

flexible retirement solutions



Adrian Walker sets out some of the considerations where clients hold both non-protected and protected rights and are considering using income withdrawal as part of their retirement portfolio.

One area where pension simplification has delivered was the introduction of a pension commencement lump sum from clients protected rights fund holding. With the availability of income withdrawal, protected rights funds have become a far more important element of the retirement proposition than previously existed – creating opportunities for advisers to add value to clients' future retirement planning.

access to benefits

The new pension regime has brought equality to the age at which benefits can be taken from protected rights. Clients can access these funds from age 50 (rising to 55 from the 2010/11 tax year) in the same way as non-protected rights.

Safeguarded rights are the exception (ie protected rights forming part of a pension credit as a result of a divorce settlement). These cannot provide benefits until age 60 under current legislation.

pension commencement lump sum

As part of a client's retirement process it is possible for them to draw a pension commencement lump sum of up to 25% of their protected rights entitlement. Current legislation from the Department for Work and Pensions does not allow any higher lump sum from protected rights. It also does not allow cash to be taken from safeguarded rights.

income withdrawal

Since April 2006, the income withdrawal factors that determine the maximum

income a client has available are the same for non-protected and protected rights. From an annuity provision perspective, this mirrors the concept that there is no longer a requirement for any indexation to automatically be applied to a protected rights annuity.

lump sum death benefits

Where a member of a registered pension scheme dies after effecting income withdrawal the death benefit options differ to that of a non-protected rights fund.

Where the member concerned had entered income withdrawal before death, any unsecured lump sum death benefit will, as for a non-protected rights fund, be subject to a 35% withholding tax.

However, where the client is survived by a spouse or civil partner, the remaining capital within a protected rights income withdrawal fund must be used to provide either an annuity or a dependant's unsecured pension (USP) fund to the surviving spouse or civil partner to enable income to be continued. For clients using income withdrawal, this difference provides planning opportunities.

For example, if a client is looking for an income stream that is less than the maximum permitted, it may be more beneficial to take as much income as possible from their protected rights fund – leaving much of the non-protected rights to accumulate for future use.

Such planning may provide a greater unsecured lump sum death benefit to beneficiaries.

self-investment

There are still investment restrictions for protected rights within a self-invested pension arrangement. In some cases it may be appropriate for any protected rights transfer values to be split to enable the client to utilise self-investment for the non-protected rights holdings, while using an insured wrapper for any protected rights income withdrawal.

newer markets

Income withdrawal is not available to members of defined benefit schemes, most of which are contracted out. The cash equivalent transfer value that becomes available by transferring into a money purchase arrangement could generate significant protected rights investments from pre 1997 guaranteed minimum pension entitlements and post 1997 section 9(2B) rights.

This illustrates that the market for protected rights income withdrawal is not merely applicable to clients with rebate arrangements from contracted out money purchase schemes. The potential market in which advisers should, in appropriate circumstances, make full use of for clients is far wider.

A protected rights income withdrawal is now available through both the Skandia Personal Pension and the Selestia Personal Pension Schemes.

Search for Adrian Walker at www.informerlive.co.uk to view an archive of his recent articles, podcasts and Trailblazer presentations. ■

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