

Protected rights: to transfer or not?

Changes to pension regulations which came into effect on 1 October 2008 enable investors to move their protected rights funds to a SIPP.

What are protected rights?

Protected rights funds comprise mainly the rebate of NICs paid when someone contracts out of SERPs or the State Second Pension. They are currently held within a variety of types of pensions including:

- executive pension plans
- final salary schemes
- money purchase schemes
- personal pensions
- stakeholder pensions.

How are they currently held?

Most protected rights are currently invested in traditional insurance company funds, with the idea that they will eventually be used to buy an annuity. However, the possibility of poor performance, high charges and market value reductions make such funds unappealing to many people.

It is estimated that the value of protected rights funds now available to transfer is around £100 billion and many people are being encouraged to transfer their money into a SIPP.

If a client would like to hold their Protected Rights in a SIPP but does not want to sell their existing holding it may be possible to make an in specie transfer, whereby the existing policy is placed within a SIPP. This gives the flexibility to switch out at a later date if it makes sense to do so.

Reasons not to transfer

However, Andy Gadd, head of research at Lighthouse Group, believes that investors who are considering moving their protected rights into a SIPP should consider carefully the implications of doing this. "Many investors may be better off leaving their arrangements as they are, rather than transferring to a SIPP, because the existing fund choice available meets their needs and their current arrangements offer better value for money," he says.

Protected Rights at a glance:

- Benefits from protected rights must be taken between the ages of 50 (55 from 2010) and 75.
- Up to 25% of the fund can be taken as tax-free cash.
- On death the fund must be used to provide a surviving spouse or civil partner with a pension of 50% of the value of that being drawn by the deceased.
- If a person dies before starting to draw a pension from their protected rights, the whole fund must be used to provide a pension for the surviving spouse or civil partner.
- On transfer, ongoing contributions can be made to the SIPP.
- However, if someone is already drawing down income from their protected rights it is not possible to transfer the fund.

"There may be other reasons why transferring is not advisable, for instance;

- if a market value reduction is applicable
- if the protected rights have a guaranteed annuity rate which is better than rates currently available on the open market
- It is also important to check the position regarding ongoing rebates if the investor wants to continue to be contracted out."

Mr. Gadd concludes "Ultimately advisers need to ensure that anybody switching their protected rights into a SIPP is doing so with full knowledge of any potential negatives as well as the positives so that they are being treated fairly."

While SIPPs do offer more flexibility about how and when people take their retirement income, including options such as a tax-free lump sum and/or income drawdown, the decision will depend on an individual's goals, and circumstances.

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