EPH
EXPAT PENSION HOLLAND

INTERNATIONAL TRANSFER OF VALUE

A) What does 'Transfer Of Value' Mean?

Expats relocate often and thus can have Workplace Pension Claims (Pillar 2) in many countries.

Such an accumulation is not optimal for the Expat:

- It does not provide a quick and easy oversight on the total of all claims;
- It can result in additional costs as each claim might result in additional costs;
- It might lead to a lower pension coverage regarding certain types of coverages;
- As each country might have different regulations about how to prevent international double taxation as of retirement age, this easily leads to many complications and high advisory costs.

Thus it seems logical to look into the possibility and desirability to transfer already acquired Workplace Pension Claims to the active current Workplace Pension Claim.

A transfer of pension claim is about such a switch if it means that there are no negative legal nor tax implication and thus that there is no loss of value.

Please distinguish between *individual* versus *collective* transfers and a *legal entitlement* versus just *the possibility to ask* for a transfer.

For sake of completeness it be mentioned that Transfer of Value does not include State Pensions (Pillar 1) nor Private Pensions/Annuities (Pillar 3) as they each have their own regime.

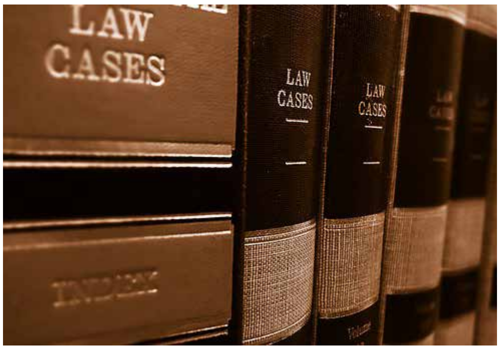
B) Step 1: Are There No Legal/Tax Barrieres?

A Transfer of Value is only possible if the legal and tax system of both countries makes no objections to such a switch.

Many countries tend to have their own view on this and also can make a difference between incoming and outgoing capital. For the procedure it can be relevant if the transfer is within or outside of the EU.

One often sees that countries with high quality pension systems have stricter regulations about value leaving the country than for value coming to the country.

Whereas countries like for example The UK are not (yet) very restrictive, countries like The Netherlands are extremely restrictive regarding outgoing capital which makes an outgoing transfer in most instances not possible.



When looking into these aspects, please make sure that you differentiate between the legal versus tax requirements and authorities.

C) Step 2: If Allowed, Is It Desirable For The Expat?

In order to answer this question, it is required to first look carefully into all related aspects:

D) Nature Of Claim And Current Active Plan

A Transfer of Value means that the existing already build up pension claim is translated into a certain amount of capital after which this capital is being infused in the existing active pension plan.

Thus several main aspects are relevant:

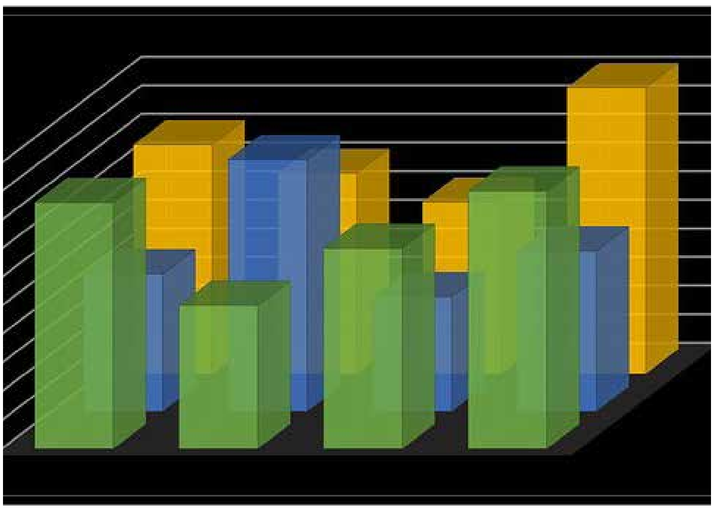
- How is the existing claim being translated into a capital? If the current claim has a Defined Contribution (DC) nature and is investment based, you have to look at related costs. If the current claim is a guaranteed Defined Benefit (DB) pension claim, then the transformation means the loss of the guarantee and maybe even also the loss of (conditional) indexation rights. You will have to ask yourself if this is indeed a wise approach.

- Likewise you will have to check at what amount of costs the transferred capital will be infused into the current active plan. If that plan has a DC nature, you look at the costs of acquiring additional funds. It that plan has a DB nature, then you will have to look carefully at what interest rate the purchase will be made. As the interest rate is currently at a historical low, this aspect is highly relevant.

- In case the existing pension claim is being translated into the current active plan by means of a certain legal mandatory interest rate, you will have to look carefully at all implications of the possibly difference between that legal transformation rate versus the contract interest rate of the old and current pension plan.

- In case the former and current plan have a DC nature, please carefully compare the costs and investment options. Life Cycle Funds which automatically reduce risk as age increases sound great but are not always implemented in a great manner. Life Cycle Funds might also have a risk profile which does not correspond with your risk profile.

- Additional attention is required for a comparison of the (too often forgotten) pay-out flexibilty in the old versus current pension plan. The differences can be very substantial and can vary from complete Lump Sum options versus mandatory lifelong annuities.



- Besides the capital based Old Age Pension aspect please also pay attention to the possible effect of a transfer on the risk or capital based Next of Kin coverage.

- Finally also please watch out for the existence of often too expensive mandatory additional clauses.

E) Additional Obligations For Employers?

It is possible that the mentioned differences in interest rates result in substantial additional financial obligations for the former/current employer. Even though certain countries do have regulations which give certain employers the possibility not to cooperate and thus prevent extremely high costs.

We advise Expats to have this carefully checked as it is relevant to know *beforehand* what you might be asking/demanding from your previous/current employer.

F) Offshore Pensions/QROPS

In case of an International Pension Plan (IPP) or in case of a QROPS, please use extra caution as there are often additional legal and tax regulations which are not known to Expats who are not expert on pensions.

Furthermore please use caution when hiring an advisor for assistence as we have too often seen reports of commercial organizations which seem to have a tendency of too quickly presuming benefits when they are not realistic.

G) Conclusion

Due to the many technical, legal, tax and product aspects of international transfer of value, it seems advisable for Expats to obtain advice *beforehand*.

International experience and Network

We have more than 20 years of experience in international expat and collective pension consultancy. Thus we have an elaborate international network. If so desired, we can advise and act swiftly in international matters.

Contact

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