

Making the most of your money when you are an expat in Switzerland

Following the launch of the ground-breaking Expat Survey in 2013, which is now continuing its ongoing look at expat behaviour across the globe, some interesting revelations have been learned with regard to how people organise their finances when they have chosen to live abroad.

For many, one of the main motivations in moving away from home is to develop one's career and increase earning power. This is particularly true in Switzerland, where salaries are high and expats generally earn more than local workers, particularly in managerial positions. On average across top and middle management, expats earn 11.4% more in Switzerland than people who were born there. And when you take the very top level of management this percentage increases to just over 16%.*

Salary levels are already higher than most other countries before factoring in the nationality differential, and whilst this is partly to do with the high cost of living, it also reflects the need for high level internationally adventurous and capable professionals to go and work there.

This then leads to the requirement to manage the situation of increased wealth that many expats find themselves in. There is little point in earning large amounts of money unless it is possible to maximise the returns from it and make it work as hard as possible, and with interest rates at historic lows and no signs of change that means looking at more creative ways of managing wealth.

The Expat Survey 2013 revealed that 34% of respondents had used an IFA within the previous year mainly in their country of residence, but also that there was a problem of lack of trust when using an advisor in a foreign country. This may be due to the fact that people have to work within systems and structures which are different from those at home, or just simply that they don't trust someone from another country to look after their finances. Or it could just be explained by negative experiences or unfulfilled expectations as provided by the advisors concerned.

Other results from the Expat Survey also demonstrate a clear need for some kind of assistance when planning finances, as it has been revealed that high proportions of people have substantial cash sums saved both before and after becoming expats, and large amounts of this is in bank accounts and pensions / SIPP.

Across the whole survey, the average amount of money respondents held in liquid cash was 250K Euros, of which 47% have 100K euros on deposit with a bank or building society in their country of residence and 40% in their country of origin. And 24% had more than 500K euros in the bank leading up to becoming an expat, thereby conserving their assets in cash and moving country to change lifestyle. However what can then happen is that they often do not investigate or keep abreast of new investment vehicles and so end up leaving the funds where they are, earning very little interest.

A large number of people revert to relying on bank accounts, sometimes private banking facilities, and pensions held in their country of residence and sometimes country of origin as their main investments. However depending on where these are held, these types of holdings do not necessarily create the optimum return. Whilst as many as 19% of people surveyed said they have a private banking facility, it is often the case that these services do not provide the most extensive range of products and services tailored to expats. At Churchill & Partners we have many clients who have found this to be the case, and in fact the options which we provide have turned out to fit their needs better.

Pensions

With regard to pensions, obviously having any sort of pension plan is a good idea and is one of the best investment vehicles there is for future financial planning – whether it is a company or private scheme. However the figures from the Survey indicate that relatively small numbers of expats hold these types of investments – possibly because some are on short-term contracts, or because they may not have got round to setting one up.

With regard to company pensions, only 19% of people surveyed said they held a company pension or SIPP in their country of residence and 26% in their country of origin.

For private pensions the gap is even larger: of the people surveyed, more than double said they had a private pension in their country of origin (48%) than in their country of residence (23%).

These numbers are still relatively low when you consider that the reasons cited for migrating to another country are to improve quality of life, and that the logical extension of that concept is to plan ahead and set up some financial structures which will enable a person to achieve that objective for the long term.

A growing number of expats who have worked in the UK, moved away and still have pension schemes there are investigating the many benefits of transferring their pension into a QROPS (Qualifying Recognised Overseas Pension Scheme), which is a very tax-effective and financially beneficial way of utilising HMRC rules to transfer a policy to an offshore trust. It is complex and best done by a suitably expert professional advisor who can guide the investor safely through the process (www.churchillandpartners.com/qrops-qnups/). However the upside is that by transferring a pension into a QROPS you can achieve considerably better returns, pass on the benefit of the scheme to your heirs, pay less tax and have more control over the invested funds.

Whether you are UK national or from elsewhere in the world, thinking about protecting your future income by setting up a pension plan is essential; and there are also other long-term investment options which work in a similar way to pensions, which are summarised in the next section of this article.

General investment options geared towards expats

There are many other investment routes which are suitable for the expat market, which work in a similar type of way to pensions and are designed for long-term investment planning. Offshore portfolio bond wrappers are tailored to the needs of expats, in the respect that they are designed to remain in place wherever in the world the investor is living, thereby avoiding the need to reassess financial commitments every time there is a change of location.

As they are sited offshore, these investment options are geared towards people working as expats or international professionals, as the tax advantages which are built into them are only available to people in this situation. Anyone holding a passport from a country other than the one they are living in, with a current postal address in the country of domicile can utilise the benefits of offshore investments, with all the accompanying tax advantages.

The investments themselves are structured according to the investor's preferences and future objectives, taking into account financial requirements long and short term, family circumstances, risk profiles and investment choices. However this is where a good financial advisor comes into their own, as there is a vast choice of individual funds to select from, provided by a large number of different institutions.

You can choose from a wide range of assets from all over the world. These include collective investment funds, unit trusts, bank accounts, and stocks and shares quoted on a recognised stock exchange. And subject to approval by the relevant institutions, you can add fixed-interest securities, multi-currency deposits, government stocks, commercial property, hedge funds, structured notes, exchange-traded funds and other alternative investments. (For more details: www.churchillandpartners.com/products/)

The process of fully understanding and setting up this type of investment is complex and the individual components of the investment need to be monitored and adjusted over time, to ensure that the returns are maximised – this is where skills in portfolio management are needed, and again an area best practised by an expert.

So in conclusion, there are a great many ways in which life as an expat can be financially beneficial. As outlined in this article, it is very likely that a professional expat will have excess funds available with which to properly plan their future, and by utilising the various options on offer it is more than possible to build a comfortable nest egg for the future whilst also enjoying a superior quality of life in the country or countries you have chosen to live.



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Notes for Editors:

Churchill & Partners is an independent, well-established international financial consultancy providing powerful, relevant and enduring financial advice for expatriates working globally. We specialise in offshore investment solutions for expat clients looking to maximise returns and plan their retirement in the most effective way possible. We have a particular focus on expats of all nationalities residing in Switzerland, and provide impartial, holistic advice in a confidential environment.

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* Source: Swiss Federal Statistical Office, Swiss Earnings Structure Survey

All other data from The Expat Survey 2013 www.theexpatsurvey.com