PMI EXPERT PARTNER

Transfers – an administrative nightmare

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With the introduction of the new pension freedoms in April 2015, the industry saw a huge increase in the level of requests for transfers. Whilst this is to be expected, it has also brought along with it some major headaches where administration is concerned.

Over the last 18 months, the industry has seen some real game changers in the way that transfers are carried out. To name just a few, we've seen the introduction of the requirement for regulated advice in respect of transfers from defined benefit (DB) to defined contribution (DC) arrangements over £30,000 and the bombshell dropped on us by HM Revenue and Customs (HMRC) that the 'Qualifying Recognised Overseas Pension Schemes (QROPS) List' can no longer be relied upon as due diligence checks for overseas transfers as this responsibility now falls on the transferring scheme.

Due diligence

The latter has effectively pulled the rug out from under our feet meaning that, as an industry, we've had to seriously re-shape the way that 'due diligence' checks are carried out. With the QROPS due diligence checks for overseas transfers now a scheme responsibility and the ever present pension scams risks to deal with, administrators have had to become part-time super sleuths to establish the authenticity of receiving schemes.

All the while, schemes have been told that they should not 'second guess' a member's wish to transfer, nor should they request details of any advice received from regulated advisers. This begs the questions - where should administrators draw the line with their due diligence checks? How much is enough?

The industry has collectively requested that HMRC provides guidance on its expectation of 'due diligence' but thus far it has steadfastly refused, leaving administrators and trustees with a huge responsibility and no one to turn to. So, with no answers from HMRC forthcoming, administrators and trustees are left to make these decisions themselves and very much 'hope for the best'. This in turn raises the concern that due diligence may not be (and probably isn't) being carried out consistently across the industry.

Whilst our pleas to HMRC for guidance and transparency continue to fall on deaf ears, HMRC have been very clear of their intention to pursue any UK tax charges arising from unauthorised payments and will also charge penalties as deemed 'appropriate'. It seems that there is an awful lot at stake in an area where we're left with little concrete guidance.

And, of course, there is the (not so) small matter of administration expenses to consider. All of this extra work adds up to very expensive administration indeed – who is responsible for footing the bill?

What next?

Frustratingly, whilst the battle with HMRC to provide guidance on due diligence rumbles on, in February 2016 the Government responded to their consultation on *Pension transfers and early exit charges* by announcing further plans to introduce regulations to ensure that transfers are 'processed promptly' by making "trust based pension schemes more transparent and accountable for their performance in processing transfers through a new reporting regime". The Government's intention is to introduce new regulatory requirements for schemes to report on an ongoing basis how they are performing in processing transfers, including against possible benchmarks and new transfer targets.

From an administration point of view – this is a further complication to an already complex process. How can sufficient due diligence checks be carried out effectively with the proverbial clock ticking? Or perhaps it's a 'time bomb' and the whole transfer process is about to implode!

A thought to leave you with…

When we conducted a survey earlier this year asking whether the industry was confident that UK pension schemes can reliably verify the qualifying status of overseas arrangements, a whopping 96% of respondents said NO – which is a fairly convincing vote of no confidence. Perhaps the Government and HMRC should take heed?

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