An Introduction to Foreign Pensions - Part 2

OVERSEAS TRUST & PENSION

Part 2 Overview

In this second instalment of our mini-series on foreign pensions, we will be discussing the various features and key advantages of a foreign pension. Once read you should have a good understanding of the main features and benefits and how these fit with certain client's financial requirements.

The desired outcome from utilising foreign pensions is an enhanced ability to deliver a broader holistic and integrated financial planning proposition in a more globalised world. For clients, this translates into helping them achieve real financial security and independent in retirement.

In our 3rd edition, which will follow in a couple of weeks, we will look at how to contribute to a foreign pension, taking into account whether contributions are being made by using a client's annual exchange control allowance, or whether those assets/funds are already offshore. We will also consider contributions made from foreign trusts.

Upcoming Mini-Series

- **How to contribute to a foreign pension**
- **Investment Options**
- **Benefit options at retirement and tax implications**
- **Succession and Foreign Probate**

Did you know?

Since it was established in 2015, the Channel Islands Financial Ombudsman (CIFO) - has included within its scope pensions providers, intermediaries and managers based in Guernsey. Both individuals and small business, whether they are in the Channel Islands or not, can use CIFO to settle complaints left unresolved by their pension provider. This makes Guernsey one of the few international territories where client accountability forms a core part of the regulation.

2 Why Use a Foreign Pension?

With the advent of globalisation, a more mobile international workforce, ease of travel; and not to mention the challenges we face living in SA, which include a depreciating currency, political uncertainty, economic stagnation, exchange control restrictions and restrictive pension reforms – means creating retirement provision that takes account of these issues is becoming increasingly difficult.

Retirement planning software available is fairly limited in its ability to account for the above because the assumptions and goals are all based in Rand and assume future expenditure will be Rand-based. However, expenditure in retirement will for an increasing number of families have a foreign currency component: Foreign travel, visiting family abroad such as kids and grand-kids, helping fund foreign university or other tertiary education, seeking specialised medical care, a second home overseas or compliance with dual citizenship program and even possible emigration.

How do you even begin to plan for these client aims when all the assumptions used in doing so are Rand based. For a start, how do you accurately predict where the Rand will be against the USD or GBP for example in 5,10 or 20 years' time? Helping your clients accumulate sufficient wealth to facilitate such lifestyle goals requires you to take out the uncertainty of currency volatility and the impediments of exchange control policy together with linking assets to foreign markets. Hence, diversification is once again the key to planning, but it includes diversifying the retirement solutions used away from domestic arrangements to international ones. Bearing these points in mind, we identify the features and benefits of using a foreign pension or international retirement plan (IRP) and the corresponding advantages for clients:

Table of Benefits

Financial Need	Comment	Benefits
Financial Security/Asset Protection	Money contributed involves change of ownership to the IRP, a non-resident vehicle and outside the legislative confines of SA	• Protection from political risk and changes in government policy • Protection against claims against a client's personal wealth, e.g. creditors

Contact Us

If you have any questions in relation to international personal or corporate pension plans, that you are considering for a client or that a client may be in, please contact one of our team below: -

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Financial Need	Comment	Benefits
Probate, Estate and Succession	Holding foreign assets can lead to complications regarding cross-border tax and probate issues on death	• Avoids need for foreign wills • Mitigates executor fees • No local or foreign probate • Asset transfer on death almost immediate • Choice of any beneficiary • Money can be left offshore – don't have to bring back to SA
Building Retirement Wealth	Provide an unconstrained environment to supplement ZAR-based retirement provision and create a more diversified retirement plan	• Create a more diversified, holistic retirement strategy • More likely to achieve real financial independence • Can build wealth in any foreign currency • No tax relief, therefore, annual limit of R350K doesn't apply • Plan for expenses in foreign currency
Investment and Currency	Regulation 28 investment restrictions don't apply, allowing clients to create a truly international portfolio that meets their objectives	• Unrestricted choice from the global investment universe • Choose from: funds, direct shares, alternatives, bonds, cash, life wrappers • True Rand-hedge by investing in any foreign currency
Access and Benefits	Retirement benefits can be tailored to meet the needs of the individual	• Retirement age of 55 • Can take benefit as income, capital or both • No need to annuitize – can take capital/lump sums only • Full flexibility at retirement – including a 100% lump sum benefit

Key Notes

- **Foreign pensions allow SA residents to diversify their retirement assets by currency, market and structure**
- **Help to safeguard against political and currency uncertainty, particularly if a portion of retirement expenditure is likely to be foreign currency based (e.g. travel, funding children university education)**
- **For HWN individuals likely to reach the ZAR 350K p.a. Tax-Deductible cap, supplementing additional provision in a foreign pension makes absolute sense**
- **Foreign pensions are not subject to Reg 28 – allowing clients to create truly international portfolios that meet their objectives**
- **International retirement plans offer a range of additional benefits including:**
  - **Asset protection**
  - **No need for foreign wills or executors saving time and money**
  - **Open architecture investment capability to suit each client's needs**
  - **Flexibility regarding accessing benefit how and when it suits the individual**
  - **Choice of any beneficiary on death**

Summary

The ultimate objective of using a foreign pension is to **provide peace of mind, security and improved certainty to the client regarding their financial independence** in retirement. In an SA context where many are feeling uncertain about what the future holds - particularly from a political, economic and currency perspective, having a portion of one's retirement assets diversified in an appropriate offshore vehicle helps safeguards against this.

IRP's are certainly not for everyone but for the right client they have a role to play and enables advisers that utilise these services to differentiate themselves in a unique way and help clients.

THIS MINI-SERIES QUALIFIES AS 20 MINUTES CPD

CONTINUING PROFESSIONAL DEVELOPMENT MARK cpd