# An Introduction to Foreign Pensions

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## Part 1 Overview

**In this short insight, we will look at the different types of foreign pensions and how to recognise one from another. With this foundation information, the remainder of our mini-series will go into the workings of a foreign pension, particularly for South African residents, and how these products can be used to assist clients in meeting their overall financial goals.**

**In our next issue, we will get into the most interesting advantages of foreign pensions and how they can be used to accumulate international wealth, protect assets, mitigate probate and cross-border tax, provide supplementary income, cater for non-Rand based expenses and mitigate the implications of domestic political and economic risk. In short, providing a safe haven investment for your clients and improved peace of mind.**

## Upcoming Mini-Series

- **Why use a foreign pension**
- **How to make contributions and exchange control**
- **Investment options**
- **Benefit option and taxation**
- **Succession and foreign probate matters**

## Did you know?

**Did you know, Guernsey is one of the few offshore jurisdictions that have both an ombudsman, tax authority and where cash held in pension funds are protected by statutory depositor protection.**

## 1 What is a Foreign Pension?

**Plan Type:** Foreign pension typically falls under one of two genres i.e. A. Occupational Pensions Plans and B. Personal Pensions Plans.

Occupational pensions form part of an employee benefits package and will either be contributory or non-contributory. Their funding is usually by the employer with the employee also having the opportunity to make contributions. These plans may be either 'defined benefits' or 'defined contributions' plans with benefits being calculated based on years employed as a percentage of final salary or benefits being calculated based on the value of the assets in the plan at retirement respectively.

Personal plans sees the total contribution being made by the individual, using post-tax funds to build up their personal retirement wealth.

The key point to take note of is that in the occupational plan it is the employer that makes the contribution to the plan, 'explicitly in respect of services rendered by the employee to the employer'. This point becomes very important in terms of taxation of foreign pensions from a South African perspective and will be covered in mini-series 5, Benefits and Taxation.

**Authority & Standing:** The standing of foreign pensions are typically categorised as 'Authorised/Approved' or 'Unapproved' plans. The distinction between authorised and unapproved plans is down to their status from a tax perspective i.e. approved or authorised refers to a plan that is approved by an income tax authority and or is registered with a specific pensions regulatory authority in the territory where the plan is established. This approval in most instances means that income tax relief is possible on the contribution.

Unapproved plans simply don't qualify for tax relief but remains bona fied retirement structures. Funds that have had relief on the contribution are typically taxed on the distribution whereas funds that are contributed post-tax can generally have the contribution re-distributed without tax, as tax has already been paid. This makes the use of unapproved pensions very beneficial in certain instances. This will be covered in more detail in mini-series 2, Why use a foreign pension and mini-series 5, Benefits options and taxation.

## 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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**Legislation and Purpose:** Irrespective of the authority and standing of a pension the territory that offers a plan should have specific legislation governing the foundation and running of pensions or retirement plans. In addition, the purpose of the plan must be specifically for the sole purpose of providing bona fide retirement benefits to the member and thereafter typically a spouse or dependent.

In the absence of specific pension legislation, you cannot have a pension plan and territories offering pensions where legislation is absent should be avoided.

**South African Regulation:** Overseas Trust & Pension is the only foreign pension provider operating in South Africa to be regulated by the FSB under the FAIS Act with FSP no 47261 which makes us the natural choice for advisers and planners given our regulatory standing and physical presence through or office in Cape Town.

At present OTAP has over 6000 member clients and we have been entrusted to administer over USD 2 billion of client funds which makes OTAP. One of the largest providers in the British offshore Islands.

**Summary**

Both corporates and individuals in South Africa can make use of international pension provision and should consider them as part of a total portfolio.

International pensions are in themselves very useful and form part of the general financial landscape in the western economies where there is freedom of the movement of capital. Given the relaxation of exchange controls, these options are also available to South African client albeit most remain overexposed to Rand based assets with high concentration risk on local markets and over exposure to domestic financial solutions.

This no longer has to be the case and international alternatives offer a world of opportunity through compliant and robust solutions which complement the existing domestic arrangements of clients. However, provider section becomes vital and advisers and planners should look to firms who are a specialist in this market, regulated and located in jurisdictions with robust protections and laws.

## Key Notes

- **International plans are either occupational or personal pension**
- **All personal plans and most occupational plans are now money purchase and not defined benefits**
- **Only use a jurisdiction**
  - **where there is defined pension legislation for international plans**
  - **that has an ombudsman**
  - **that has an income tax authority**
  - **that has a track record in pension administration**
- **Only use a product provider that is first and foremost a pension provider**
- **Avoid firms that offer multiple pension services but have no track record**
- **The term “Unapproved” in international pension jargon means non-qualifying for tax relief**
- **South African are permitted to hold foreign pensions**
- **Approved and unapproved pensions offer South African residents arranged benefits**

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