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PROTECTED RIGHTS

SIPPs have been able to accept Protected Rights since 1.10.08

Are there any investment restrictions if Protected Rights are transferred to a SIPP?

No and we allow full investment choice within our SIPP. So it is for the member and their IFA to decide where they wish to invest their Protected Rights, and, on their instruction, we will arrange the investment.

When can benefits from Protected Rights be taken?

They cannot be taken before age 50, (55 from 6.4.2010) and the member must start to take them no later than age 75.

What about tax free cash?

As with non-Protected Rights, up to 25% of the Protected Rights fund can be taken as a tax free lump sum (between ages 50 [55 from 6.4.2010] and 75).

Are there any benefit restrictions?

Yes, if someone is married or in a civil partnership when they start to draw benefits, then when they die the Protected Rights element must be used to provide a pension to the surviving spouse/partner of 50% of the pension they were receiving at date of death.

If someone is married or in a civil partnership and dies before drawing any benefits, the whole of their Protected Rights fund must be used to provide pension for their spouse/partner.

What about Trivialisation?

Small Funds can be fully commuted provided they meet the usual trivialisation rules i.e. the member in total has pension assets that are less than £17,500

Are there any practical consequences of the above?

Yes: it means that until 2012 we as Administrator have to keep separate records of Protected Rights and non-Protected Rights.

Why might someone with Protected Rights transfer them to a SIPP?

People who are keen to take an active involvement in their pension fund in an effort to seek out superior returns may wish to consider transferring their Protected Rights to a SIPP, especially if their non-protected Rights are already in a SIPP. They will need advice from their IFA to decide: we do not give investment advice.

Most Protected Rights are currently held in insurance policies. Many of them will be old contracts with possibly high charges. And many will also be in what the IFA may consider to be an under-performing fund. By transferring Protected Rights into a SIPP they can, on the advice of the IFA, be invested in other more appropriate and potentially better performing investments.

However there are certain Protected Rights which most IFAs would not recommend to be moved eg

1. If the protected pension is within a company pension scheme and the member and employer are still contributing.
2. If there are hefty transfer fees or MVRs (Market Value Reductions) in place.
3. If the Protected Rights have a guaranteed annuity rate negotiated at the outset which is superior to current annuity rates.
4. If transferring means giving up valuable final salary benefits.

Advice must be taken from a suitably qualified IFA.

What types of Protected Rights can be transferred to an MW SIPP?

Protected Rights can be transferred from Appropriate Personal Pensions (APP), stakeholder pensions (APPS), paid up money purchase schemes (COMPS), executive pension plans and final salary schemes (COSRS) (where Protected Rights will be Guaranteed Minimum Pensions – GMPs).

As always, professional advice from a suitably qualified IFA should be taken before transferring any existing Protected Rights, particularly if they are in a final salary scheme. We do not give any financial advice.

Protected Rights may be able to be transferred “in specie” eg if the penalty for a cash transfer is excessive, the policy may be able to be assigned to the SIPP and would become an asset of that SIPP. It could then be encashed at a future date, when the IFA and client felt the penalty had become acceptable. These policies would have to be looked at individually and may incur extra fees.

What if someone is paying ongoing contracting out contributions and wants to continue to do so?

That is possible. The existing scheme simply makes a declaration to HMRC (signed also by the member) that the existing Contracted Out pension is being transferred to our SIPP.

What are the fees?

If someone already has an MW SIPP, the only cost will be a one off fee of £95 + VAT per transfer. But if someone has more than one Protected Rights policy with the same insurer, we will only make one £95 charge. That £95 fee is waived if the IFA does all the work arranging the transfer and chasing the insurance company. So it can cost nothing!

What if someone does not have an MW SIPP?

To state the obvious, one would need to be set up to accept the Protected Rights! Our fees for this are our existing ones – set up fee of £350 and an annual fee, in advance, of £600 (transfer fee as above). For funds under £60,000, our Acorn SIPP applies, with an annual fee of 1% (min £250, max £600) and no set up or transfer charge.

The Acorn SIPP is an ideal vehicle to accept Protected Rights with its low cost structure

Where a transfer includes both Protected and non Protected Rights only one fee will be charged per Insurer

There are no other charges unless there is investment in property, unquoted shares or other unusual investments or unless the member goes into drawdown.

VAT is additional on all fees.

How big is the Protected Rights market?

It is estimated that there is about £100bn (that’s £100,000,000,000) currently in insured Protected Rights – plus significant other Contracted Out monies in final salary schemes. Also there is still c£250bn in insured non-Protected Rights.

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