

# The Benefits

Protected Rights and the 'proportionality' rule



This fact sheet is designed to give you an overview of how proportionality works in relation to the James Hay SIPP.

## What is the proportionality rule?

If you intend to take benefits from your protected rights fund using income withdrawal and you have other pension rights in the same scheme, the Department of Work and Pensions (DWP) require that the protected rights funds are not depleted at a greater rate when compared with your other funds in the scheme.

## How does this affect James Hay clients?

All James Hay plans (and a majority of the Life Office plans we administer) are set up under the same scheme. Although the protected rights are held in separate arrangements in a separate plan this separation is not sufficient for the purposes of the DWP, therefore proportionality will apply.

## Which Life Office plans are not set up under the James Hay SIPP (and therefore if a new JH protected rights plan is set up are not affected by proportionality)?

Scottish Mutual and Friends Provident plans are set up under a different scheme.

## A simple example of how proportionality works:

Member A has both fully uncrystallised protected and non-protected rights plans:

- Wishes to crystallise 50% of the value of the protected rights plan
- Take maximum income

## Does proportionality apply?

Yes, as the member wants to crystallise some of the protected rights plan, under proportionality they must crystallise at least the same percentage of the non-protected rights plan and take the equivalent percentage income, see below:

Plan Type	Value	Percentage opted to be Crystallised	Selected Income
Uncrystallised protected rights	£400,000	50%	Maximum

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Plan Type	Value	Percentage of non-protected rights that has to be Crystallised	Income that has to be paid from non-protected rights
Uncrystallised non-protected rights	£600,000	50%	Maximum

As the table above illustrates, proportionality requires non-protected rights to be crystallised at the same time as protected rights, therefore careful consideration needs to be given as to how much benefits are needed from across both SIPP plans.

## Does proportionality apply if the member only wishes to crystallise the non-protected rights?

No, proportionality only affects non-protected rights at the point that the protected rights are crystallised.

### **What if the member's non-protected rights are already crystallised when they crystallise their protected rights?**

In this scenario each plan will still need to have income paid proportionately.

### **What if the member has a fully crystallised protected rights plan and then wants to open a non-protected rights plan and make a contribution, or transfer existing non-protected rights from another scheme?**

Where a member has a fully crystallised protected rights plan (or protected rights transferred under an Income Withdrawal Transfer Plan) and subsequently a new plan is opened to accept non-protected rights monies, then as soon as the payment has been received, the new plan must be fully crystallised as well.

### **Who may I contact if I have a query regarding proportionality?**

Should you wish to discuss a specific case please contact our Customer Services Department on: 0845 850 4455

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