QROPS VS SIPP
DO YOU NEED A QROPS, OR WOULD A SIPP BE BETTER?

The dilemma for many overseas based clients is whether to keep their QROPS, or instead transfer their pension savings to an international SIPP.

The QROPS (or Qualifying Regulated Overseas Pension Scheme) was a concept introduced in April 2006 by the then Labour Government as a direct result of EU human rights requirements regarding the freedom of capital movement. At the time HMRC recognised there were certain pension issues that limited pension savings for UK expats. The QROPS in simple terms was a pension scheme approved by HMRC which allowed overseas residents to transfer their pension funds abroad to an overseas jurisdiction.

Times move on and much has changed since April 2006. The UK for one, is no longer part of the EU. There have also been changes to the "A Day" regime which was introduced at the same time the QROPS product was unveiled.

The recent removal of the Lifetime Allowance charge and replacement of the Lifetime Allowance with new allowances mean that fresh perspective is required on whether a QROPS is automatically the product of choice for an overseas resident. If clients haven't reviewed their pension choices with their adviser recently, a conversation might well be in order.

What was the appeal of the QROPS?

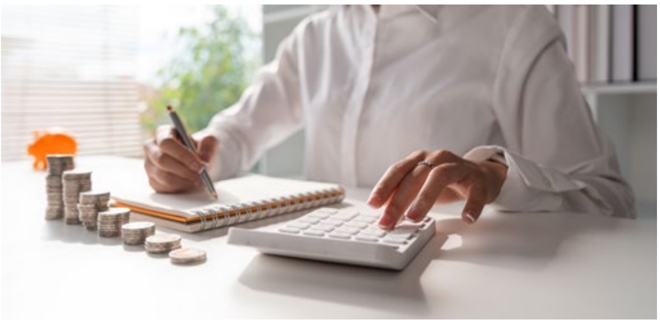
Aside from greater access to overseas investments, one of the key arguments for transferring to a QROPS has always been the potential to avoid the Lifetime Allowance assessment at retirement age. The transfer to a QROPS has been a benefit crystallisation event (BCE8) and a Lifetime Allowance charge applied on any fund value which exceeded the Lifetime Allowance. However, once the funds were overseas, the member then didn't have their fund value assessed against the Lifetime Allowance when they started accessing benefits.

Example: Mike transferred his SIPP to a QROPS in 2010. At the time, his fund was worth £1,250,000 and he avoided a Lifetime Allowance charge. By the time he came to access his benefits in late 2022, it was worth £1,550,000. If he had remained in the UK, he would have paid a charge on the difference between £1,550,000 and the Lifetime Allowance of £1,073,100. However, because his fund was in a QROPS, he avoided such a charge.

The winds of change and the rise of the SIPP

The impact of the Lifetime Allowance charge was removed with immediate effect in March 2023 when the chancellor announced surprise sweeping changes. The Lifetime Allowance was then fully removed in April 2024 and instead we have two new allowances, the "Lump Sum and Death Benefit allowance" (LSDBA), which is set at £1,073,100 and the Lump Sum allowance (LSA) which is set at £268,275 (figures correct for 2024-25 tax year).

Where someone's fund value exceeds the LSDBA, any benefits taken will be taxed at their marginal rate. The LSA sets the maximum amount of pension commencement lump sum available, which is free from UK Income Tax.



With the Lifetime Allowance charge having been removed and excess benefits being taxed at marginal rate, it seems questionable whether maintaining a QROPS will provide any additional benefit for many people compared to a SIPP.

Example: Lynn has a QROPS worth £1,200,000. She is approaching retirement age. Prior to 5 April 2023, by keeping her QROPS she would have avoided a potential Lifetime Allowance of up to 55% on the difference between her £1,200,000 fund value and the old Lifetime Allowance of £1,073,100, which she would have incurred had she invested in a SIPP. However, now that the Lifetime Allowance charge has been removed, no such problem exists. Also, because she is an overseas resident, she will be able to register for a "NT" tax code, meaning that if she holds a SIPP, she will not incur a UK tax deduction on any income withdrawals. Advice should be sought from her financial adviser as to any local taxes payable.

Why you might want to ditch that QROPS for an International SIPP

An international SIPP is essentially a UK SIPP product, meaning it comes with the protection of regulation by the Financial Conduct Authority (FCA). The QROPS will not benefit from this level of protection. Also, it has sometimes been the case that QROPS products in some jurisdictions have allowed access to more unusual and high-risk types of investment, where there is a greater risk of the investor being scammed or losing money. The UK in this regard is more tightly regulated, with most SIPP providers sticking with FCA defined "standard investments".

However, often the biggest factor is simply that of cost. The costs of running a SIPP are typically notably cheaper than a QROPS. Therefore, if there are no additional benefits in exchange for the additional running costs, exploring a transfer might leave more of your savings preserved for your retirement.

Caveats?

The pension regulation and taxation landscape can be a fast-moving picture, so the information contained in this publication is based on our current understanding. The Government has announced a budget for October 2024 and it is possible that they might reform the pension tax system again. We are not regulated to provide advice and recommend that individuals considering making changes to their financial arrangements seek specialist advice from their financial adviser.

IFG Pensions Limited. Registered office: Third Floor, Cotton House, Old Hall Street, Liverpool, L3 9TP, United Kingdom. Registered in England and Wales No. 4826217. IFG Pensions Limited is authorised and regulated by the UK Financial Conduct Authority, No. 458576, for the purposes of setting up, administering and winding up personal pension schemes.

IFGLPENS125a 09/24

IFGL | PENSIONS