Understanding your UK to NZ pension transfer options

A brief overview by GBPensions

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Setting the scene

This e-booklet tries to answer some of the most frequently asked questions we hear about UK pensions and their potential transfer to New Zealand.

Please note: this e-booklet is only an overview. Over the years, we've talked a lot about the "moving goalposts" of legislation, which is one of the reasons why pension transfers continue to be an extremely complex area of financial services.

Our goal remains to help our clients understand all their options, so they can make a genuinely informed decision about what to do next.

What are Defined Benefit (DB) and Defined Contribution (DC) pension schemes?

If you've worked in the UK for any length of time, chances are you've accumulated at least one company or private pension. This could be a DB (defined benefit) or DC (defined contribution) scheme. These types of schemes are quite separate from the UK State Pension.

DBs are the so-called "gold-plated" pensions, where your retirement income is based solely on earnings and the length of time you've been a member of the scheme. In most cases, your final salary is the key determinant, but some pension schemes now use a "career average" salary instead. While commonplace in the public sector, such pension schemes are now rare beasts elsewhere.

DCs are also known as money purchase schemes. With these, your retirement benefits are based solely on how much money you've accumulated in your pension pot, consisting of contributions from you and your employer, investment returns, plus tax relief. Most employment-related pensions are now DC schemes and come with no guarantees. Personal Pensions and Stakeholder Pensions are also types of DC schemes and offer retirement planning opportunities to various employment categories, including the self-employed.

Currently, when you reach age 55, (rising to 57 in 2028), you can take the money out, although it might be sensible to leave it there until you actually retire, depending on your circumstances.

"I'm not sure what pension schemes I have. Where should I start?"

GBPensions regularly helps clients collate their pension information. If you're keen to investigate for yourself, there are a few websites you might like to check, including:

To retrieve a lost National Insurance number
gov.uk/lost-national-insurance-number

To track down contact details for a workplace or personal pension scheme
gov.uk/find-pension-contact-details

For free and "impartial guidance that's backed by [the UK] government"
moneyhelper.org.uk/en/pensions-and-retirement

This, that, or the other?

You'll often hear about transferring a UK pension to an NZ QROPS. That's a Qualifying Recognised Overseas Pension Scheme. In other words, a scheme that meets HM Revenue & Custom's strict criteria to receive transferred UK pension schemes. And myth-buster time: you can't transfer to a KiwiSaver because KiwiSavers do not satisfy those stringent UK criteria to be a QROPS.

But a transfer to a QROPS isn't your only option.

Potentially, when someone faces a large NZ tax bill to transfer to an NZ QROPS, a transfer to a UK SIPP (Self-Invested Personal Pension) can overcome this immediate liability and provide a more acceptable outcome. GBPensions is, to the very best of our knowledge, one of the few pension transfer advisory firms in the world able to offer the SIPP option and, therefore, the means to access monies without incurring UK tax.

Alternatively, depending on your circumstances and requirements, you may choose to leave your funds where they are in the UK, and withdraw benefits directly into New Zealand.

Weighing up the pros and cons

A pension transfer to a QROPS or SIPP isn't suitable for everyone. There are numerous factors (factual and personal, positive and negative) that need to be carefully assessed.

Exit penalties, legislative changes, security of funds for the estate upon death, and tax implications (which can be especially complex, as illustrated below) - these are just a few of the potential advantages and disadvantages to consider.

Pension / Superannuation schemes			
Jurisdiction	Contributions	Investment income	Benefits / withdrawals
UK	UNTAXED	UNTAXED	TAXED
NZ	TAXED	TAXED	UNTAXED
Pension schemes in NZ and the UK are taxed in completely different ways!			

Ultimately, GBPensions' role is to ensure you have all the information you need to make a choice and then, if appropriate, work to get the result you want.

"What's the significance of the 'four-year window'?"

To help ensure the most tax-efficient outcome, ideally, any transfer to an NZ QROPS should occur within four years of you becoming a tax resident in New Zealand. If you've already been in the country for longer than this, don't panic. There are still potential benefits to be gained from a transfer, but there may be tax to pay. Currently, unless you're aged 55+, you're not allowed to pay that tax liability out of the funds you're transferring.

GBPensions always recommends that clients seek specialist tax advice, personalised to their own needs. We regularly work with a number of UK/NZ tax specialists and can pass their details to you, upon request.

"How long does a typical transfer take?"

Realistically, we're talking months. Despite the financial sector's embrace of modern technology, pension transfers rely on hard copies being sent back and forth in the post. Timescales have never been wholly reliable, and the ongoing impacts of Covid-19 definitely haven't helped.

However, to try and streamline the overall process and alleviate some of this stress, in early 2022, GBPensions established a postal drop-box and telephone service in Cambridgeshire. This facility means that UK companies can send the paperwork to a mainland UK address, our admin manager can then scan those documents onto us in Auckland, and we can be getting on with the work, rather than waiting for hard copies to arrive in New Zealand. You can read more about this service on GBPensions' blog page.

"Should I wait for a favourable exchange rate?"

GBPensions doesn't offer advice about currency exchange. But, if a pension transfer is deemed appropriate, we would say that delaying it based purely on poor conversion rates is unwise.

You could, if you wish, "park" the transferred funds in a sterling QROPS until you feel the time is right to convert to your chosen currency. That conversion can happen far quicker than the time it takes for the actual transfer.

"If I transfer to a QROPS, how will my money be invested?"

The most common types of investment available to be held inside a QROPS are managed funds, which can be organised within portfolios to suit individuals' needs, preferences, and risk tolerance. However, more complex arrangements can be held where something more bespoke is required.

There are also different tax structures available with QROPS, which might suit the circumstances of some people better than others. GBPensions will be happy to advise accordingly and can take you carefully through the process of selecting the right investments and product to suit your specific situation.

> **On the next few pages you can see how some of this theory could play out in practice.**

Sheree's case study

Photo by Laura BC from Burst

Sheree returned to NZ in June 2020, aged 46. She has a personal pension scheme (pre-2016) with a £50,000 transfer value.

» Option 1

Leave the scheme in the UK until age 57 and withdraw benefits, as follows:

25% of the fund is payable as a Pension Commencement Lump Sum, **free of UK tax but subject to NZ tax on 31.80% at the highest income tax rate of 39%.**

The remaining 75% of the fund must be paid as an "income for life", **liable to tax in the UK (subject to UK tax code/allowance), and 100% liable to NZ income tax.**

» Option 2

Transfer to a QROPS before July 2024.

No UK tax liability, as the transfer is an "authorised payment"

No accumulated NZ tax as she's within the "transitional residents" period of four years

Tax is payable within the QROPS on the income generated by investments, but the **entire fund is payable from age 57 as a lump sum, free of further NZ tax.**

» Summary

By transferring to a QROPS, Sheree potentially avoids future UK tax complications, stops her NZ tax liability accumulating and gives herself the ability to withdraw her entire pension pot as one lump sum. There will, however, still be NZ tax deducted from investments within the QROPS.

Ric's case study

Ric and his wife Sylvia emigrated to New Zealand in June 2020. He is 55 years old and has a personal pension scheme (pre-2016) with a £200,000 transfer value.

» Option 1

Withdraw benefits immediately from the UK scheme:

25% of the fund is payable as a Pension Commencement Lump Sum, **free of UK tax and NZ tax.**

The remaining 75% of the fund must be paid as an "income for life", liable to tax in the UK (subject to UK tax code/allowance). Income **will not be liable to NZ tax for the remainder of the four-year transitional period, but after that will be 100% liable to NZ income tax.**

» Option 2

Transfer to a QROPS and withdraw benefits immediately afterwards. The entire fund is payable as a lump sum.

No UK tax liability as the transfer is an "authorised payment".

No NZ tax to pay, although there might be QROPS scheme fees to pay.

» Summary

By transferring to a QROPS, Ric pays no UK or NZ tax and gives himself the ability to withdraw his entire pension pot as one lump sum. There may be exit charges applied by the QROPS if he withdraws all of his pot in the early few years. He will lose the option to receive a guaranteed annuity (income) rate.

Tom's case study


Photo by LIGHTFIELD STUDIOS on Adobe Free Stock

Tom emigrated to New Zealand in June 2007 to be closer to his children. He is 48 years old and has a final salary pension scheme, with a £550,000 transfer value.

» Option 1

Leave the scheme in the UK until age 57 and withdraw benefits, as follows:

A maximum of 25% of the underlying fund is payable as a Pension Commencement Lump Sum, free of UK tax but subject to NZ tax on 82.28% at up to the highest income tax rate of 39%.

A Scheme Pension (or "income for life") of £16,500 pa liable to tax in the UK (subject to UK tax code/allowance), and **100% liable to NZ income tax.**

» Option 2

Transfer to a QROPS.

No UK tax liability, as the transfer is an "authorised payment"

Accumulated NZ tax on 48.45% of the transfer value is payable at up to the highest income tax rate of 39%.

Tax is payable within the QROPS on the income generated by investments, but the **entire fund is payable from age 57 as a lump sum, free of further NZ tax.**

Tom's case study

» Option 3

Transfer to a SIPP, today aged 48.

No UK or NZ tax to pay, and then at age 57, either:

a) Withdraw benefits from the SIPP, as follows:

A maximum of 25% of the underlying fund is payable as a Pension Commencement Lump Sum, free of UK tax but subject to NZ tax on 82.28% at up to the highest income tax rate of 39%.

The remaining 75% of the fund can be withdrawn as a flexible income, meaning it can be paid as one or more lump sums, liable to tax in the UK (subject to UK tax code/allowance), and NZ tax on 82.28% at up to the highest income tax rate of 39%. The UK tax should be able to be reclaimed or avoided under the Double Taxation Agreement between the UK and NZ; or

b) Transfer to a QROPS:

Benefits can then be immediately withdrawn with the entire fund payable as a lump sum.

No UK tax liability, as the transfer is an "authorised payment"

Accumulated NZ tax on 82.28% of the transfer value is payable at up to the highest income tax rate of 39%.

» Summary

By transferring to a SIPP today, Tom side-steps having to pay any NZ tax liability which would have to come from his own pocket. His monies can then accumulate virtually UK tax-free whilst inside the SIPP, even though his NZ liability is still accumulating. He can then, from age 57, access his entire pension pot as one lump sum. However, there may be exit charges applied by the QROPS if he withdraws all of his pot in the early few years.

Disclaimer and Disclosure

The details shared here are for informational purposes only, and the case studies are purely illustrative. They do not purport to contain all the information required to decide whether or not to transfer your pension to Aotearoa New Zealand. No representation or warranty is made regarding the fairness, accuracy, completeness, or correctness of this e-booklet's information, opinions, and conclusions.

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All photographs used in this e-booklet are for illustrative purposes only.

If you don't ask, you'll never know.

Getting in touch with GBPensions puts you under no obligation whatsoever. So, to chat about what your options might be, please either:

Email the team via transfers@gbpensions.co.nz

Complete the enquiry form via gbpensions.co.nz/contact-us

Call us on 0800 427 693 (0800 GBP NZD) or +64 (0) 9 414 2089