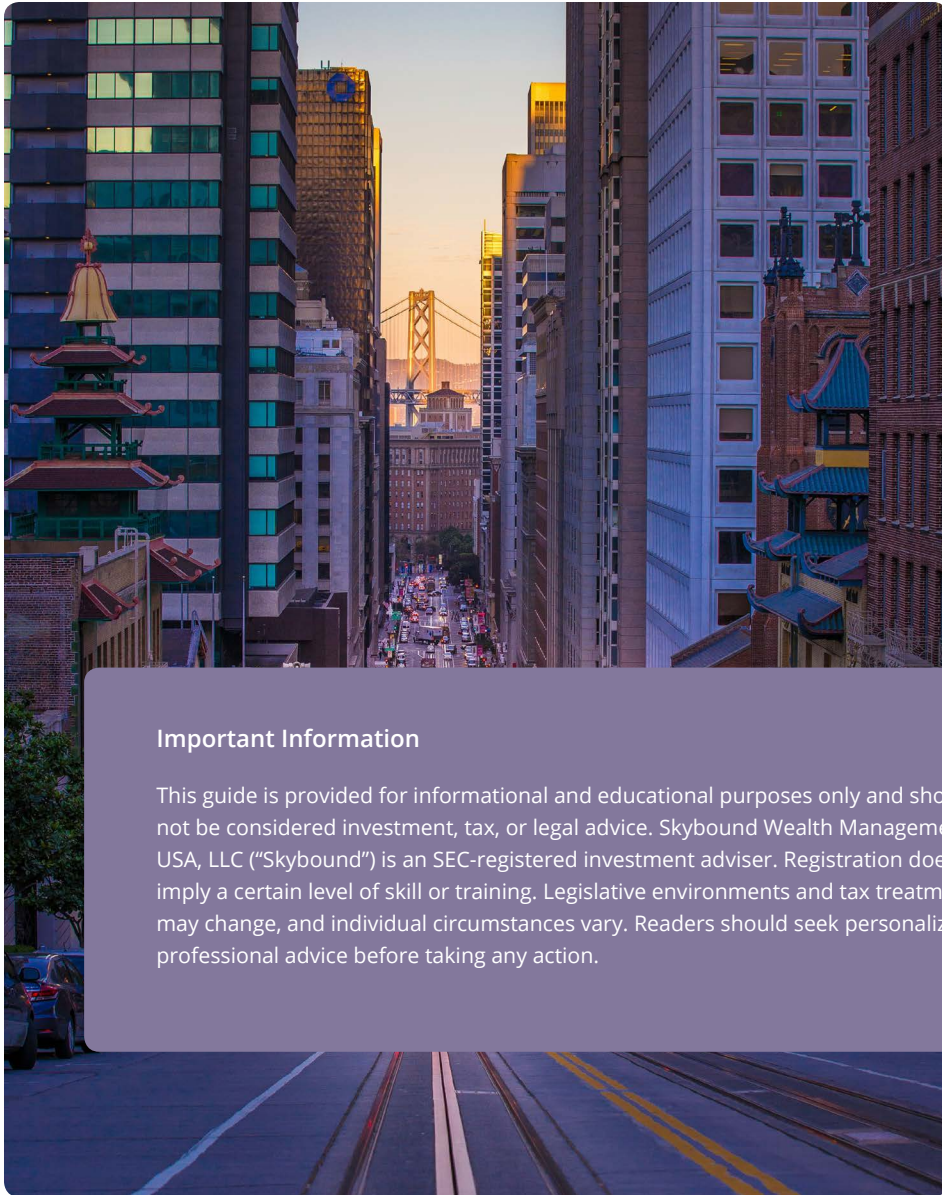




HOLDING UK PENSIONS AS A U.S. RESIDENT

Understanding your retirement options across borders





Important Information

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INTRODUCTION:

YOUR UK PENSION, YOUR U.S. LIFE

Living in the United States with pension savings in the UK is increasingly common, and increasingly complex. Thousands of British nationals and former UK employees now call the U.S. home, yet still hold valuable pension benefits back in the UK.

But here's the challenge: pensions don't travel well.

Rules that made sense when you lived in London or Manchester may not apply in Miami or New York. Taxation, currency movements, and the differences between U.S. and UK retirement systems can make managing those pensions feel overwhelming.

At Skybound Wealth USA, we specialise in helping globally mobile individuals make sense of their UK pensions, ensuring they remain compliant, efficient, and aligned with long-term goals.

This guide will walk you through how UK pensions work once you become a U.S. resident, what's changed in 2025, and how to make informed, confident decisions about your future income.

WHY YOUR UK PENSION DESERVES A REVIEW

Reviewing your UK pension isn't simply an administrative exercise. It's a strategic step in protecting and maximising one of your most important long-term assets.



Cross-Border Entitlements Have Evolved

Recent changes to U.S. Social Security rules have improved how foreign pensions interact with American benefits. Previously, many people who received a UK State Pension found their U.S. Social Security reduced under the Windfall Elimination Provision (WEP).

In 2025, guidance and proposed reforms, including the Social Security Fairness Act mean that for many, this offset no longer applies or is significantly reduced.

As such, you may now be eligible to receive both your full UK State Pension and your full U.S. Social Security benefit, depending on your contribution record in each country.

Source: U.S. Social Security Administration, "Windfall Elimination Provision (WEP) and Foreign Pensions," 2025 update.

Coordinating Tax Between Two Systems

If you live in the U.S., your UK pension income is generally taxable only in the United States under the U.S.-UK Double Tax Treaty. However, ensuring that withdrawals are paid gross (without UK tax deducted) and reported correctly to the IRS is crucial.

Understanding how treaty rules apply to your situation can help prevent double taxation and unnecessary administrative issues, especially when drawing from multiple pensions or receiving payments in GBP.

Managing Currency Exposure

Your pension may still be denominated in British pounds (GBP), while your expenses are in U.S. dollars (USD). Over time, currency fluctuations can have a significant impact on your actual income.

A thoughtful currency strategy, deciding when and how to convert, can help protect your retirement income from short-term volatility.

Think of your pension like a bridge between two economies. Currency management ensures that the bridge remains stable as markets move beneath it.

Coordinating Your Retirement Planning

For many people in the U.S. with UK pensions, retirement income will come from multiple sources, both domestic and international.

We help clients coordinate:

- UK pensions (Defined Benefit, Defined Contribution, SIPP, or State Pension)
- U.S. accounts (401(k), IRA, Roth IRA)
- Social Security and other income streams
- Investments and property

Our goal is to help you build a single, integrated plan that's efficient, compliant, and aligned with your personal goals.



Simplifying and Consolidating

It's common to have multiple pensions scattered across providers in the UK. Consolidating these can make management simpler, potentially lower fees, and streamline estate planning. However, we always evaluate whether any guaranteed benefits would be lost before recommending changes.

Similar to rolling multiple 401(k)s into one IRA, consolidating UK pensions can bring order and control, provided it's done strategically.

Planning for Legacy

From April 2027, the UK government plans to include most unused pensions within an individual's estate for Inheritance Tax (IHT) purposes. That means even U.S. residents with UK pensions could be affected.

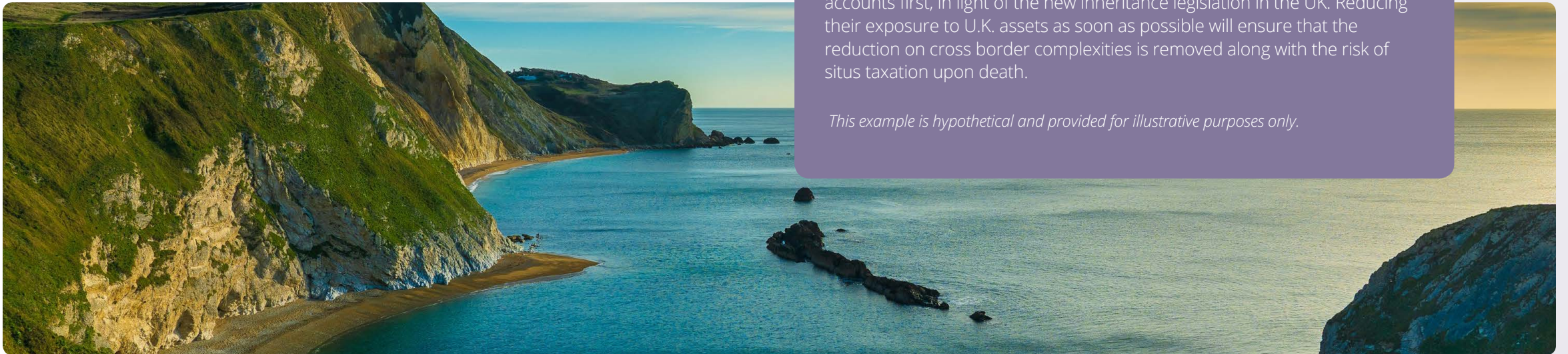
Reviewing your estate plan and beneficiary designations now can help minimize exposure to future tax changes.

The Sequence of Distribution

The order in which you draw income - from U.S. or UK pensions first, can have a major impact on tax and longevity of your assets. We help clients determine which accounts to draw from, and when, to support both short-term cash flow and long-term sustainability.

A U.S. resident who worked in the UK might choose to access their U.K. accounts first, in light of the new inheritance legislation in the UK. Reducing their exposure to U.K. assets as soon as possible will ensure that the reduction on cross border complexities is removed along with the risk of situs taxation upon death.

This example is hypothetical and provided for illustrative purposes only.



UNDERSTANDING YOUR UK PENSION TYPES

There are four main types of UK pensions commonly held by people living in the U.S. Each has distinct features, benefits, and considerations.

Type	Description	Closest U.S. Equivalent	Flexibility & Control
Defined Benefit (DB)	Employer-funded; provides guaranteed lifetime income based on salary and service.	Traditional corporate pension	Low: fixed benefits, limited control.
Defined Contribution (DC)	You and/or your employer contribute; value depends on investment performance.	401(k) plan	Moderate: you control investment strategy.
Self-Invested Personal Pension (SIPP)	A flexible personal plan offering wide investment choice and currency control.	Self-directed IRA (RIA-managed)	High: full control and global flexibility.
UK State Pension	Government benefit based on your National Insurance contributions.	Social Security	Fixed: determined by contribution record.



DEFINED BENEFIT (FINAL SALARY) PENSIONS

Defined Benefit (DB) pensions provide a guaranteed income for life based on salary and years of service. They remain one of the most stable income sources available in retirement but can become complex once you reside in the United States.

Core Characteristics

- Predictability: Income is pre-determined and usually rises with inflation.
- Longevity protection: Payments continue for life, often with survivor benefits for a spouse.
- Limited flexibility: You cannot alter how or when income is paid.
- Currency risk: Income is paid in GBP, so fluctuations against USD can affect purchasing power.

U.S. Considerations

Under the U.S.-UK Double Tax Treaty, pension income is taxable only in your country of residence - typically the United States.

It's essential to ensure payments are made gross (without UK tax withheld) and that you report all income in U.S. dollars at the spot exchange rate.

You should seek tax advice in the United States to confirm the correct reporting method and understand how currency movements might influence taxable income.

Transfer vs Retention

Some individuals consider transferring their DB benefits into a personal pension such as a SIPP to gain flexibility. However, this can mean losing guaranteed income, inflation protection, and employer-backed security. Transfers are irreversible and subject to regulated advice in the UK.

For many, retaining the DB scheme provides peace of mind; for others, flexibility and estate access justify a transfer. The right decision depends on factors such as; income needs, life expectancy, and tolerance for investment risk.

A DB pension is like a lifelong paycheck - stable, predictable, and low-maintenance, but not customisable.



DEFINED CONTRIBUTION (DC) PENSIONS

Defined Contribution pensions are similar to 401(k) plans - you and/or your employer contribute, and the accumulated value depends on investment performance.

Flexibility and Control

- Choose how funds are invested within available options.
- Decide when to start drawing income (from age 55, rising to 57 in 2028).
- Withdraw as lump sums or as phased drawdown income.

This flexibility creates opportunities but also introduces risk: investment volatility, sequencing of returns, and potential currency mismatches must be managed carefully.

2025 Rule Changes

Following the abolition of the Lifetime Allowance, two new allowances now apply:

1. Lump Sum Allowance (LSA): Limits total tax-free withdrawals.
2. Lump Sum and Death Benefit Allowance (LSDbA): Caps total benefits payable without tax after death.

Understanding these limits, and coordinating them with U.S. tax reporting is essential.

Always consult a qualified U.S. tax professional before withdrawing, as distributions may be treated differently for U.S. tax purposes than under UK rules.

Strategic Planning

The timing of withdrawals can dramatically affect tax efficiency.

- Drawing too early may push income into a higher U.S. bracket.
- Waiting too long could increase IHT exposure once the 2027 rule change takes effect.
- We help clients model multiple outcomes to identify when each income stream should be accessed.

Think of a DC pension as your personal retirement reservoir.

You choose how fast to open the tap, but opening it at the wrong time can drain value faster than expected.



THE UK STATE PENSION

The UK State Pension functions like Social Security, a government-backed income stream indexed to inflation. It's based solely on National Insurance (NI) contributions, not nationality or current residence.

Key Advantages

- Minimum 10 qualifying years for any benefit.
- 35 years for a full pension (currently £221.20 per week in 2025).
- Voluntary NI contributions can often fill historic gaps, even for non-residents.

Before making voluntary payments, individuals should obtain personalized projections from the UK Government's Future Pension Centre and confirm with a U.S. tax adviser how benefits will interact with Social Security.

Payment and Tax Treatment

- Paid in GBP every four weeks; can be directed to an overseas account.
- Under the U.S.-UK tax treaty, taxable only in the U.S. for U.S. residents.
- Exchange-rate variations will affect the USD equivalent reported for tax.

Interaction with U.S. Benefits

Historically, the Windfall Elimination Provision (WEP) reduced Social Security for those with foreign pensions. Reforms and updated guidance mean many individuals now receive a higher or full U.S. benefit alongside the UK State Pension.

Key takeaway:

The UK State Pension may be modest but reliable. An income foundation that compliments U.S. Social Security rather than replacing it.





ESTATE PLANNING AND THE 2027 INHERITANCE TAX REFORM

For years, UK pensions sat outside the UK Inheritance Tax (IHT) net. That is set to change. From April 2027, most unused pension funds will become subject to IHT at 40% on death, unless distributed beforehand or structured appropriately.

What This Means for U.S. Residents

Even if you are no longer UK-tax-resident, your pension is still a UK-registered plan and therefore within the scope of these reforms.

If you maintain significant balances, your beneficiaries could face UK IHT exposure, in addition to potential U.S. estate tax considerations.

Planning Considerations

- Review pension nominations to ensure they reflect your current wishes.
- Evaluate whether partial withdrawals before 2027 are tax-efficient.
- Understand how timing of death benefits interacts with U.S. estate taxation.

Balancing Flexibility and Security

The objective isn't to rush withdrawals but to plan them intelligently. Holding too much within UK pensions may create future tax drag; withdrawing too aggressively may trigger unnecessary U.S. income tax.

A balanced strategy, informed by both tax regimes - offers the best long-term outcome.

Cross-border estate issues are highly nuanced. Always seek tax advice in both jurisdictions before taking action.

YOUR FIVE-STEP PENSION CHECKLIST

01

Identify Your UK Pensions

Track employer, private, and state pensions.



02

Review Your NI Record

Ensure you qualify for the full UK State Pension.



03

Understand Cross-Border Tax Rules

Know how income will be taxed and reported in both systems.



04

Assess Currency Exposure

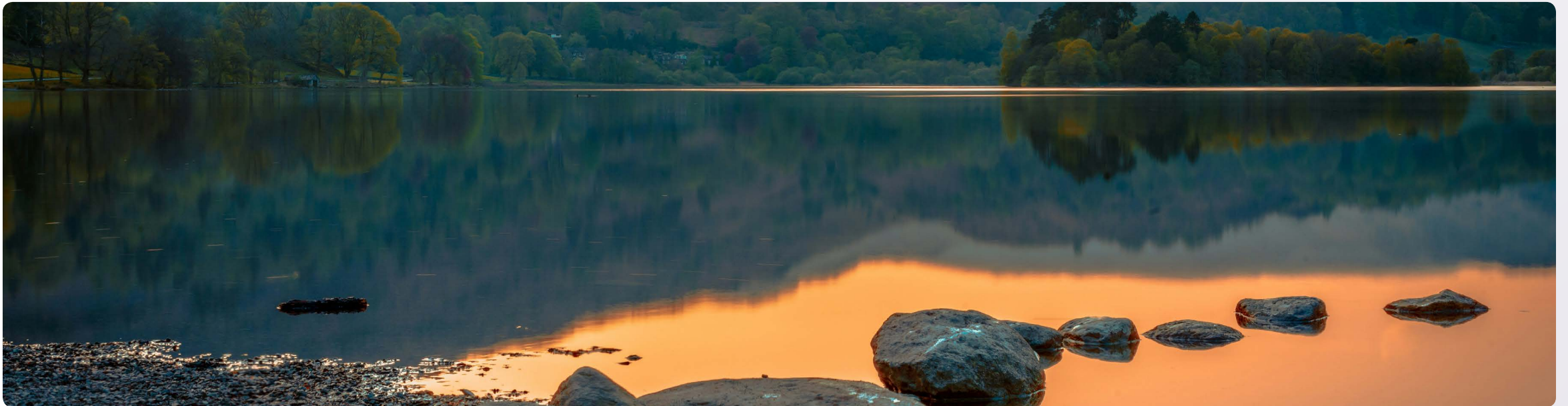
Plan how and when to convert GBP to USD.



05

Seek Expert Guidance

Work with a cross-border adviser who understands both sides of your financial life.



MOVING FORWARD WITH CONFIDENCE

Whether your UK pension came from a few years working abroad, a long corporate career, or an earlier stage of life, it remains an important part of your financial future.

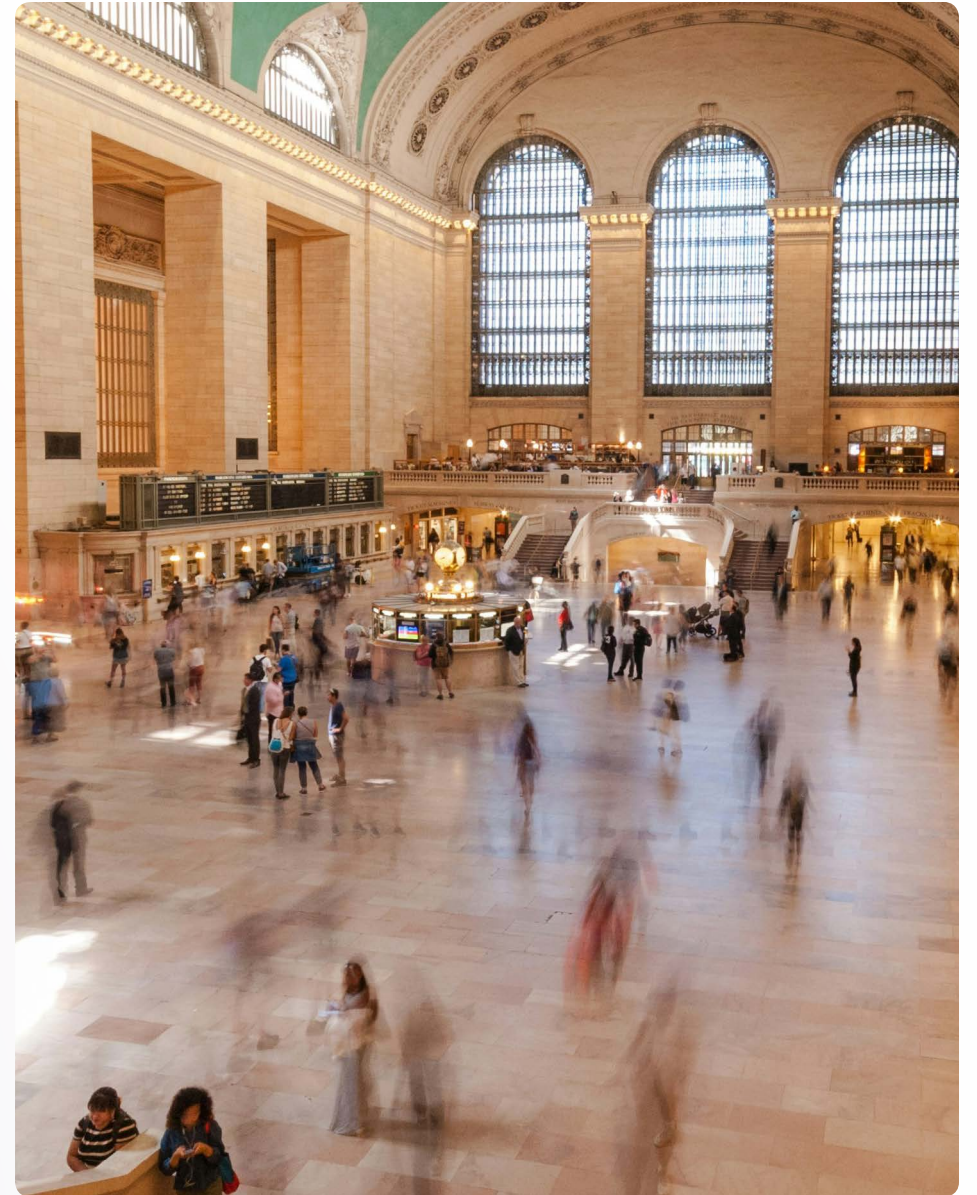
We help clients align their UK pensions with their U.S. goals, ensuring that the money they've built across borders continues to grow, protect, and support them wherever life takes them.

Who and how to contact

Skybound Wealth Management USA, LLC

Advisory services offered through Skybound Wealth Management USA, LLC, an SEC-registered investment adviser. Registration does not imply a certain level of skill or training. Investing involves risk, including the potential loss of principal.

The information herein is based on legislation and guidance as of 2025 and may be subject to change.





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