

know your rights

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Adrian Walker provides an update on issues surrounding the reform of protected and safeguarded rights.

The most recent and widely reported pension simplification development has been the widening of investment opportunities for Protected Rights to allow the same self-investment options that have existed for non-Protected Rights since April 2006.

For certain clients this extension will be a welcome addition to their retirement planning, allowing them to consolidate remaining insured funds into their existing self-invested personal pension (SIPP) to take advantage of the wider investment possibilities.

For other clients, where a transfer from a defined benefit scheme has resulted in a high proportion of their pension fund being treated as Protected Rights, this change offers the opportunity to invest those into a broader investment strategy than may be available through their current insured pension wrapper.

over-hyped?

While this will clearly (where appropriate) provide opportunities, whether or not the much hyped mass migration of Protected Rights funds to SIPPs will actually occur in practice is a matter for conjecture. With the FSA looking for a suitability evaluation to determine whether a SIPP wrapper is the most suited for a client's needs, the period of transition may be much longer than many appreciate. In many cases it simply will not be appropriate. Why pay the associated administration costs of a SIPP wrapper if the underlying investment strategy uses a trustee investment portfolio that can be provided within a more cost-effective vehicle?

safeguarded rights

In previous issues of **informer** I have also highlighted that as part of the current reform proposals the rules relating to Safeguarded Rights and the way in which they will be treated in the future in terms of benefit provision were to change. Recent announcements from the Department for Work and Pensions have made it clear that implementation of the changes will now not come into effect until April 2009.

Whilst it is disappointing that the changes (which are to allow access to

benefits from such payments from age 50 and the payment of a pension commencement lump sum) have now been delayed beyond the original delivery date, realistically the delay will have no immediate impact for most individuals who have or will receive such payments into their registered pension scheme. For those whom retirement planning is of a more immediate focus, the delay in implementation may require alternative short term income planning to maximise pension credit tax efficiency.

The main argument of appropriate investment choice remains, and for some it may only be suitable to use a SIPP wrapper when they are ready to utilise that wider investment choice.

contracting-out

Another issue to consider relates to those clients who wish to continue to contract-out of S2P. Given that contracting-out on a money purchase basis is due to cease at the end of the 2011/12 tax year, it is likely that schemes being prepared to accept Protected Rights will not wish to establish costly and complex administration systems to deliver the collection of future rebate monies for what will undoubtedly be a small proportion of the prospective client bank.

Advisers will, therefore, need to discuss the contacting-out decision with clients. This might require new insurance policies to be set up and may not be an option

that providers are prepared to consider in isolation. As partial transfers of Protected Rights between registered pension schemes are not a permitted transfer, this is a question that needs to be addressed as part of the overall planning.

summary

Greater uniformity for Protected Rights in the mainstream benefit rules applying to registered pension schemes will follow over the period to 2011/12 when money purchase contracting-out is abolished. It may not happen all at once and there will remain issues to consider from a planning perspective as pension reform continues. ●

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This article is based on Skandia's interpretation of the law and HM Revenue & Customs practice as at 31 October 2008. We believe this interpretation to be correct but cannot guarantee it.

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