EPH
EXPAT PENSION HOLLAND

PENSION RISKS

‘PLANNING VERSUS SURPRISES’

Introduction

Global expat pension optimization has many risk aspects. Expats often are not aware of these risks or their related effect. Thus we will now mention the most essential risks.

DC Investment Risks

Due to the historically low interest rate an increasing number of pension plans is based on Defined Contribution (DC) and investments. We will now pay attention to the related risks.

Correct Risk Profile?

Due to the often substantial investment period until pension age, it is highly relevant that the investment is done in the best possible way. The bases thereof is to use the correct personal risk profile.

It makes sure that your risk acceptance is defined in a highly accurate manner and that the deemed suitable investment categories are coupled with this profile for the correct period of time.

If you might have any doubt it your pension plan uses a correct profile, feel free to visit our site and use our elaborate risk profile form.

Fund Selection?

It speaks for itself that it is relevant to only use the best investment funds regarding expected return on investments and low costs.

Life Cycle Funds can be fine if they are implemented correctly. Please have this checked as it is not advisable to presume that they will all be fine.

Split Pension Capitals?
The standard situation is that the capital grows and is used at pension age to get the desired and legally and taxwise allowed pension:
- Lump Sum(s) and/or
- Temporary/Lifelong Annuities and/or
- Flexi Draw Down

In some countries it is possibe to split the pension capital in several different sections and each with a separate focus: For example one for early retirement, one for standard retirement and one as an increase of the standard old age pension during the first few years of retirement.

In such a situation, you have to adjust your investment mix and risk to the different time tables and needs.

Investment Mix regarding Old Age Pension and Next of Kin Pension?
Often the Old Age Pension capital is also used as funding for the Next of Kin Pension in case the insured person passes away prematurely.

This is no problem but be aware that both types of pension can have a very different investment horizon. As the Next of Kin Pension horizon can be much shorter, please take this into account while creating the overall coverage. It might be a reason for acquiring an additional and in time declining risk coverage.

Interest Rate at Retirement Age?
Just before retirement age a DC pension claim often requires that an annuity has to be bought. In that perspect the height of the interest rate is highly relevant. At the current historically low interest rate this means that buying an annuity is not that interesting and that if possible it seems advisable to look at other options.

DB Risks

These Defined Benefit kind of pension claims provide guaranteed pension pay-out. No investment risk until retirement age nor interest rate risk at retirement age. Does this mean there are no risks? No.

Transfer of Value?

In case there is a (often conditional) annual indexation of the existing pension claim and it is also possible to transfer the value to the new occupational pension claim, you have to choose whether or not to transfer.

Which means you have to make a projection: Will the existing annual indexation end up with more old age pension pay-out? Or will this be provided after a transfer of value?

As this regards the comparison of many technical aspects, it seems wise to seek advice. One misunderstanding we already like to address: Some consultancy companies prefer clients to transfer in order to 'earn' money on commissions and future investments. They often state that 'pensions is about having the freedom to decide yourself about your own pension capital'.

Which statement is wrong. Pensions is about getting the highest pension at the lowest cost and risk.
So please let yourself not get side tracked.

Legal/Tax Risks

Double Tax Treaties

Expats who live in one country and receive pension pay-out from other countries are advised not to forget the impact of Double Tax Treaties.

They are often created between two countries in order to prevent or limit the negative effect of double taxation and are highly relevant for pension optimization.

Expats who plan ahead are advised to compare several countries in this respect.

Future Legal/Tax Regime?

No one knows what the rules will be in the future. Some countries, like for example The UK, have a tendency to change the pension related legislation and not always in favor of the person entitled to pensions. Please take this uncertainty into account when planning ahead.

Conflicting International Regimes?

Expats often have pension claims in several countries. One of the most relevant aspects of pension optimization is to make sure you use all tax benefits. In that regard each country has its own rules. As we have seen many times that national regimes can conflict in a serious manner, please take this into account when planning ahead.

For example: In Swiss certain pension pay-outs are Lump Sum based. Holland does not allow pension Lump Sum pay-out. Without additional attention this will result in the situation that a possibly substantial Swiss pension capital is not treated as such by Holland and could be taxed completely and up front at pay-out at a very high progressive tax rate.

Risk versus Ruling?

We sometimes hear from new clients that they know what a certain international tax situation constitutes as they have done their homework.

We always stick to our own approach which means that we do our own research and prevent not needed risks. Regarding international tax issues this means that we in general ask the National Tax Authority to in writing agree with our view on a certain matter.

Next of Kin Pension Funding

Regarding how to fund the Next of Kin Pension coverage, there are three options:

Capital Based

This means that there is a capital with which the Next of Kin Pension coverage will be funded. As Next of Kin Pension often is about lifelong pension annuities, this will often require a substantial capital for funding.

Risk Based

This means often that an insurance company provides coverage if the insured person passes away during the contract. As this is only about risk coverage and does not require capital, the costs are substantially lower. If the insured person has not passed away at the end of the contract, you have paid premium that will not anymore provide any result.

Combination

Often the capital used to build a fine Old Age Pension is also used to fund the Next of Kin Pension, which capital based funding is suplemented by an additional (often temporary) risk coverage.

Next of Kin Pension before Retirement Age

In order to see if the coverage meets your demands, please look at all existing State/ Occupational/ Private coverages. The funding can be capital and or risk based. Due to the current historically low interest rate, additional risk coverage is not that expensive if you get it in time and at the right place and at the right age.

Next of Kin Pension as of Retirement Age

Additional risk coverage is often either not possible or very expensive. So in order to have your demands met, to be frank you should have provided for enough capital back in the day.

Disability Risk Coverage

This coverage often does not get the attention it deserves.

When you are looking at the existing coverage please take into account that you have to look at all existing State/Occupational/Private coverages. To the extent that the existing coverages do not meet your whishes, you can opt for additional risk coverage. The collective rate is often substantially lower than the individual rate.

Risk of Additional Clauses

Expats who participate in a pension plan are often asked if they would like to choose certain additional clauses. While this might sound great, please first check in depth the exact meaning of such clauses.

What does it provide at what (annual) cost? In the past we have seen that many expats opted for additional disability clauses without checking the cost, exact meaning and if they really needed the addition in the first place.

State Pension Optimization Risks

In many countries it is possible to buy additional State Pension Claims.

This might sound attractive as expats often lack a certain pension build up capacity regarding a certain period. Please be aware that you often have the risk of paying a too high premium for such an addition.

Furthermore it is also not sure if the additional infusion of premium will indeed result in more State Pension pay-out in the future as regimes and State Pension Systems can and do change.

Private Annuity Risks

Private annuities deserve additional attention due to the following often existing risks:
- High costs due to individual nature;
- Often limited investment opportunities;
- Inflexibility due to standardization;
- Limited or no tax advantages.

If the right product is chosen it might sometimes prove to be a fine addition to the total planning. It all depends on your circumstances and the type and amount of product.

Supernational Institutions: Increased Risk

In general Expat Pensions have the familiar 3 Pillar Division:
1) State Pensions;
2) Occupational Pensions;
3) Private Pensions.

Expats working for Supernational Institutions like for example ESA will see that there is no such division and that you have to look carefully at the exact kind and amount of coverage with often also a special and unique tax regime. This all provides an increased risk for mistakes.

Regarding the issue whether or not to transfer the value of existing pension claims to such a new plan, please be very cautious and seek advice.

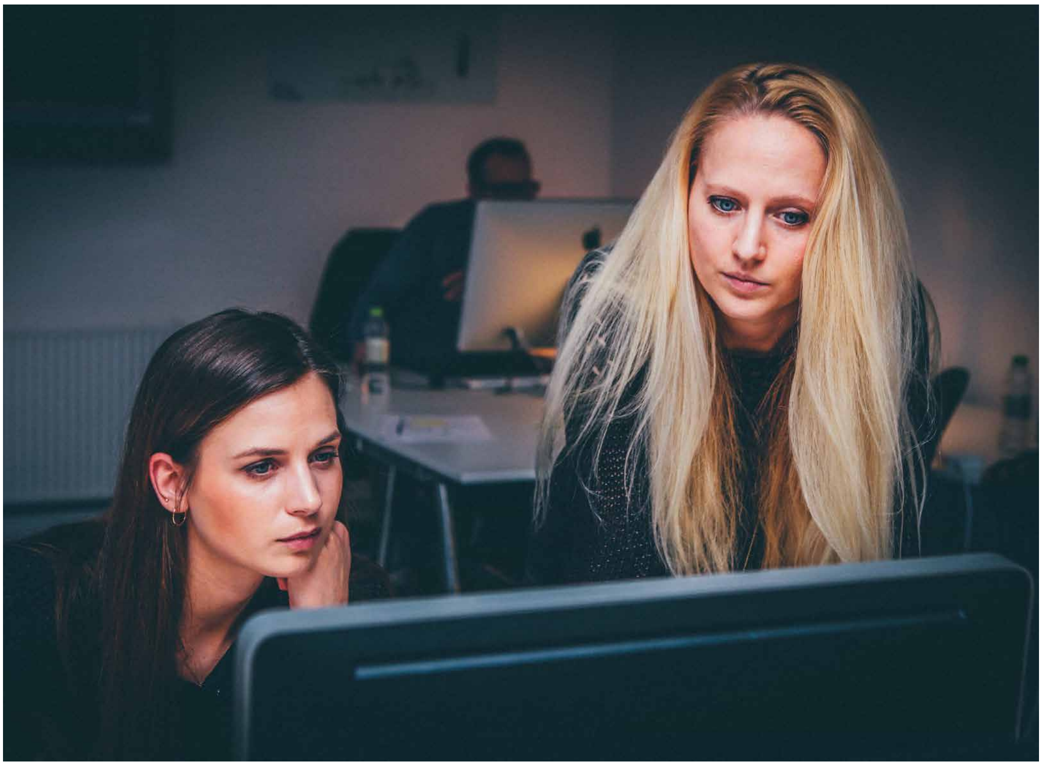
Separate Investment Risks

Many expats have investments separate from official pension plans.

It often strikes us that not all implications have been researched. Please make sure that you are aware of all legal, tax and investment regimes and opportunities.

Wills: Don't take the Risk

Many expats have a Will in another country than the country in which they currently reside. This is not advisable as the exact same clause can have a different meaning in another country. As it is advisable not to have risks that can be prevented, please always have a Will in the residing country.



Advisor Risk: You have been advised correctly in the past?

During expat pension optimization projects, we always see how expats have been advised in the past and if that advice was correct.

Rest assured, there are fine advisors in many countries. However, that does not mean that every advisor provides the best possible advice.

We urge you to be critical. The right type of advisor will understand and respect you for it.

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

For further information please contact pension jurist/consultant Patrick Donders:

Tel: +31 (0)6 26014112
E-mail: info@expatpensionholland.nl
Site: www.expatpensionholland.nl

AFM license number 12043181

EPH
EXPAT PENSION HOLLAND