

## Part 5 Overview

In the fifth edition of our Mini-series, we will be discussing Taking Benefits from an International Pension.

This follows our first four instalments, which were titled: 'What is a Foreign Pension?', the 'Benefits of using a Foreign Pension', 'How to make a contribution to a Foreign Pension' and 'Investment Options for International Pensions'. If you have not seen these instalments, please let us know and we will send them to you.

Part 6 will be released in the month of November 2017 and will cover Succession Planning. In the future, we also intend to look at Taxation.

## Upcoming Mini-Series

- Succession and Foreign Probate
- Taxation

## Did you know?

Guernsey has an outstanding reputation as an international financial centre with more than 50 years of servicing private and corporate clients from around the world.

## 5 Taking Benefits from an International Pension

### Taking Benefits

The benefits payable under an international pension will differ from one provider to another as well as from jurisdiction to jurisdiction. Advisers should familiarise themselves with the details of each plan, as this could have a large impact on the application of the pension to the client's needs.

### Benefit Age

An international pension will have a mandatory retirement age. This is the age before which no benefit can be taken. However, international pensions will generally have special provision for earlier access to retirement benefits where a serious illness or disability occurs. There may also be special provisions for individuals who partake in careers with limited life spans, such as professional athletes. The minimum retirement age is generally between 50-55 years of age. In our case, the OPES International Retirement Plan has a retirement age of 50.

Many pensions will also have a specific date by which some form of benefit must commence i.e. a Compulsory Benefit Age, which tends to be between 75 and 90 years of age. This provision is to ensure that the pension meets its purpose, which is to provide benefit in retirement. This date can vary significantly.

### Benefit Type

International pensions are generally money purchase arrangements, where the contribution is not tax relieved and as such offers significant flexibility in terms of the types of retirement benefits available. They are not constrained by the minimum and maximum provision limits or annual benefit reviews, unlike domestic pensions.

OPES International Retirement Plan caters for each client's retirement needs and allows one to tailor their retirement benefits accordingly.

### Single Benefit

Under a single benefit option, the total value of the pension is commuted and paid as a one-off lump sum. This can be a useful option where a client has been accumulating funds for a very specific need post retirement and needs access to the full value of the pension.

### Regular Drawdown

Regular Drawdown is a programmed benefit payment, usually based upon a specific financial need. For example; a client may require \$10k per quarter to supplement their other retirement income and hence use a regular drawdown from the pension. There is no actuarial calculations and the benefit is raised by

## 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 your usual OTAP representative.

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# An Introduction to Foreign Pensions - Part 5

selling investments to meet the payment. Generally, such payments can be stopped or amended easily and provide for significant flexibility as benefits can match the exact financial need of the client.

## Ad hoc Drawdown Benefits

For clients that don't require regular benefit withdrawals or do not need to commute the entire pension, international pensions often provide a facility where an ad hoc drawdown benefit can be taken as and when required by the client. This gives the client the freedom to specify any amount. This benefit type is very useful to meet single one-off expenses. This could include paying for an international holiday, helping to support the grandchildren's education or some other one-off capital requirement.

## Annuities

There are usually two types of annuities that are available: Annuity for Life and a Temporary Annuity. Under the Annuity for Life, the level of benefit payment will be calculated using actuarial means based on a combination of life expectancy and gilt yields. These annuities are revisionary. In other words, the actual level of payment is reviewed on a cyclical basis, typically every three years, or once a year where a member is over 75 years of age. This is to establish if the level of payment remains in line with the actuarial calculations.

The reason for this review is because the annuity is not guaranteed and is reliant on the capital in the member's plan, which will be subject to fluctuations depending on investment performance. To be more specific, the Annuity for Life is a payment for the life of the member or the life of the assets in the plan, whichever ends first.

A temporary annuity is a short-term arrangement which typically runs from three to five years. This makes a fixed

payment on a regular basis over the annuity term without any revision. It is also funded by the plan's assets.

The actual benefit that a client may opt for will be personally motivated. Different benefit types may be taxed in different ways depending on the member's country of residence.

The payment of all and any benefits is based on the value of the pension plan. If/ when the pension value has been exhausted all benefit payments and benefit entitlement will cease. No guarantees are implied or given.

## Concurrent Benefits

Benefit options are not necessarily mutually exclusive and a client could have more than one benefit type operating. For example, a client could have a regular drawdown running and still take an ad hoc benefit payment. However, the flexibility and benefit options will be determined by the product provider.

## Death Benefit

When a member passes away, the remaining funds in the international pension are passed on to the nominated Beneficiaries. Where an annuity is in payment, it typically continues to be paid to the Beneficiary. Unlike occupational plans or purchased annuities, the advantage of the international pension is that all remaining assets in the plan are available for succession.

The other advantages of the death benefit include the fact that funds will pass directly to the Beneficiary and not via the estate or executors. This means that a dependant spouse or other Beneficiary will receive financial support in the form of the death benefit in a timely manner and will not have to rely on the wind up of the estate. We will cover succession planning in the next Part of our Mini-Series.

## Summary

In conclusion, international pensions offer clients and Advisers the opportunity to construct a highly personalised retirement arrangements to meet both regular and ad hoc requirements to funds. On the death of the member, seamless succession takes place with the full value of the remaining pension being preserved for the Beneficiaries.

## Key Facts

- 1) Retirement age from 50
- 2) Early access for ill health and disability
- 3) Multiple benefit options including lump sums, regular drawdown and ad hoc drawdown
- 4) Seamless succession in timely manner
- 5) Full value of unused funds available to Beneficiary

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**THIS MINI-SERIES QUALIFIES AS 20 MINUTES CPD**

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