

# Frequently Asked Questions About:



- A. The abolition of contracting-out by means of a personal pension policy; and
- B. Protected Rights funds

## 1. What is contracting-out by means of a personal pension policy?

Contracting-out is when an individual leaves the additional State Pension (also known as State Second Pension (S2P) and formerly known as the State Earnings Related Pension Scheme (SERPS)) and joins a contracted-out personal pension instead. The contracted-out personal pension is set up to provide a pension in place of all, or part, of an individual's additional State Pension.

When you set up your contracted-out personal pension policy, you became 'contracted-out' of the additional State Pension. To reflect this, part of your National Insurance contributions and those paid on your behalf by your employer are rebated (handed over) to your contracted-out personal pension provider and invested in your policy. You will receive a pension from your contracted-out personal pension policy rather than from the additional State Pension when you come to take benefits.

## 2. What are Protected Rights?

The National Insurance contribution rebates together with any investment return are known as Protected Rights. If you transferred in benefits from a previous scheme, the contracted-out benefits are also known as Protected Rights. There are currently restrictions on how Protected Rights funds can be used when benefits are taken because they are intended to be used to provide benefits in place of the additional State Pension.

## 3. When will contracting-out by means of a personal pension be abolished?

Contracting-out by means of a personal pension policy will cease 6 April 2012.

## 4. What happens to my National Insurance contributions and those of my employer from 6 April 2012?

Your rate of National Insurance contribution will remain unchanged. However, your National Insurance contributions and those of your employer will no longer be rebated to your contracted-out personal pension provider for investment. Instead you will be put back into the additional State Pension and begin to / recommence building up an entitlement from 6 April 2012.

## 5. What do I have to do?

Nothing. You will be automatically put into the additional State Pension.

## 6. What happens to the National Insurance rebates already paid into my contracted-out personal pension policy?

The National Insurance contribution rebates already paid to Alico will remain invested in your contracted-out personal pension policy. When you come to take benefits, you will receive a pension from this policy rather than from the additional State Pension for the period you had been previously contracted-out.

## 7. Does the abolition of contracted-out National Insurance contributions by means of a personal pension affect any other pension contribution that I or my employer may make?

No. You and your employer can continue to pay contributions into any other personal pension or scheme as usual.

## 8. Will the abolition of contracting-out and the changes to Protected Rights affect my basic State Pension?

No. The changes will not affect any past or future entitlement you have to the basic State Pension.

## 9. Apart from the abolition of contracting-out by means of personal pensions, will there be any other changes affecting my Protected Rights funds?

Yes. Many of the Government rules about contracted-out benefits have been gradually changing over time to remove the differences between contracted-out and non contracted-out benefits. The changes taking place next year will result in the remaining differences disappearing from 6 April 2012. This means that there will be no difference between contracted-out personal pension Protected Rights and Non Protected Rights, i.e. they will be the same.

## 10. What remaining changes are taking place?

A number of changes will occur:

- a. At present, if you decide to buy an annuity with your Protected Rights funds and you are married or in a civil partnership, you must buy a joint life annuity. This means your Protected Rights fund is used to buy your annuity plus an annuity for your spouse or civil partner of 50% your annuity.

From 6 April 2012, you do not have to use part of your Protected Rights fund to provide a 50% annuity for your spouse or civil partner.

You can, of course, choose to provide an annuity for your spouse or civil partner but it will be your choice and not a requirement.

- b. Currently when calculating the cost of an annuity using a Protected Rights fund, an annuity provider must use unisex annuity rates.

From 6 April 2012, annuity providers do not have to use unisex annuity rates to calculate the annuity they could offer you based on your Protected Rights fund.

- c. Pension and annuity providers currently keep Protected and Non Protected Rights funds separate and when you purchase annuities using these funds, you would normally incur two sets of annuity administration expenses.

From 6 April 2012, since all differences between personal pension Protected Rights and Non Protected Rights funds will have disappeared, you will be able to combine your various pension funds to purchase one annuity, rather than two annuities so your annuity administration expenses should reduce.

#### 11. Will Alico combine my Protected Rights and Non Protected Rights policies?

No. For the time being Alico will continue to issue separate Statements for each policy you have.

12. If I have contracted-out benefits in a company pension scheme will they be affected in the same way as my Alico personal pension?

You will need to ask your pension scheme Administrator because different conditions may apply to your company scheme.

13. Who can I ask for advice about the changes to personal pension contracting-out and / or the changes affecting Protected Rights funds?

If you do not have a financial adviser, you can visit the IFA Promotions (IFAP) website at [www.unbiased.co.uk](http://www.unbiased.co.uk) for details of IFAs in your area.

Financial Advisers may charge fees and you should discuss payment with the adviser you choose.