

## Article

### The waiting game

27th June 2008

My interest in protected rights goes back many years to the first holiday I had that involved me taking both my new girlfriend (now wife) and in-laws away for a break. When holidays are involved, discussions on pensions are normally left firmly planted in the UK. However, while enjoying my first glass of Rioja my mother-in-law mentioned that she was contracted out and had managed to do this by completing a tear-off slip in a magazine.

Further discussion and a few glasses of wine later it was clear that this plan related to the late 1980s when money purchase contracting-out of SERPS was born. Those with good memories will remember the initial rebate on offer for a person contracting out via a Personal Pension was 5.80% of relevant earnings. In addition there was a government incentive of 2% to encourage people to contract out. Over the years many took up this offer and duly contracted out.

Time has moved on, the way in which you can create protected rights is varied and the arguments for remaining contracted are now questioned by many. The appetite for government incentives and the generosity of the underlying rebates perhaps not what they once were.

One thing is clear, over the last 20 years the size of the accumulated protected rights market has increased hugely and now sits at many tens of billions. With attitudes to asset allocation and fund selection being drastically different 20 years ago, a significant portion are invested in old-style with profit and managed funds.

Protected rights have always been treated as a different animal. Created by collecting what are most often small sums of money from the DWP. Different sets of rules for settlement of benefits and investment choices. It is no surprise that many rarely give thought to the existence of this element of their savings.

All of this is set to change with the debate surrounding changes to investment choices gathering pace. Simplification of the rules around benefits and investments are reality. Demand for change has been huge and the waiting game has run and run. To confirm changes from 1st October 2008 to allow self-investment of protected rights is good news for consumers.

It is also good to see the need to provide a survivor's pension from protected rights is to be removed. However, it is disappointing that abolition of this requirement is to be delayed until 2012. It would have made more sense to carry out this with the removal of the investment restrictions on protected rights.

With many SIPP providers weighing up the opportunity surrounding protected rights there are several points that you will need to consider.

#### **Is the protected rights fund big enough to justify using a SIPP?**

The nature of the question itself infers that all SIPPs are expensive. This is not universally the case and many will compete head on with other Personal Pension contracts. SIPPs come in all shapes and sizes. The question should be more about how much investment flexibility the client needs. You will be able to match the required investment flexibility at a competitive price within the SIPP market.

Also, the question needs to be widened to consider the impact of any additional non-protected rights fund. Looking at queries received at AJ Bell over the last month it is clear the average case for protected rights is currently around the £30,000 mark. Many will see the benefits of consolidating the protected rights fund alongside the existing non-protected rights fund. Using the cases mentioned above as an example, we found that almost every case involved clients who were consolidating a combination of protected and non-protected rights. Besides the protected rights funds the average non-protected rights amount totalled £170,000.

#### **What SIPP selection issues must you consider?**

Like any other pension solution you must ensure that you consider several points of client suitability. There will be additional issues to consider but the following covers the main points.

Charges applicable - It is important to understand the range of charges and how they compare with other pensions. As mentioned earlier it is often assumed that SIPPs are the more expensive choice; this is far from the truth. You should also check to see if charges are levied against the protected rights fund as well as the existing SIPP wrapper charges.

Service reputation – Research has shown that first-class service is valued by advisers and their clients. The challenge for all is keeping a clear focus on service during periods of growth and active competition.

Financial standing – In a world post Equitable Life and Northern Rock it is understandable the client will look to find out the financial standing of the selected provider. A company and provider/establisher with a strong financial history and background will be key ingredients.

Matching the range of permitted investments to the client's needs – SIPPs provide access to a wide range of investment choices. Many are often classified as maxi or mini SIPPs to describe the nature and range of permitted investments. The client's circumstances will change over their lifetime. A SIPP that can allow for changing circumstances, changes in investment strategy and appetite for certain types of investments is important.

Additional issues include:

- Negotiated discounts on collectives
- Access to a range of fund supermarkets
- Choices for settling benefits at retirement
- On-line functionality
- Investment research capability
- Technical expertise

### Does the “at least as suitable as Stakeholder” rule apply?

Now that SIPPs are regulated by the FSA the at least as suitable as Stakeholder rule applies in the same manner as it does to other Personal Pension contracts. In essence you must be able to demonstrate and document the client will benefit from exchanging the maximum cost of a Stakeholder contract for additional benefits (as outlined above).

Added competition and choice for protected rights can only be for the benefit of the consumer. Many are already seeing the benefits of reviewing dated and often forgotten investments. It is excellent news the waiting is almost over.

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### Notes for Editors

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