Securing your future

As a British expatriate living and working abroad, it's likely that you are able to earn more than you would at home. This could put you in a very strong position when it comes to financial planning and securing your future. In particular, when and how you retire.

Our research has found that being able to retire early and maintain a high standard of living is one of the top three financial goals for expatriates.[1] Our research also suggests that many expatriates have the means to achieve this goal as they typically earn more than four times the average income in the UK.

However, many people significantly underestimate both how long they will live in retirement and how much money they will need to maintain their chosen lifestyle.

[1] Independent research conducted on behalf of Friends Provident International by Insight Discovery in the United Arab Emirates, November 2017.

We are living longer with life expectancy at birth in the UK now at over 79 years for men and over 82 years for women. For men aged 65, UK life expectancy has now increased to over 83 years of age and for women the comparable figure has increased to almost 86 years of age.[2]

As a result, retirement funds need to last longer. If you are planning to retire at 50, the statistics suggest that over one third of your life could still lie ahead of you. Giving up work might seem like a long way off but the longer you delay making contributions into a retirement fund, the more it will cost you in the long run.

Creating your retirement fund

If you wait too long, you may find the cost of securing a comfortable retirement becomes prohibitive. At a time when you may want to relax and spend time with your family, you shouldn't have to keep on working.

By making appropriate provision early on, you could take control of exactly when you finish working and maintain a high standard of living in your retirement.

As an expatriate, your retirement planning is likely to involve building a portfolio of assets, such as pensions, savings and property investments, rather than relying on a single pension plan, which could all provide you with capital and income to fund your retirement.

You may have started a pension plan before you left the UK and wish to continue making contributions to this plan. Being non-UK resident for tax purposes affects how you continue to pay into any UK-based pension, especially if your employment contract is with an overseas employer.

How much will I need?

Working out how much money you are going to need to fund your retirement isn't easy. You might want to consider:

- The annual cost to maintain your desired standard of living in your country of retirement.
- Your existing UK or overseas pension savings.
- Other funds you have set aside for your retirement.
- The effect that inflation will have on your savings.
- Your appetite for investment risk.

A couple wanting to live a comfortable retirement in the UK would need savings of around **GBP 1 million** to fund annual expenditure of **GBP 40,000** in retirement through an annuity.[3]

[2] Office for National Statistics, January 2018.

[3] As at 2014 and based on a joint life annuity at standard rates with both applicants non-smokers aged 55 and with no escalation or guarantee. www.find.co.uk, 2 February 2015.

Your existing UK pension plan

You can continue to be a member of a UK registered pension scheme regardless of where you live or where your employer is based.

As an expatriate, you have three options to consider for your UK pension.

Option 1 – leave your money in the UK pension plan

Your pension will continue to be held by your pension provider until you claim it. You can request early payment from age 55 at which point you may be able to take up to 25% of the value as a tax-free lump sum and use the remainder to provide a pension for your lifetime.

If you are a member of a defined contribution pension scheme, you will be permitted to access all of your pension savings as cash from the age of 55.

If you are unable to draw your pension at age 55, or decide not to, you can claim your pension from your normal pension date. If you decide on this option, you can ask your pension provider for regular updates.

Option 2 – transfer your UK pensions to an approved arrangement in your new country of residence or in another financial centre

It may be possible to transfer your UK pension to a pension arrangement overseas, if the pension plan is a Qualifying Recognised Overseas Pension Scheme (QROPS). To qualify as a QROPS, and for you to transfer your pension to a QROPS, certain conditions must be met.

A 25% tax charge can arise as an overseas transfer charge. It is very important that you seek appropriate advice before making a transfer.

Option 3 – pay into a UK pension scheme from abroad

Living abroad no longer limits the amount either you or your employer can pay into a UK pension scheme. However, tax relief given to your contributions may be limited or not available at all. As a non-resident individual, you can obtain tax relief on contributions for up to five years after leaving the UK on up to **GBP 3,600** of contributions per year.

Your adviser will be able to give you information on which option is right for you.

The UK State Pension

Your UK State Pension will be based on your UK National Insurance record. You need 10 years of UK National Insurance contributions to be eligible for the new State Pension.

You may be able to use time spent abroad to make up the 10 qualifying years. This is most likely if you've lived or worked in:

- the EEA (prior to the UK's withdrawal)
- Gibraltar
- Switzerland
- certain other countries that have a social security agreement with the UK

The full new State Pension is £159.55 per week, and this will increase each year, but only if you live in the countries listed above.

The actual amount you receive will depend on your National Insurance record. The only reasons the amount can be higher are if:

- you have over a certain amount of Additional State Pension
- you defer taking your State Pension

You can still get a State Pension if you have other income like a personal pension or a workplace pension.

You may have to pay tax on your State Pension.

You may also be able to claim a State Pension from the country you are living in, if you are paying into its state pension scheme.

Any pension income you take from a UK or other pension may be taxable in the country you are living in.

The cost of delaying your retirement planning

Let's assume you want to give up work at 50 and retire on a monthly income of **GBP 4,000**.

Assuming you live 30 years in retirement and your investment grows by 5% a year, you would need an overall retirement fund of **GBP 757,713** to support that level of income (excluding any product charges).

To reach the **GBP 757,713** retirement fund, you would need to have saved **GBP 1,288** every month from the age of 25 (assuming a 5% growth rate and excluding any product charges).

But if you started saving at 30 instead of 25, you would need to have saved an additional **GBP 571** every month to achieve the same **GBP 4,000** monthly income.

Flexibility for expatriates

If you do not intend to return to the UK for some time, or if you work in various countries, contributing to a UK or any other domestic pension scheme may be unattractive as these arrangements are likely to be restricted in their portability, taxation and benefits.

You may find that the tax-efficient investment growth offered by international life insurance products makes them an attractive alternative to pensions.

Through a regular savings plan, for example, you can make contributions towards retirement in a tax-efficient manner. You have flexibility in how you make contributions and how you take the benefits at the end of the term. You could choose to pay on a monthly, quarterly, half-yearly or annual basis and could make additional top-up payments, for instance when you receive bonuses or dividends. The multi-currency options of these plans can be a particularly useful feature for expatriates.

If you have accumulated a lump sum already, you could consider investing in a single premium bond. By setting funds aside now and investing wisely, your investment could generate an income that could enable you to enjoy the lifestyle you choose throughout your retirement.

If you retire overseas and have used an international life insurance bond to build a retirement fund, there will be no UK tax liability on the proceeds as long as they are taken after you are not tax-resident in the UK, unlike a UK pension plan. However, there could be a tax liability in the country in which you become tax resident.

International life plans can also be tax efficient if you return to the UK. For instance, you can benefit from time apportionment relief on the time spent outside the UK which may reduce the tax payable on your investment gain.

Please remember that investment involves risk. Fund prices may go up and down and you could get back less than you paid in.

Protecting your family

Unfortunately, not everyone enjoys lifelong good health or lives long enough to reach retirement. That's why it's vital to plan ahead and consider the financial implications for your family, if you were to die without having built up a retirement fund.

By putting a protection plan in place early, you could help to give your spouse, children and perhaps even your grandchildren and extended family the financial security they need for their future, should you suffer a serious injury, a critical illness or die prematurely.

Incorporating life cover, critical illness cover, and/or total and permanent disability benefit, into your overall retirement plans should help you to focus on living life to the full without worrying about your family's financial future.

Life cover of **GBP 757,713** for a 25 year old British expatriate non-smoking male, for a term of 25 years using International Protector Middle East on a level term basis, would cost just **GBP 77.01** per month.[4]

By starting to save for your future now, you could give your retirement plans the time they need to flourish, and yourself the best chance of achieving the retirement you deserve.

[4] Premium based on a 25 year old British male, non-smoker, resident in UAE, for a term of 25 years. Assumes normal premium rates apply.

www.fpinternational.com

Visit our website to learn more about our range of flexible savings, investment and protection plans.

Speak to your financial adviser today to see how we could help you plan for your future.

About Friends Provident International

We are a leading financial services provider, with a reputation of trust, commitment and integrity, offering financial solutions to customers throughout their lives.

All currency conversions correct at time of print, January 2018.

Please note that the tax rates and provisions provided in this document are true as at January 2018 and are subject to change.

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