

CLIENT'S GUIDE TO PROTECTED RIGHTS

People with a Protected Rights fund have been able to transfer that money into a SIPP from 1st October 2008.

This means that it is now possible to consolidate all of a person's pension in one "pot", gain more control, gain access to a wider range of investment options and increase transparency around their pension fund.

About six million people 'contracted out' of the State Second Pension (S2P), previously known as SERPS, via personal pensions. Many more people will have done it through their Occupational Scheme at work.

Protected Rights is the money accumulated from 'contracting out'. It is also known as 'contracting out of SERPS', a 'rebate pension' or an 'Appropriate Personal Pension (APP)', and may contain an element of National Insurance contribution by means of a rebate into your APP. Until 2012 Protected Rights benefits will have to be kept separate from non Protected Rights within your fund.

Prior to 1st October 2008, regulation meant that the vast majority of these funds had to be held by insurance companies, where the investment performance may have left much to be desired.

If you have benefits in a Final Salary Scheme it may be better if you leave your fund where it is. In the case of Money Purchase Schemes you may benefit from transferring out "Protected Rights" benefits into a SIPP. Whatever your situation, you are strongly recommended to consult your financial adviser. We cannot give any financial advice.

What is a SIPP?

A SIPP is simply a personal pension plan that offers a wide choice of investments, offering better diversification and greater control over the scheme assets. The charges should be more transparent than an insurance contract and should offer better value for money

SIPPs have been regulated by the FSA since 2007.

The greater choice offered by SIPPs for investment of Protected Rights can be seen by examining the table below:-

	Personal Pension	SIPP
Stocks/shares	no	yes
Unit/investment trusts	no	yes
Insurance company funds	yes	yes
UK Gilts	no	yes
Bonds/fixed interest	no	yes
Permanent interest bearing Shares	no	yes
Cash and deposit	yes	yes
Property	no	yes
Unquoted shares	no	yes

What Things Should I Consider Before Transferring?

You should discuss the following issues with your adviser. (These are guidelines only – there may well be more):-

- Are your protected rights in an occupational scheme with both you and your employer making contributions?
- Are there large penalties for transferring the policy eg Market Value Reductions (MVR)?
- Is there a guaranteed annuity rate in place which is superior to current rates?
- Are you giving up valuable final salary benefits?
- Do you understand and are you happy with your present arrangements?

It may be that you should not transfer out but ensure you cover these matters with your adviser

Is There Anything Else I Should Consider?

Protected Rights must be separately tracked by your pension provider until 2012. This means that if an annuity is purchased before then, it must be a joint annuity with a 50% spouse's benefit based on unisex annuity rates. These rules governing the type of annuity that must be purchased will cease to apply from 2012.

It is possible to use drawdown plans for your Protected Rights funds, which means you can take 25% tax free cash at any time after you reach age 55 through a drawdown plan or annuity purchase.

Small Self Administered Schemes (SSAS) are not able to accept Protected Rights.

If you die before taking out benefits from your Protected Rights funds, the amount payable will depend on your personal circumstances. If you have a qualifying dependant (a spouse over 45 or a child under 18) then the whole fund needs to be used to provide benefits to them.

If you have no dependant, then the fund can be paid out to a nominated beneficiary as a tax free cash lump sum, outside your estate for IHT purposes.

If you had already started to take benefits through an annuity then it will continue to be paid out at a rate of 50% to the surviving spouse/partner/dependant. If you are taking income via drawdown this would continue to be drawn by your spouse, or alternatively, an annuity could be purchased

If you have already contacted out of S2P you can also contract back in. You should discuss this with your financial advisor

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