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The role of QNUPS and retirement planning

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Tim Salisbury outlines the benefits of using QNUPS as part of a retirement planning strategy for individuals with high incomes

Employee benefits advisers and human resources departments are facing a challenge in the form of remuneration for top executives.

Previously, benefits packages could provide generous pension provisions, allowing senior and valued employees to reduce their income tax bills and receive considerable tax relief by paying substantial amounts into their pensions.

However, the introduction of a £50,000 cap on the amount of tax-relieved funds that can be paid into a pension, coupled with a reduction in the lifetime pension allowance, means retirement planning for these individuals is now considerably more complicated.

Many of these high earners are now being compensated by their employers in the form of additional salary. But this additional salary poses challenges of its own; not least when it comes to meeting their retirement planning expectations.

Employee benefit consultants and human resource departments should therefore be looking at utilising supplementary pension solutions for their executives.

One of the few options which they might consider is a QNUPS (Qualifying Non-UK Pension Scheme).

What is a QNUPS?

QNUPS legislation was introduced by the UK government in 2010 to clarify the inheritance tax exemption of overseas pension schemes. They are open to UK resident and domiciled individuals, non-domiciled individuals and UK expats. Contributions to QNUPS do not receive tax relief, but assets within them grow free of tax.

There is no limit on the size of contributions or total fund size - so for those affected by the £50,000 annual contribution cap and lower lifetime limit, QNUPS may offer an attractive alternative. Though it should be noted that any contributions or in specie transfers should be appropriate to the individuals' lifestyle and retirement expectations.

A far wider range of assets than are permissible in a standard UK pension are allowed in a QNUPS. These include cash, general investments, private company shares, stock options, buy-to -lets, commercial and residential property (excluding your main residential property), art, fine wines or classic cars.

Loans of up to 25% of the fund value - repayable under commercial terms - can also be drawn. This is a particularly useful feature because a loan can partially serve as a substitute to drawing income without attracting income tax.

A tax-free lump sum of 25% is also available at retirement (30% if not UK tax resident under Guernsey rules), typically from age 55 onwards. Pension income, in the form of an annuity or flexible income drawdown, must commence by age 75.

A supplementary benefit of QNUPS is that assets held within them are free of UK IHT. QNUPS cannot and should not be used for IHT planning purposes.

They must be clearly established with the intention of eventually providing retirement income and the level of contributions must be proportionate to a person's financial circumstances. But as long as these conditions are met, on death any remaining assets in the pension fund can be distributed to your named beneficiaries, which could help with succession planning.

Below is a case study highlighting the circumstances in which a QNUPS may be appropriate as a supplementary pension scheme for a high earner.

Mrs X, 57, is a lawyer for a London based solicitors practice. She is married, has one daughter and earns a respectable salary plus bonus in addition to receiving a reasonable pension provision each year. Mrs X has a SIPP currently worth £850,000 but no other pensions.

Under the UK annual allowance, she is now unable to add more than £50,000 per annum effectively and her employer has increased her remuneration package as compensation for the lower pension limit. Due to these changes she now wishes to consider her retirement planning options and has approached her financial adviser for retirement planning advice.

Financial Objectives

• To provide for her daughter's future
• To provide a sufficient pension for her own retirement

Solution

Her financial adviser has recommended a QNUPS for the following reasons:

Firstly, the pension can be used for succession planning for her daughter. Mrs X does not want to appoint her husband, also a well-paid lawyer with substantial assets, as a beneficiary because they are contemplating a legal separation. Instead, she can appoint her daughter as a beneficiary to her QNUPS by establishing a letter of wishes.

Secondly, although she is currently maximising her annual allowance in her SIPP, she does not feel this will be enough to provide for her future retirement. Because there is no limit on contributions into a QNUPS, it would be an appropriate pension vehicle to use for additional contributions - although any contributions made should be in proportion to her lifestyle.

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