Alexander Peter
Wealth Canada

UK Pension Transfer Guide

How to make the most of your pension now you live in Canada

www.alexanderpeter.ca

Introduction

As someone looking to retire in Canada, you need to take extra care when planning your retirement

This guide is aimed at anyone with a UK pension fund who is currently living in Canada or planning on moving to Canada for retirement.

The guide will outline the options you have available to maximise the income you have available as well as reduce taxes as much as legally possible.

As someone looking to retire in Canada, you need to take extra care when planning your retirement to ensure you are reporting everything correctly to CRA, especially when it involves overseas assets.

This guide will help you with all the above and more.

Who we are

Alexander Peter Wealth Management provide specialist advice to British expats and international employees living around the world.

Our Canadian office provides comprehensive advice to Canadian residents and those with connections to Canada.

Experienced in helping other international clients like you, we can help you:

- Pay less tax
- Set up and start your life abroad
- Advise and assist you in transferring assets cross border
- Ensure you're on track to afford the retirement you've been working towards
- Reassure you that you remain on track to achieve your goals with regular cashflow updates
- Determine a reliable income plan with tailor-made solutions to help you enjoy your desired retirement
- Settle into your new home overseas, safe in the knowledge that your assets are protected.

We are privately owned and you can rest assured that you will receive the most appropriate recommendations and tailor-made solutions from the open market.

Wherever you live in the world, we can provide regulated financial advice. We have advisers based in the UK, Australia, Canada, Europe, and the US.

We have extensive experience in advising clients on their retirement planning and are here to support you in your transition from work to retirement.

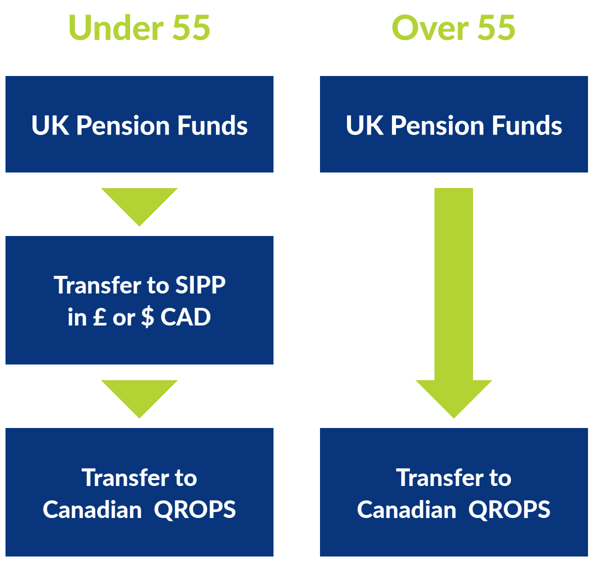
Options

When it comes to your UK pension(s) there are three main options depending on your age:

1. Leave it invested in the UK
2. Transfer it to a UK registered and regulated SIPP (Self Invested Personal Pension)
3. Transfer it to Canada using a HMRC r ecognised QROPS (Qualifying Recognised Overseas Pension Scheme).

This guide shows the main features and benefits of each option.

As our advisers are licensed and qualified in the UK as well as Canada they can also discuss with you how these plans can work with your overall retirement objectives taking into account other retirement accounts you may have such as RRSP's.



Options continued

If after taking advice you decide to leave your pension in the UK:

- You will pay UK Income Tax up to 45%, depending on the government's Income Tax rates at the time.
- Your income will be paid in sterling so your monthly payments will have a different purchasing power due to currency fluctuations. Over the last 10 years this has varied by as much as 31%.
- Take up to 25% of the fund as tax-free cash, however this will be taxable in Canada.
- Subject to the Lifetime Allowance (LTA), if your fund grows to be in excess of the current LTA you will be taxed at 55% on the surplus if benefits taken as a lump sum or 25% if taken as income.
- If you die after age 75, your beneficiaries will be taxed at their marginal rate of Income Tax.
- If you die before age 75, the proceeds go to your beneficiary's tax-free.
- Benefits can be taken from age 55 – unless the member suffers from ill health.
- If you are in a defined benefit scheme (often called final salary schemes), your company guarantees your pension as they take all of the investment risk, however these come with rigid accessibility rules.
- Benefits paid in GBP only.

9 reasons to consider a transfer

1 Transfer Values

A transfer value is what your pension scheme will offer you instead of a guaranteed income for the rest of your life. Without getting into the technical detail of how they are calculated, the rule of thumb is the lower the interest rate, the higher the amount you will be offered. As inflation has started to rise, the Bank of England has begun to raise interest rates to control inflation, which means that transfer values will start to reduce. So, if you have a final salary pension, now is a very good time to consider your options.

2 Flexibility

UK Pensions, especially final salary pensions, can be very valuable and attractive because they offer you a guaranteed income for the rest of your life. The downside is that they provide a fixed structured income without any real alternatives. What you will receive may not fit into your retirement plans. Most retired people tend to spend more money in the early years of retirement. Then, in the middle years when their lifestyle is more sedentary, they require less money. In the later years their needs could be for more money due to long term care.

If you convert your pension and transfer into a defined contribution pension, you could benefit from the new pension freedoms which allow much more choice in how and when you access your money. You would have the freedom to access all of your money whenever you require it. You decide how much income you need each year and if you want to withdraw any lump sums in addition. The balance of the fund remains invested and growing. It is important to make sure you plan this carefully, so you don't run out of money during retirement.

3 Potential for access to more tax-free cash

A transfer to a personal arrangement means that 25% of the fund will be available as a tax-free lump sum. You must remember to take into consideration the tax rules of Australia when drawing on this sum. Not all final salary schemes provide the option of a tax-free lump sum and therefore all income is liable to Income Tax. If the scheme does permit a lump sum, it will invariably be less than 25%. This is because the calculation the scheme trustees use to determine the lump sum is a formula based on the pension payable to you and not based on the fund value.

9 reasons to consider a transfer continued

4 Inheritance

If you have a final salary scheme, when you die there will be a pension for your surviving spouse. This is typically 50% of your pension. If you die very early into retirement, your widow or widower may benefit from a guarantee period of the full pension usually for the balance of the first five years.

If you are a couple but not married, it could be that a spouses pension is not payable or more restricted. There may be some entitlement for children but this will only apply while they are still in full-time education. Ultimately, this could mean that on your death most of your pension fund is kept by your former employer's scheme.

A transfer to a personal arrangement will mean that the full value of your account is payable to your beneficiaries on death. This may be tax-free or taxable dependent on your age at the time.

5 Health

One of the big advantages of a final salary pension is that the income will last a lifetime. However, what if due to health reasons you have a shorter life expectancy or have a family history of early demise? For example, if you started taking your pension at 65 and then died five years later you will not have received as much from the scheme compared to someone that lives into their nineties.

Actuaries at these schemes work by pooling risk. This means that those that live longer are being subsided by those that live the shortest time. While that's a good way for pension schemes to manage their book, it may not be in your best interests.

If you transfer to a personal arrangement, you are in control of how much or little income you withdraw from your account and what to leave beneficiaries for the future.

6 Concerns over the solvency of the sponsoring employer

There is serious concern regarding the funding position of final salary schemes in the UK. According to XPS Pensions DB: UK Tracker, the combined deficit of UK defined benefit (DB) pension schemes against long-term funding targets fell by around £72 billion over December 2021 to £309 billion. This means all final salary schemes need an additional £309 billion to be able to meet their liabilities. That requires the company to pay a much higher amount from their profits to make up these deficits, which they must do in the next five years. However, if they are not making profits, this situation is only going to get worse. We have seen companies reduce pension benefits to their employees as they are unable to make these payments.

In the event of insolvency of the company, final salary schemes are transferred into a lifeboat arrangement called the Pension Protection Fund (PPF). However, the vast majority should get the full pension they were expecting.

However, there were 3,606 schemes in deficit and 1,816 in surplus, according to the figures released by the Pension Protection Fund, which rescues any that go bust. (Source:This is Money website, 16th May 2022).

68% of private sector defined benefit and hybrid (DBH) employers' pension contributions in Q4 2020 were deficit reduction contributions according to the Pensions Regulator.

The solvency of your pension scheme is an important factor in the decision to move your scheme or not.

9 reasons to consider a transfer continued

7 Currency

Living in Canada means that your expenditure now and in retirement is in Canadian dollars while your UK pension will be denominated in GBP. This means that when you draw from the scheme you are at the mercy of exchange rates. Over the last five years, the highest exchange rate was $2.09 and the lowest was $1.57. That's a 33% swing which could have a real impact on retirement when you're no longer working and rely on regular income from retirement accounts.

By transferring to a personal arrangement, you can eliminate these risks as you can invest into Canadian dollar denominated funds and draw your income in Canadian dollars as well.

8 Tax

A UK pension is a great way to save for retirement. While you were working in the UK you would have enjoyed tax relief on your pension contributions at your marginal rate of Income Tax. Depending on your circumstances, 25% of the value of the account could now be available as a tax-free lump sum. UK pensions, however, are taxed similar to PAYE in the UK and have tax deducted at source, regardless of where you are resident.

As you likely know, there great tax benefits to retirement accounts such as RRSP's. Transferring to a RRSP in Canada that has QROPS status will mean you have all your funds together and under the same tax regime simplifying matters for you.

9 Consolidate

If you have worked for a number of employers or have built up more than one private pension, you could benefit by transferring all these pots into one single plan. In addition, online access to the account will make it much easier to keep track of your investments and manage your income moving forwards. Dealing with one company when it comes to drawing down benefits will be considerably easier.

What is a SIPP?

A SIPP is a UK registered and regulated personal pension with greater investment options and control over how your pension benefits are paid to you.

SIPPs provide access to the new pension freedoms that were introduced and provide you with the ability to drawdown as much or as little income as you wish from age 55.

What's more, for international clients, there is the ability to access underlying investments in multi-currency such as the CAD, as well as pay income out in CAD, meaning you can have your pension paid to your Canadian current account reducing your exposure to currency fluctuations.

Unlike traditional UK Pensions, SIPPS are more flexible and provide a wide array of investment choices. This means you can invest in a wide range of assets such as mutual funds, ETFs, stocks, and bonds.

Your SIPP account will continue to grow tax-free, even when resident in Canada due to the DTA (double tax agreement) with the UK.

Income from the pension will have UK Income Tax deducted at source. However, with the help of an accountant, we can ensure that UK income is not deducted. The income from a non-Canadian retirement account will be classified as other income and therefore will be taxable for income purposes in Canada and will need to be declared on your returns.

There are no UK taxes on death if this occurs before the age of 75. If after the age of 75 and your beneficiaries are in the UK, then UK tax at their marginal rate will be payable. However, if your beneficiaries are outside the UK, there may be no taxes to pay. Our team are here to help explain and guide you and your beneficiaries with this.

Upon reaching the age of 55, you will have the option to transfer out to a RRSP fund in Canada with QROPS status. There are many tax advantages to doing this.

Unlike traditional UK Pensions, SIPPS are more flexible and provide a wide array of investment choices

What is a QROPS?

A QROPS allows those with UK pension benefits to export their pensions overseas to a scheme that is recognised by HMRC in the UK.

A QROPS registered in Canada is first and foremost a RRSP. You have the option of then converting your RRSP QROPS to a RRIF or annuity upon retirement. The right solution will depend on your circumstances and personal situation, which your adviser will be able to discuss with you.

Income from the new pension would be taxable like any other RRIF or annuity in Canada with no tax due in the UK.

For larger pension schemes, moving them away from the UK can have the added benefit of removing the burden of the UK Lifetime Allowance Limit (LTA). The LTA places a tax charge of either 55% or 25% depending on how the benefits are taken above this lifetime cap. When transferring away from the UK, any subsequent growth is outside the scope of this cap meaning you can avoid it altogether.

Expert advice is required in this area and we are happy to assist with these enquiries.

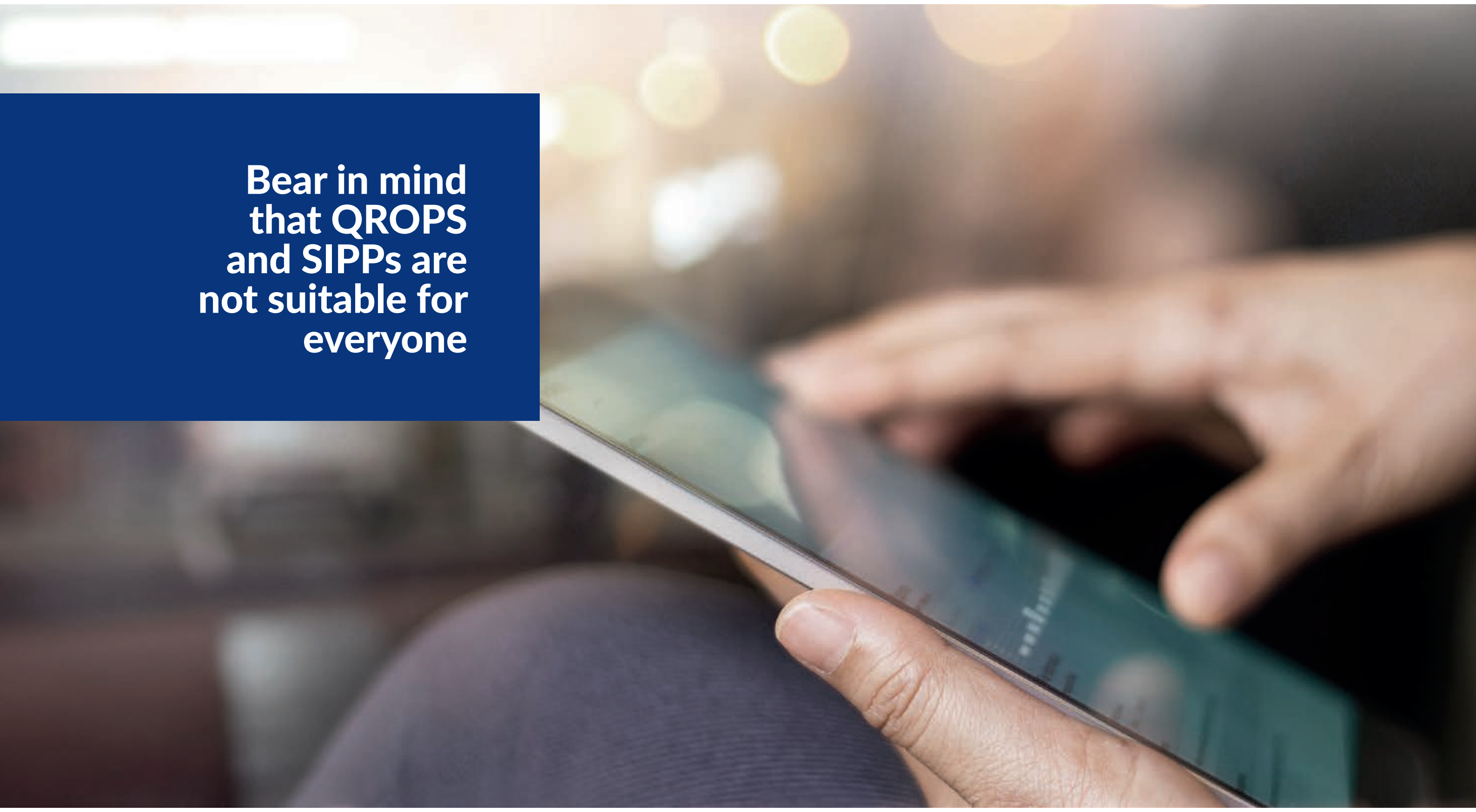
If you have existing RRSP Funds, your UK pensions can be added and consolidated. With your retirement finances under one roof, you get a more complete picture.

Prior to 2017, transfers to international QROPS outside of Canada in jurisdictions such as Malta and Gibraltar were permitted and many people in Canada have transferred their UK pension funds to these jurisdictions. Often, people find that they are paying too much in fees, have lost contact with their adviser, or worse still, have realised that their adviser is not licensed in Canada.

Our Canadian office provides comprehensive advice to Canadian residents and those with connections to Canada and are able to review all pensions including UK Pensions and existing QROPS.

Expert advice is required in this area and we are happy to assist with these enquiries

Option comparison



Bear in mind that QROPS and SIPPs are not suitable for everyone

Which option is best for me?

It may be that the benefits in your UK pension scheme are more important to you than the benefits of transferring to another pension arrangement.

It is extremely important that you receive all of the information on both the advantages and disadvantages of each option so that you can decide which one is the best for you.

Aside from your property, your pension is probably the second most valuable asset you will have and we're here to help you make sure that you choose the best option for you.

The advice process

Our process:

1. At no cost or obligation to you, our advisers will collate all the information on your pension arrangements. They do this by asking you to sign a Letter of Authority.

   This allows them to get full technical details of your pension arrangements. It does not allow them to alter your pension in any way. See our FAQs pages for more information on this.
2. The adviser will investigate your pension arrangements, taking into account your personal circumstances and objectives for retirement.
3. They will then be able to inform you of what benefits you will receive at retirement and what you could expect to receive if you retire early.
4. It will also be important for you to know what benefits would be available to your estate should you die before taking any benefits, as there could be a substantial difference.
5. The adviser will compare both the advantages and the disadvantages of each of the options.
6. If you are unable to locate any of your pensions, the adviser will trace them on your behalf.
7. Another benefit of our service is that, if you are within a few years of state retirement age, your adviser can provide you with an estimate of what your State Pension might be.
8. Once this information has been compiled, your adviser will discuss it with you and make a recommendation stating the most suitable option.

   You should bear in mind that while it is unusual, it could mean that your best option is to leave the pension in the UK.
9. You will then be supplied with this information in a pension report.

The advice process continued

What will it cost me?

The initial investigation is carried out at no cost or obligation to you.

If it is recommended that you leave your pension in the UK, then it will have cost you nothing to establish that this is your best option.

However, if you are advised that a transfer to either a SIPP or a QROPS is your best option, your adviser will recommend the most suitable company for you to transfer your pension to.

The adviser will also recommend suitable funds to invest into your pension that meet your attitude to investment risk – whether that is very cautious or adventurous. We will arrange the transfer on your behalf.

If you want to take some or all of the benefits now, your adviser will arrange for them to be paid directly into your bank.

There are fees for this service, all of which will be fully itemised in writing and are included in the comparison so a transfer will only be recommended if it is to your advantage.

Your adviser will:

1. Gather all the necessary information on your pension arrangements while gaining an understanding of your retirement plans.
2. Compare all the advantages and disadvantages of transferring your pension to a SIPP or QROPS. If we think it is best that you leave your pension in the UK, there is no cost at all for our service.
3. If they recommend that you transfer your pension to a SIPP or a QROPS we will confirm that in a report written in plain English. If you choose to transfer your pension, they will arrange it for you.

The service to you is carried out at no cost or obligation

Advisers

Our financial advisers pride themselves on offering customers the highest quality service

We always recommend that anyone considering a UK pension transfer seek independent financial advice before making a final decision.

Your pension may be the most valuable asset you own. Make sure you protect it by doing as much research into the

advantages and disadvantages of a pension transfer as possible – before signing on the dotted line.

Your adviser will be available to answer any further questions you may have about pension transfers after reading this guide.

Call us on

+1 403 266 8832

or email

**enquiries@
alexanderpeter.ca**

One of our pensions advisers will contact you to discuss your options

Pension review questions

I have a final salary scheme, should I consider transferring?

Yes. Although you should bear in mind that final salary schemes offer a very high level of

guaranteed benefits and are considered to be the Rolls Royce of pension schemes as they are usually index -linked and provide death benefits to widows and widowers.

These are valuable benefits, which is why it is very important to get a detailed analysis of your final salary scheme to ensure that the benefits of a QROPS or International SIPP outweigh the benefits you would be giving up.

A highly detailed knowledge of pensions, with the required qualifications and regulation in Canada and UK, is essential to giving advice on final salary schemes.

Can I transfer my State Pension Scheme?

No, this service is not suitable for State Pensions. The service is for private or company pension arrangements only.

I have bought an annuity with an insurance company. Can I still transfer?

No, you must transfer before you buy an annuity.

Can I take 100% of my fund as a cash lump sum?

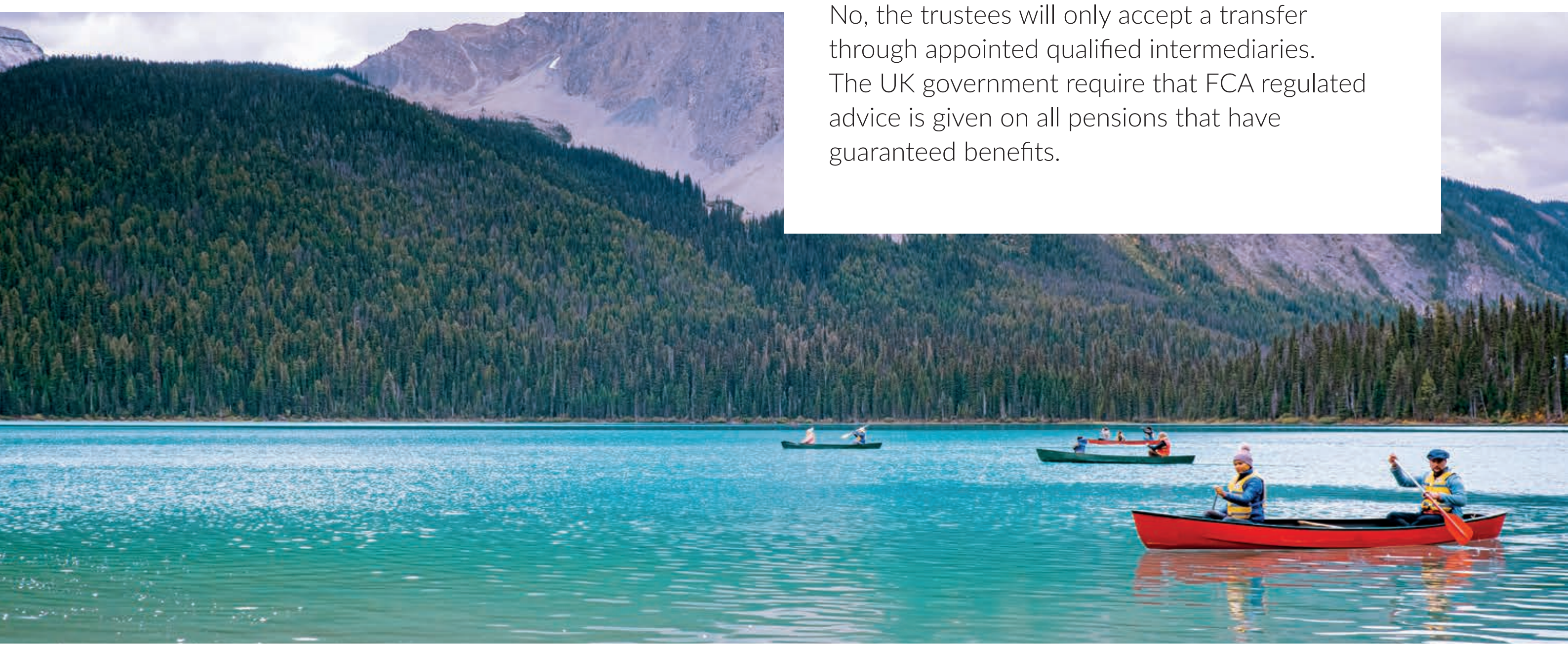
Since April 2015, you are allowed to take all of your fund as cash. However, you will need to pay the tax at the appropriate rate of where you are resident. Most schemes that your adviser will recommend are at a minimal rate of tax.

In what circumstances shouldn't I transfer?

In the majority of cases, QROPS and International SIPPs are suitable for non-UK residents. However, if you have guaranteed annuity rates on your personal pension plan, then this may not make a transfer suitable. This service is not for UK residents.

Can I organise a transfer myself?

No, the trustees will only accept a transfer through appointed qualified intermediaries. The UK government require that FCA regulated advice is given on all pensions that have guaranteed benefits.



Talk to us

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Get in touch

Wherever you live in the world we can provide regulated financial advice.
We have advisers based in the UK, Australia, Canada, Europe, and the US.

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This brochure is for information only. Please do not act based on anything you might read in this article. All contents are based on our understanding of legislation in both Canada and the UK which is subject to change.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Your pension income could also be affected by the interest rates at the time you take your benefits. Levels, bases of and reliefs from taxation may be subject to change and their value depends on the individual circumstances of the investor.

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AP-UKPTGCAN-220616