Lost & Found - the Private Client Pension

OPTIMUS

High earners are the forgotten people of UK pensions: fact. Not exactly a statement that will elicit widespread sympathy but true nonetheless.

Anyone earning up to £150,000 per annum can contribute £40,000 per annum tax-relieved into a pension, with gross-roll up of investments, a 25% tax free lump sum at retirement and flexible access to the remaining funds. Plus, of course, IHT-free lump sum death benefits.

If you earn more than £150,000, the upper tax-relieved limit starts to slide until it reaches a rather uninspiring £10,000 per annum for earnings over £210,000 at which point the tax breaks hardly seem worth it.

So, somewhere along the line the UK government appears to have decided that high-performing, high-earning individuals don't want, or don't need, to save for their later years, so why encourage them? After all, they earn so much that they can jolly well save in a fully taxed environment, right?

Wrong. There are plenty of reasons why high earners will want to save for their twilight years, and potentially beyond. If the last decade has taught us anything it is that earnings of all levels are vulnerable, but particularly in the high-risk, high-reward world. Think back to the end of the noughties with bankers carrying boxes of personal belongings out of tower blocks en masse, developers avoiding calls from lenders and hedge fund managers wondering why on earth they didn't hedge. What might they give now for a tidy, protected sum that they can call on in later years?

There is a solution out there, if you look hard enough, in the form of retirement benefit arrangements situated in reputable, stable overseas jurisdictions which I like to refer to as individual retirement savings trusts ("IRSTs"). They do not benefit from any tax-relief on contributions but, then, what does for the high earners we are talking about? Correctly structured IRSTs are completely outside the scope of UK IHT and provide fully flexible access to benefits at age 55.

Being a non-UK trust, UK source income within the IRST is taxed but non-UK source income is not. CGT does not apply and, interestingly, IRSTs also fall outside of the non-resident CGT charge which makes residential property potentially a very interesting asset class. SDLT and ATED can be managed very efficiently if property is your thing but, if not, the range of other assets available for investment is almost limitless and therefore entirely in keeping with private client demands. You can contribute when you want at whatever value you like, using existing assets on an in specie basis if you wish.

Save for the lack of tax relief on contributions and a mostly avoidable income tax charge, there is little difference in a tax sense between an IRST and a UK registered scheme. A vast array of asset classes and flexible contribution options are the main difference from a structural sense and that plays right into the hands of the private client investor.

Perhaps higher earning pension savers are looking a little less lost than they were before....

Non-UK sourced income not taxed

Flexi Access to benefits from 55