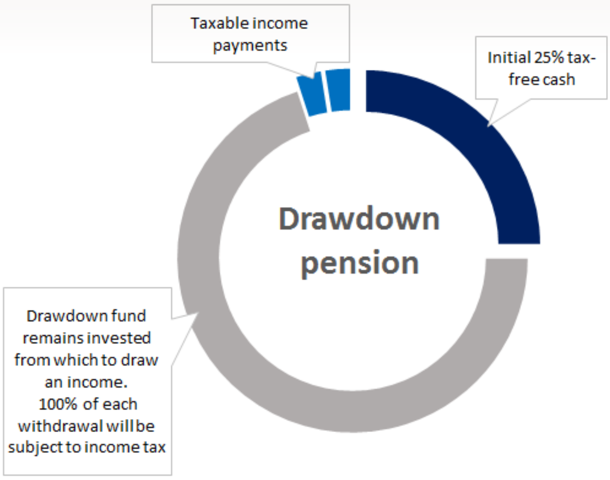
There is no longer any requirement for a UK pension member to purchase an annuity at retirement. Since 2015, Pension Freedoms have allowed UFPLS and FAD. However, in certain cases, annuities provide certainty of income and may be attractive to older retirees, those in ill-health or those that wish to reduce the risk of investment.

Currently, we are not aware of annuity providers for non-UK residents (either UK or non-UK pensions).

# Which is better: Flexi-access Drawdown (FAD) or Uncrystallised Funds Pension Lump Sum (UFPLS)?

The answer depends on your circumstances. A good adviser will consider both with the target of achieving the most cost effective, tax efficient way to provide the income their client needs in retirement.



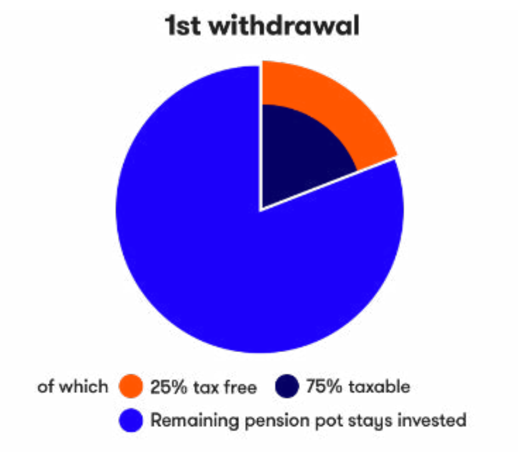



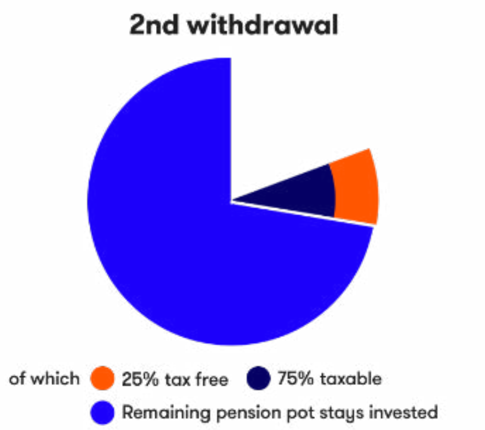

### FAD Example- Fund of £500,000

Investor aged 60, does not require an income till retirement at 67 but would like to clear mortgage and other debts of £100,000. In this case, £400,000 could be crystallised to allow 25% as a lump sum. The £300,000 remains invested, although crystallised it is income deferred. The uncrystallised £100,000 fund will still allow a further 25% PCLS and the whole remaining fund can be left to grow until retirement.

### UFPLS Example- Fund of £500,000

Investor aged 60, who does not need to take out capital but needs an income of £16,000 net until other pensions become payable. (assuming personal allowance of £12,570). In this case £16,000 could be accessed as a UFPLS, of which £4,000 (25%) is not taxed. The remaining £12,000 is below the personal allowance and so there would be no Income Tax to pay.

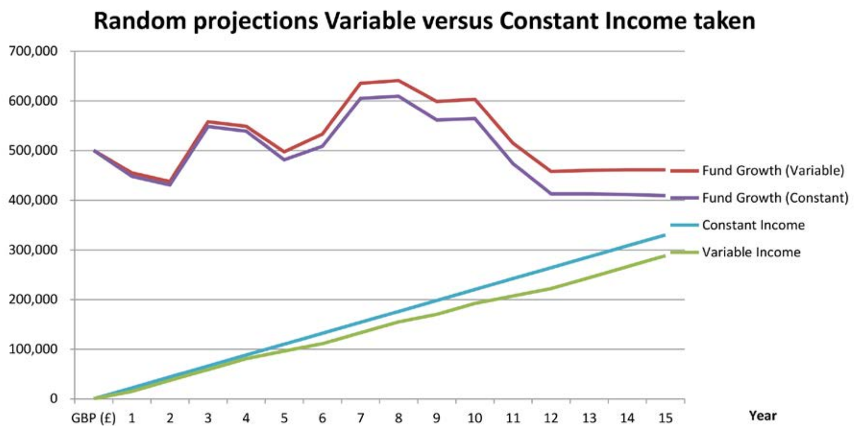


## Sequence of risk

Your funds are affected by volatility and when you take benefits – you can make a difference as to how long your funds last. The industry calls this Sequence of Risk.

**Take two people with identical funds** – One takes a constant income of £22,000 per annum and the other varies their income to £15,000 when performance has been poor in that year (assuming they take income at the end of each year assessment period). What happens to their funds over a 15-year period and how much more flexibility has the person who varies their income over the person who takes a constant income?




Growth assumptions Balanced Risk, with 75% equity investment, 15% property and the remainder low risk yield-based asset mix. £500,000 invested.

| Year | Fund Growth (Variable) | Variable Income | Fund Growth (Constant) | Constant Income |
|---|---|---|---|---|
| GBP (£) | 500,000 | | 500,000 | |
| 1 | 455,000 | 15,000 | 448,000 | 22,000 |
| 2 | 437,550 | 37,000 | 430,480 | 44,000 |
| 3 | 557,627 | 59,000 | 548,261 | 66,000 |
| 4 | 548,567 | 81,000 | 538,984 | 88,000 |
| 5 | 497,303 | 96,000 | 481,354 | 110,000 |
| 6 | 532,985 | 111,000 | 508,410 | 132,000 |
| 7 | 635,345 | 133,000 | 605,036 | 154,000 |
| 8 | 640,751 | 155,000 | 609,135 | 176,000 |
| 9 | 598,590 | 170,000 | 561,313 | 198,000 |
| 10 | 603,232 | 192,000 | 564,297 | 220,000 |
| 11 | 514,738 | 207,000 | 473,546 | 242,000 |
| 12 | 457,591 | 222,000 | 412,772 | 264,000 |
| 13 | 459,842 | 244,000 | 412,647 | 286,000 |
| 14 | 460,985 | 266,000 | 411,416 | 308,000 |
| 15 | 461,074 | 288,000 | 409,129 | 330,000 |

The examples provided on these pages illustrate differing ways a pension can be accessed, but this should not be construed as personal advice or guidance for you as an individual. You should seek advice before accessing any retirement benefits.

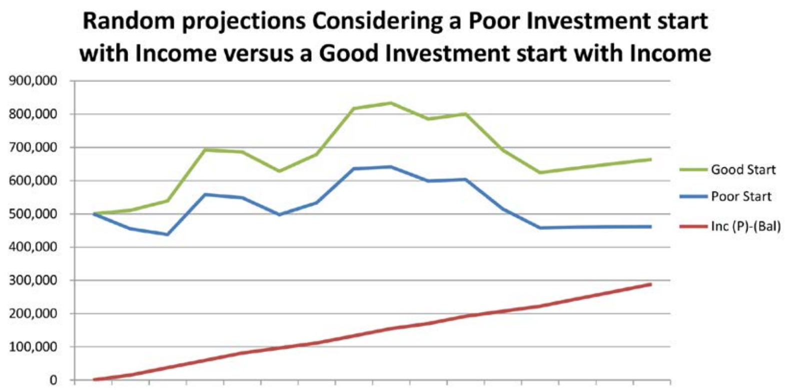
### CONCLUSION

The additional fund growth achieved provides greater flexibility as time progresses. It means in the random examples above that the individual who takes less income when performance is poor in some years ends up being able to take greater income, or one-off lump sums, in the future if required or where required, and has greater potential for future fund growth.
Whereas the person with the smaller fund, albeit after larger income, has less flexibility and is almost 20% down (After allowing for inflation at 2% then this equates to a real return of over 30% down.)

# Impact of poor performance combined with income

Let us now consider the impact of performance. The following examples focus on the first 3 years with good versus poor performance whilst taking income. What should you conclude?

**Take two people with identical funds** – Both are prudent and alter their income according to performance, but one starts with good investment returns and the other poor, both then having identical performance. What happens to their funds over a 15-year period and how much more flexibility has the person who starts taking income in positive growth periods?




The growth rate used is random in each year on this page for illustration of principle only, with the first 3 years manipulated to provide a poor investment outcome in one example.

Growth assumptions Balanced Risk, with 75% equity investment, 15% property and the remainder low risk yield-based asset mix. £500,000 invested.

| Year | Poor Start | Inc (P)-(Bal) | Good Start |
|---|---|---|---|
| GBP (£) | 500,000 | 0 | 500,000 |
| 1 | 455,000 | 15,000 | 510,000 |
| 2 | 437,550 | 37,000 | 539,000 |
| 3 | 557,627 | 59,000 | 692,019 |
| 4 | 548,567 | 81,000 | 686,078 |
| 5 | 497,303 | 96,000 | 627,782 |
| 6 | 532,985 | 111,000 | 678,645 |
| 7 | 635,345 | 133,000 | 817,026 |
| 8 | 640,751 | 155,000 | 832,720 |
| 9 | 598,590 | 170,000 | 784,920 |
| 10 | 603,232 | 192,000 | 800,211 |
| 11 | 514,738 | 207,000 | 691,718 |
| 12 | 457,591 | 222,000 | 623,539 |
| 13 | 459,842 | 244,000 | 637,702 |
| 14 | 460,985 | 266,000 | 650,985 |
| 15 | 461,074 | 288,000 | 663,434 |

## CONCLUSION

**An individual that delays taking income until funds have growth (or the funds have recovered from a dip) benefits with significant long-term impact on the fund growth achieved.**

Whilst some people do not have flexibility to choose when to start pension income, those that do may consider terminating their jobs or starting retirement in line with their fund's ability to fund it. For those who do not have that flexibility, then they should perhaps look to reduce their exposure to risk in the last few years (certainly months) before retirement is due to commence.

In our example there is almost a £200,000 difference in fund size after 15 years, simply due to greater investment performance in the first 3 years.

# Beware the Money Purchase Annual Allowance (MPAA)

If you take taxable income from a defined contribution pension, you could invoke the MPAA. This limits the amount you can contribute annually tax efficiently to a pension to £4,000 from a maximum of £40,000.

MPAA is often ignored by overseas advisers as they forget that when the expat returns to the UK them may wish to make further pension contributions. However, being an expat and accessing a pension does not negate the British pension rules when someone returns to the UK.

### The MPAA will be applied if you

a) Move to FAD and take an income.

b) Take a UFPLS.

(Please note there are other factors that would trigger the MPAA and you should take advice on this matter, and contact us for the full list)

### The MPAA is not applied if you

a) Take the pension commencement lump sum.

b) Take the pension commencement lump sum and buy an annuity.

c) Take benefits from a defined benefit (final salary) pension.

### Advisers might not always tell you...

IF YOUR ADVISER **DOES NOT** HAVE A MiFID licence covering the country you live in within the EU (where you are permanently resident) then they cannot offer you full investment advice within Malta or the UK. However, they also require an IDD licence for pension advice in many countries and so it is important that your advisory firm or network have both licences.

# Qualifying Overseas Pension Scheme (QROPS) Pros and Cons

### Pros

Tested against the Lifetime Allowance (LTA) on transfer only- may save tax on larger funds that would exceed the LTA in future

Some Double Tax Treaties may provide more favourable income tax treatment

Where the pension member is over 75 on death, beneficiaries will receive the whole fund without tax, although they may be subject to local taxes where they reside.

More currency options

### Cons

Invariably more expensive than UK sourced options

Do not have the same flexibility as UK pensions (e.g. combining UFPLS and FAD)

Less well-regulated in some jurisdictions than UK pensions and the funds offered may also be expensive, opaque and less well-regulated / unregulated.

UK has more Double Tax Agreements than the common QROPS jurisdictions, often negating any benefit of transferring overseas.

## New Rules on Transfer to QROPS (November 2021)

In November 2021 the UK Department for Work and Pensions concluded its consultation to reduce the damage of pension scams to occupational schemes and overseas pensions.

From 30th November 2021 all UK pension providers will have to apply a 'flag' system before allowing a transfer to a QROPS. The OTC rules above still apply. The members must now prove tax residency in all cases.

If the member and the overseas pension are in the same country then the transfer should proceed.

If the member is in the EEA but the QROPS is in another EEA country- this will be given an Amber Flag.

The member will then need to take mandatory guidance from MoneyHelper in the UK who will provide correspondence with a unique reference number that should be given to the UK provider.

*This is all subject to Flag Rule 3 - that may result in a transfer being refused if the UK provider has concerns about regulation or unregulated investments.*

## Questions you should ask your adviser

Does anyone in the advice firm have UK and European Qualifications?

What is their actual experience and ask them to explain Double Tax Treaties?

Always ask for the Key Information Document  to check the charges.

Is there a conflict of interest or any fee being paid by the investment/insurance to the firm or adviser if the business is placed with that provider or its funds?

What are the total upfront and ongoing fees?

Anyone who says less than 2% for either should be questioned further as it is unlikely that they are incorporating all costs and charges.

## Key point

**The UK holds more double tax treaties with the rest of the world than any other country. The double tax treaty usually covers the taxation of pensions, and actually ensures that in most cases within the EU no-one can be taxed twice. In fact some countries apply no, or reduced, tax on pension income.**

**Double Tax Treaties were never anything to do with the EU, and pensions and their taxation were never controlled by the EU. Therefore, pre Brexit scaremongering was exactly that. Post-Brexit scaremongering is equally wrong.**

## What should you avoid?

Commission based advisers suggesting that you should invest in products that are located outside the EU (e.g. Cayman Islands, Isle of Man, Gibraltar, Africa, South America, etc)

Insurance bonds sold with large commissions held within an International SIPP or QROPS.

## Advice – the final pointers

**GOOD**

Using a transparent, regulated, fee-based adviser will increase your chances of having a larger net income in retirement. Paying taxes is not optional, but a fee based adviser will assist you in helping to choose where you pay taxes to reduce them (perhaps to zero). Fees can be quickly offset by the improved income received! Fees are a lot lower than commissions and will not damage your investments.

**BAD**

The truth is that many advisers based in Europe may be only offering commission-based solutions, whilst your adviser will consider fees as well.  BAD practice is where salespeople offer insurance bonds under IDD in territories such as the Cayman Islands and Isle of Man. These salespeople want you to move your pension away from the UK so they can earn high commissions, and this may come with unsubstantiated claims and warnings of losses if you do not follow their "advice". Furthermore, there may be hidden commissions destined for 3rd parties outside the EU they have not declared.

## Key point

**There is a procedure required when giving advice on British Pensions, SIPPs and Defined Benefit transfers and the FCA published a paper in April 2018 outlining who should be considering reviews and when.**

**Brexit does not mean the end to quality accessible advice**

There are many firms and advisers who are regulated and authorised in your local country within the EU and also in the UK

Aisa Group is a multi-jurisdictional company with UK, USA and EU licences and we work on transparent fees, with Chartered level advice

## Talk to us

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Contact details: please consult the contact details specific to your own OpesFidelio adviser.

The European Union does not regulate Tax planning, Estate Planning, Cash nor British Pensions.
The value of your investment can fall as well as rise and is not guaranteed.