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Association of International
Property Professionals

GUIDE TO UK PENSION CHANGES & BUYING A FOREIGN PROPERTY

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Welcome to our free guide on the changes to UK pensions that, some say, may spark a rush to buy a foreign property for holiday, retirement or investment purposes.

Whatever you choose to do with your money is, of course, entirely up to you. But do take good advice about your pension and ensure that this comes from a regulated and qualified individual or company. The AIPP is not regulated to give financial advice and, accordingly, we do not seek to do so here. The sale of property is usually an (officially) unregulated activity in foreign countries (it is in the UK too), yet touches upon significant financial, tax, estate planning and other ownership issues. If you are at all unsure about how to navigate the many issues this presents then please do contact an independent financial adviser.

The AIPP is a not-for-profit organisation set up in 2006 by a group of like-minded people working in the international property industry. Our members come from 31 countries around the world with now over 350 corporate members. AIPP members encompass agents, property developers, lawyers, banks, FX, media and other trade professionals who have signed up to our voluntary Code of Conduct and, through membership fees, support us to help you, the overseas property buyer.

You can find out more about the AIPP on our website www.aipp.org.uk which includes a two minute video on what we do, free, for buyers. Do take the opportunity to research and connect with our members in your country of choice.

Unfortunately, we cannot assist members of the public with issues arising with non AIPP members. Members are listed on our website with current members to be found on our homepage through the simple search facility.

A couple of quick tips before you read on; do ensure you use a truly independent lawyer to handle any purchase you make and you may also benefit from reading our free general buyers' guide **'How to buy overseas property safely'** – you can download this free of charge from our homepage.

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6 April 2015 was UK pension 'freedom' day. Here is our 6-point plan to a safer foreign property purchase if you wish to use your pension to do so.

Keep your pension safe

On 6 April 2015 millions of British people beyond the age of 55 were granted access to a large pot of money, when the pension "freedoms" announced in the 2014 and 2015 Budgets began. The vast majority of savers will use the money sensibly to provide for their retirement. However, some of them may also come under pressure to part with the cash by unscrupulous salespeople.

Buying property abroad has long been a popular option for both retired people and investors. For the retired it can offer lower living costs, warmer weather and a new lease on life as they look forward to an active retirement. Overseas property has also often proven to be a good investment, attracting rental income and a long-term capital gain. But there are also problems with overseas property investment, particularly since it is sold in an unfamiliar, foreign legal system, usually unregulated by the United Kingdom's financial authorities.

For these reasons, it is not uncommon to hear of holiday-home buyers, emigrants and investors losing money, and it was to help prevent this that the AIPP was founded in 2006.

Here we offer our own guide to the pension changes, aimed particularly at those interested in living abroad or buying property. It includes a 6 point guide to buying more safely abroad and continues with a more in-depth explanation of your options as your pension pot becomes available to spend. Because there are many ways to enjoy a retirement or holiday home abroad without losing your longterm financial future.

The AIPP 6 point plan for safer property investment

1. Remember, bigger reward usually means bigger risks

A UK buy-to-let typically pays 5 to 12% return per year. If an overseas investment claims to offer significantly more than that you need to think about the additional risk and how you will fund your retirement if you lose your money.

2. Ask questions, be suspicious

Don't just ask about the property, check out the company, its founders and track record too. Ask for (real) client testimonials and make sure you find out in detail exactly what service they offer. Be polite and friendly but don't just take their word for it.

3. Get an independent lawyer

No matter what anybody tells you, how easy it all seems and how lovely the agent seems, ALWAYS use an independent lawyer to represent you throughout the purchase of your property overseas. By independent we mean one who represents your interests alone.

4. Run the numbers

If borrowing money, your repayments may stretch over several years, years in which lending criteria and borrowing costs may change. Discuss the long term repayment with a financial specialist before proceeding.

5. Beware binding preliminary contracts

When buying a property you will usually be asked to pay a modest (less than £5,000) deposit and sign a reservation contract. This will take the property off the market but should not, yet, be a binding commitment to buy the property.

6. Choose an AIPP member

The AIPP is the voluntary regulatory body for the overseas property industry, committed to raising standards. Our members are carefully vetted and approved. They voluntarily commit to self-regulation and are bound by our strict Code of Conduct.
If something goes wrong with your purchase, as members they promise to do everything they can to put it right.

> Retirees will come under pressure to part with their cash

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Pension changes guide

For the overseas property industry there has been a perfect storm of positivity. It includes the feel-good factor as the British economy recovers, the pound buying €1.33 (at the time of writing, January 2016) and evidence that prices in Spain and the Mediterranean have finally hit the bottom at some 40% cheaper than at their peak. Cheaper oil and passenger taxes have knocked hundreds of pounds off long-haul flights for British families

All of that would have had a significant impact on the numbers of people buying abroad at the best of times. But the icing on the cake has been the Chancellor's changes to pensions. Announced in the 2014 Budget, from 6 April 2015 those with defined contributions aged over 55 no longer have to convert their pension pots to an annuity to provide a lifetime's income. Instead they can convert it to cash and do what they like with it. That applies to some 10 million British men and women who hit 55 over the last five years or will reach 55 in the next five years.

But it isn't just them, because in the 2015 Budget the UK Chancellor announced that those who had already bought annuities could also convert them to cash. That means that all those retirees from the peak baby-boom years of 1945-48 are also free to convert to a lump sum with considerably less tax loss than before.

A Tempting Target

"We can't stop fools acting like fools" was the reply of a Financial Conduct Authority (FCA) representative when asked by the House of Commons Work and Pensions Select Committee on the new pension freedoms.

Neither can we. But while at the AIPP our job is not to sell property, it is our intention to ensure that overseas property is sold properly. Millions of people aged over 55 suddenly having retirement lump sums will be a huge boost to the industry, especially given the other positives to overseas purchase already highlighted.

But one overhang from the boom in overseas property buying years of 2000 to 2005 was the mis-selling of overseas property, the scams and the fake planning permissions, the lost savings and ruined lives that led to so many "shattered dreams in the sun" headlines that have blighted the industry since.

Undoubtedly the dodgy dealers, dreamers and fraudsters who caused that misery will be aware that billions of pounds will soon be looking for a home. An overseas property is a dream and aspiration that many people approaching retirement have.

And quite rightly. The benefits of a holiday home or permanent retirement in countries with warmer weather and cheaper living costs can hardly be over-emphasised.

However, we at the AIPP are determined to do all we can to ensure that anyone cashing in their pension pot for a property overseas have all the information they need to buy it safely. We do not want a single British person to lose the money they have saved for their retirement.

The UK Government's pension changes

Research indicates that British people consistently under-estimate by about ten years how long they will live. For a couple retiring together at the age of 65, there is a 50% chance of at least one of them living to the age of 92 and a 25% chance of one living to the age of 97. For men and women retiring at 65, half the men will live to 85 and a quarter of the women will live to 94.

To ensure that pensioners were providing for themselves in retirement the Government used to ensure that their pension savings were converted into an annuity; an insurance policy that pays a monthly income for life. Some pension providers allowed you to take the money out before, but it incurred a 55% tax cost as a sanction from HM Revenue and Customs (HMRC).

From April 2015 all that changed. Pension pots can now be taken as cash, to do as you please with them, at regular tax rates. In the 2015 Budget the Chancellor extended that to include the right to cash in an existing annuity too.

He did this to near universal acclaim because the returns on annuities had become so poor, invested as they were by insurance companies primarily in the bond markets which had been hit by the historically low bank base rate. It wasn't just the low rates though, there was a feeling that people should not be forced into an inflexible product.

Who can cash in their pensions?

These changes only affect those on defined contribution pensions, where you and perhaps your employer has invested into a "pension pot". It does not include defined benefit schemes such as final salary pensions.

Defined contribution ("DC") schemes include many different kinds of pension products with a bewildering array of initials such as COMPS, CIMPS, GPPs and SIPPs. Look at the Pensions Advisory Service website for more information and to see what sort of pension you have.

10 million British people will have reached 55 between 2010 and 2020

"We can't stop fools acting like fools".

Financial Conduct Authority

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(www.pensionsadvisoryservice.org.uk). They are also known as money purchase schemes, and have become increasingly popular in recent years as defined benefit schemes have been closed down by companies, mainly because of people living longer!

DC pensions can be cashed-in from the age of 55, but that will depend on what age you agreed with your pension provider, usually between 60 and 65, and you will get a "wake-up" pack from your pension provider some six months before your agreed retirement age. If you are retiring younger than 55 due to ill-health you may be able to take the pension earlier.

What are the legal changes?

There are actually rather a lot of pension and tax changes. However the one that has generated the most excitement (or panic, if you work in the pensions industry!) is the right to withdraw your entire pension pot and do whatever you like with it.

Until 6 April 2015 you had to keep it in a pension or convert to an annuity, an insurance policy that pays you an income for life. The change means you can take it as a lump sum.

Only the first 25% will be tax free, the rest will be taxed at your normal rate. Of course it isn't quite as simple as that. If you live abroad, for example in France, you will be taxed on the full amount. For those hoping to cash in existing annuities – this element was only revealed in the 2015 Budget – you will need the insurer's permission, and some may not give it.

However, for most savers the extra choice and flexibility is an exciting prospect, and it is fair to say that the overseas property industry is looking forward to the huge potential of cash arriving in the market in large quantities.

According to Hymans Robertson, the pensions consultancy as quoted in the Sunday Times, as much as £6 billion is anticipated to be withdrawn from pension pots within four months of the new rules coming into effect, by 540,000 savers.

Your other options

No-one quite knows what will happen or where the money will go. But the options remain as they were before:

Convert to an annuity

The annuities market will be seriously dented for a while. However, the benefits of a fixed and regular income for life cannot be ignored and as interest rates rise, so will annuities. The important thing is to shop around and not simply buy the annuity from the same people who were looking after your pension. According to the FCA, 80% of pension pot holders would benefit from buying their annuity from an insurer other than the one they had saved with.

Keep it within your pension.

Residential property is banned from being included in a pension where there is any possibility of you benefitting from it personally before your retirement age. For example, if you put a holiday home into your pension and then stayed in it before retirement you would effectively be getting a tax-free benefit. There are ways of investing in property, either in commercial property for example via a Self-Invested Personal Pension (SIPP) or via a fund such as a Real Estate Investment Trust (REIT), but these are investment products, not ways of getting the benefits of cashing in your pension

For anyone considering emigrating, some pensions are aimed specifically at people living abroad. Qualified Recognised Overseas Pension Schemes (QROPS) are approved pension products based overseas in nearly 50 countries. They do not allow you to buy property within the pension, but can be a tax-efficient way of financing a move abroad, where a retiree may benefit from lower living costs and healthier weather. There is a 70:30 split, whereby a maximum of 30% can be taken as a lump sum while 70% goes into an age-related payment.

Income drawdown

Initially there were hopes that you could keep your pension scheme running but use it like a bank cashpoint, making simple and cheap withdrawals as and when. While the Government has indeed significantly relaxed the rules on drawdown, the rules are still so complicated – such as needing to prove that you have an alternative income source of at least £12,000 per annum for a flexible income drawdown – and it will only really be relevant for large funds of over £100,000.

Moreover, many pension companies are planning to limit the number of times money can be accessed or insist that a minimum balance is maintained. They may also charge high withdrawal fees, as much as 2.76% according to Which? Magazine.

The other important consideration for those with large funds is the punitive tax rates on pension funds that exceed a million pounds.

Spend your pension on property?

No-one knows quite what will happen when pensions are liberated. In the USA and Australia when something similar happened, the sky didn't fall in

> British people under-estimate by 10 years how long they will live

> If you live abroad you could be taxed on the full amount

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and retirees on the whole continued to be sensible.

Research by Ipsos Mori suggests that 12% of the relevant pension-pot-holders plan to cash in all or most of it. Of these 200,000 or so, they found that 32,000 intended to use it to buy property.

What could you do with it?

Buy an overseas home.

At the AIPP, while we do not sell overseas property, we certainly understand why people want to and we encourage them to do so, but safely. The joys of foreign property ownership reach all the way from the way it fosters international understanding and co-operation, right down to bringing extended families together for cheap holidays.

For retirees on a tight budget, cheaper living and accommodation abroad can make a pension – even an annuity – go a long way, and that can be a major factor in ensuring a long and happy life. It can also enable a retiree to move to a significantly cheaper tax jurisdiction.

Fly-to-let, as overseas buy-to-lets are known, can offer good rental returns and capital growth, although of course any investment has its risks.

However, the tax implications of withdrawing your pension pot are serious. For basic rate tax payers, after the initial tax-free 25% they will pay 20% tax. But if it reaches the next band they will start paying 40% in tax. For incomes above £150,000, or if their tax affairs are in chaos and incur emergency tax, they could be taxed at 45%. And that is just in the UK; if you live abroad you may pay more tax and on the full amount. As with all financial matters, you should seek qualified, independent and regulated advice. The AIPP is not authorised to give this advice and does not do so.

The downsides of overseas property investment

Even a good and safe property investment has its problems compared to investing in an annuity.

- The value of property can fall and it frequently does. Remember, this investment may have to give you an income for 30 or 40 years, which could be wrecked if a resort becomes unfashionable or airlines stop flying there.
- Buying and selling costs can be high with overseas property. Check what you will pay.
- How will you survive financially if your fly-to-let apartment does not get a tenant? It may be sensible to diversify across products to create a balanced property portfolio.
- Difficult tenants. In many countries the law is firmly on the side of the tenant. What will you do if your tenant doesn't pay and you can't get them out?
- Your money is locked up in an asset that could take a long time to sell. Carefully consider your exit strategy.

Being left penniless

The Work and Pensions Select Committee warned in its recent report that pension pot holders could be at risk. It said that a single pensions regulator was needed to protect savers and that people should not be able to get their hands on their pension money until at least the age of 60, to offer a better chance of it lasting throughout their life.

Beware!

To quote the FCA representative again, "We can't stop fools acting like fools". The problem is, it is not just "fools" who get conned. Scam artists can and do successfully target even the cleverest and most astute investors. Among the many scams that the FCA and The Pensions Advisory Service (Tpas) is warning, is the offer of a "free pension review". Already, they say, they have seen a threefold increase in suspicious schemes since the announcement of the reforms.

We would feel more confident if the Government had its advisors in place, but (at the time of writing) Pensions Wise, the new website and advisory service cannot tell you specifically what is right for you and its advice is not protected in the same way as a regulated adviser. Eventually you will be able to get advice in person at a Citizens Advice Bureau or over the telephone from Tpas, but for the moment you will have to use the website.

Regulation and property

For anyone investing in UK investments, such as some crowdfunding products or student investments, you can cut your risk significantly if you buy from a regulated investment company, or get advice from a regulated advisor. Look at the FCA website (www.fca.org.uk) to see if a company you are buying from is regulated.

For those considering investing overseas, UK regulations do not apply. | **AIPP**

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