Core Unit 1a – Understanding Retirement Provision

STUDY MANUAL

QUALIFICATIONS

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Founded in 1976, the PMI is the UK's largest and most recognisable professional body for employee benefit and retirement savings professionals, supporting over 7,000 members.

PMI's members, represented throughout the UK, are responsible for managing and advising some of the largest institutions in the world accounting for £1.3 trillion invested in pensions. We promote excellence through a range of services for the benefit of members, the wider economy and with over six million now saving as a result of automatic enrolment, society as a whole.

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  We will gather the best and most relevant knowledge and information to keep our members updated and informed, supporting continuous professional and personal growth.
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H-M currently works in Aon's Technical Support and Research department, providing technical support and preparing material for consultants and clients on legal and regulatory developments in the world of pensions. She has a particular interest in governance issues and responsibility for a number of publications.

Foreword

Undertaking a rigorous professional qualification places significant demands on a learner and by the introduction of Pathways we are allowing you to decide the direction of your career and identify the qualifications that will best help you reach your goals. Plus, when you join a Pathway, you become a member of the PMI community, proving your expertise in workplace retirement and accessing exclusive resources and networking opportunities.

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Our Pathways offer five specialised streams: Retirement Provision, Pensions Administration Technical, Pensions Administration Practical, Pensions Trusteeship, and Pensions Benefits.

Further details on the units that comprise each Pathway and the work of the PMI can be found on the website. We hope you will enjoy studying with the PMI and we welcome feedback you would like to offer. This feedback should be directed to the Qualifications Department at PMI: **pmiqualifications@pensions-pmi.org.uk**

Preface

This unit takes you from having little or no specialist pensions knowledge to a position where you will have a good understanding of all the various types of pension provision that there are in the UK.

This unit seeks to cover all aspect of retirement provision and consequently includes State pensions, as well as other State benefits, and also private (non-State) pensions, both employer sponsored (workplace) and individual pensions. We also consider the interaction of State pensions with non-State pensions.

We start off looking at the origins of retirement provision which provides the background and context of current arrangements. These include the needs of the employee and the various options available, as well as some alternatives to pensions. It is impossible to understand the way that pension schemes are set up without knowledge of the past and current taxation regimes that have influenced their design.

In the next Part of the manual we then consider the parties involved in retirement provision. This includes relevant Government departments and those who help to deliver pensions.

Part 3 outlines the various State pensions and other relevant benefits. This Part includes an outline of Automatic Enrolment and the National Employment Savings Trust (NEST).

Part 4 explores in detail workplace pension arrangements. This includes the legal structure of occupational schemes and explains why they are set up as they are. This introduces the concept of trusts and trustees, and how they operate in the field of pensions. We look at the different benefit structures commonly found in these arrangements and examine the defined benefit (including final salary) and defined contribution (money purchase) concepts. The other major element of non-State pension provision is the personal pension. Although introduced more recently than occupational schemes, personal pensions are increasingly important in terms of overall provision. This Part looks in detail at all types of personal pensions, including Group Personal Pensions (GPPs) and Self-Invested Personal Pensions (SIPPs).

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Assessment Model for Core Unit 1a – Understanding Retirement Provision

To ensure fairness, transparency, and alignment with industry standards, the exam unit follows a structured assessment model, as outlined below:

1. Exam Format

- **Format:** Multiple Choice Questions (MCQs)
- **Number of Questions:** 80 questions per paper
- **Duration:** 2 hours
- **Question Type:**
  - All 80 questions are single-answer MCQs with four response options (A, B, C, or D).
  - Candidates must select one correct answer from the provided options.

2. Scoring Method

- **Marks Allocation:** Each question carries 1 mark.
- **Marking Scheme:** There is no negative marking for incorrect answers.
- **Pass mark –** 65 %

Syllabus

Aim:

To provide an introductory overview of retirement provision in the UK including an appreciation of:

- how workplace pensions have developed, the different types of workplace schemes and how they sit alongside State pension provision
- the key features of automatic enrolment, trust and contract-based provision
- the roles and responsibilities of those involved in running workplace pensions
- personal savings and the options for retirement saving
- employee engagement with retirement provision.

1. Demonstrate an understanding of the origins and overview of retirement provision. Explain the following aspects:

- State
- workplace
- individual

2. Demonstrate an understanding of the context and the factors which influence the development of retirement provision in the UK.

- identify changes to historic and forthcoming legislation
- explain the options available to access pension saving
- define demographics
- outline changing social trends
- describe balancing work, retirement and income
- explain different income needs in retirement and options

3. Describe the main State retirement benefits and other benefits an individual might receive from the State and explain how retirement benefits are calculated. Analyse the features of:

- the new State Pension
- Basic State pension
- State Second Pension (S2P)
- Pensions Credit

Identify changes to State pension age, and outline the features of other State benefits

4. Describe the role of the key parties involved in retirement operation of a workplace pension scheme, their interaction and any conflicts of interest. Analyse and distinguish between the roles of the following:

- Government departments
- regulatory bodies
- advisers (including consultants, legal advisers, investment advisers, scheme actuary and auditors)
- members and their dependants
- employers/pensions manager, payroll and human resources
- secretary to the trustees
- service providers, including administrators
- investment managers
- insurer

5. **Identify the roles and functions of the bodies that regulate pension schemes and provide assistance or protection to members and employers. Outline the role and powers of:**

- The Pensions Regulator (TPR)
- Department for Work and Pensions (DWP)
- HM Revenue & Customs (HMRC)
- Pensions Ombudsman
- Financial Ombudsman Service
- PPF Ombudsman
- The Money and Pensions Service
- Citizens Advice Service
- Pension Protection Fund (PPF)
- Financial Conduct Authority (FCA)
- Financial Assistance Scheme (FAS)
- Financial Services Compensation Scheme (FSCS)
- National Insurance Services to the Pensions Industry (NISPI)
- The Information Commissioner
- The Pension Tracing Service
- Fraud Compensation Fund
- Pension Schemes Registry

6. **Explain the main features of the employer duties for automatic enrolment and re-enrolment describe automatic enrolment, contractual enrolment and re-enrolment. Define jobholders and workers.**

- identify:
  - qualifying earnings and pay reference periods
  - qualifying schemes and automatic enrolment schemes
- explain phasing in and staging
- describe the communication requirements and timescales
- explain the role of the Pensions Regulator

7. **Distinguish between the different methods of providing and delivering pensions and the different benefits and options**

- identify the essential features, legal structure, delivery model and characteristics of workplace pension schemes
- evaluate different types of schemes
- identify universal automatic enrolment schemes and their roles
- explain the roles of the employer, trustees, providers, and employer and provider governance committees

8. **Demonstrate an understanding of the different types of benefit design found in pension schemes. Describe the main benefit design features:**

- defined benefit (DB - final salary and career average)
- cash balance
- defined contribution (DC)
- hybrid arrangements
- collective defined contribution (CDC)

9. **Understand the context and the main types, and principal features, of workplace pension schemes found in both the private and public sectors, and explain the difference between insured and self-administered schemes.**

- describe:
  - private sector benefit structures
  - master trusts
- identify the features of:
  - insured and self-administered schemes
  - executive pension arrangements and employer financed retirement benefit schemes

10. **Demonstrate an understanding of the financing of pension schemes. Analyse the financing of workplace pension schemes:**

- defined benefit
- defined contribution
- CDC

11. **Evaluate what an employer might consider when selecting a trust, master trust or contract-based arrangement.**

- identify the advantages and disadvantages of each

12. **Evaluate the options for personal savings. Explain the features of the following:**

- personal investments
- alternative investments
- insurances

13. **Describe the options available for retirement saving. Outline the features of:**

- tax advantaged savings vehicles
- property
- pension arrangements

14. **Understand the main features of employee communications with saving for retirement. Outline:**

- statutory disclosure requirements
- the concepts of advice and guidance

Part 1

PROVIDING FOR RETIREMENT

OVERVIEW

This Part introduces the issues surrounding retirement provision. It provides the overall context for the Parts that follow, which explore in more detail pension provision in the UK.

There are two Chapters. In Chapter 1 you will learn the historical context of retirement provision. Chapter 2 covers the needs of the employee when saving for retirement, the options available and, finally, the important issue of employee engagement.

When you have completed this Part, you will understand the context and issues surrounding retirement provision and pension saving, and the importance of saver engagement.

CHAPTER 1

Introduction to the Origins and Overview of Retirement Provision

INTRODUCTION

In a village or tribal community, the whole community supported those who, for whatever reason, could no longer contribute to the wealth of the group. This arrangement represented a direct transfer of support from those who could work to those who could not. No reserves would be built up to provide the benefit. Instead, the amount of benefit would be balanced between the willingness and ability of those who could work to provide it, and the needs of the recipients. This is a form of collectivism.

The origins of present-day pension arrangements can be found in the emerging collectivism of medieval times. If an individual fell on hard times through illness, disability or old age, the only help was from the Church, the ruling Lord's Manor or the local boroughs.

As Guilds developed, they also played an important part in helping individuals in need. Guilds were religious or charitable organisations, which developed into the trade associations of merchants and craftsmen that still exist today. These charities were usually only able to help in the event of sickness, disability and in the provision of pensions for widows and orphans.

The State only became involved in the Elizabethan era when the welfare of the poor became a national concern. Legislation was passed through the Poor Laws of 1597 and 1601, which made the local boroughs responsible for providing for the poor within their areas.

During the Victorian era the widely accepted ethos was of self-help and society did not feel that the State needed to provide pensions to the general population. Neither was it expected of the employers of the time, although some did provide pensions for their workers. So, generally, it was left to the workers to group together and provide for themselves in times of financial hardship. These groups later became the first friendly societies, although short life expectancy and the extended family meant that the main benefits the societies paid out were death benefits, sickness and disability pensions, rather than pensions after retirement.

1.1 SEVENTEENTH CENTURY PENSIONS

Some seventeenth century employers started to offer ex gratia pensions to chosen employees as a reward for long service. These were usually on an unfunded basis, with the amounts being subject to the whim of the employer and the ability of the workforce to provide sufficient profits to enable the employer to pay. The whole system was open to abuse by the employer since the employee had nothing more than an expectation that the benefit would continue.

On an individual basis, it was common practice for an employee taking over a role to continue to pay a proportion of his current salary to his predecessor, until that person died. Samuel Pepys is a well-known example. This was a direct transfer of funds from one generation to another. It worked well for the better off employees, but created a heavy burden for lower paid employees who needed all their earnings to live.

1.2 THE FIRST OCCUPATIONAL PENSION SCHEMES

The first occupational pension scheme was set up in the 18th century for the benefit of Customs and Excise Officers. It operated on a 'pay as you go' unfunded system, which meant that the contributions collected from the employer and the employees were paid out almost immediately in pension benefits to other retired members. This scheme set the precedent for the initial design of all occupational pension arrangements. Throughout the eighteenth century it was gradually extended and altered to include other civil servants.

Even though employers began to introduce occupational schemes for some of their senior employees, few employers offered occupational pensions to all their workers until the mid to late nineteenth century when the industrial revolution was really underway.

One of the first was the Gas Light and Coke Company, shortly followed by the independent railway companies.

Operating from the nineteenth century, the Civil Service Pension Scheme was historically the model for HMRC (HM Revenue & Customs) approval, and even today the level of benefits offered in defined benefit (DB) occupational schemes are strongly influenced by it.

1.3 OVERVIEW OF LEGISLATION

Pension provision is complex and has been built on by successive changes to tax and social security legislation. Some of the most significant Acts are briefly explored below.

1.3.1 The Foundations: Finance Act 1921

The 1921 Finance Act formed the basis for the legislative structure that has governed occupational pension schemes for most of the last 100 years. It established the principle upon which pensions tax relief still generally operates, described as the EET system (exempt, exempt, taxed):

- contributions are exempt from tax
- investments built up are largely exempt from tax
- pensions are taxed when taken in retirement

There are restrictions on the amount of pensions tax relief an individual can receive, in particular through the Annual Allowance (the maximum amount of pension savings an individual can make each year with the benefit of tax relief).

To be eligible for this tax treatment, the scheme had to be established under trust; and its sole purpose had to be the provision of annuities for former employees on their retirement.

1.3.2 Simplification: Finance Act 2004

The Finance Act 2004 introduced the current pensions tax regime. The new rules, which were intended to consolidate and simplify the tax legislation relating to pensions, came into effect on 6 April 2006 (commonly referred to as A-Day). Under this regime, which replaced the previous 'discretionary approval' by the Inland Revenue, employers and members are able to benefit from the tax advantages associated with pension schemes provided the scheme is registered with HMRC, and makes payments that are authorised under the 2004 Act.

1.3.3 The Pensions Act 2007

The Pensions Act 2007 legislated for reforms to the State pension system in the light of demographic changes. Among other things, it set a schedule for increasing state pension ages, provided for the basic state pension to increase by reference to average earnings and eased the qualifying criteria – these provisions are covered later.

1.3.4 The Pensions Act 2008

The Pensions Act 2008 introduced measures aimed at encouraging greater private saving. This included a duty on employers to automatically enrol all eligible workers into a qualifying workplace pension scheme (provided they are not already in such a scheme). Most of the measures in the Act came into effect from 2012. The Act broadened the remit of PADA giving it powers to enable it to establish NEST. (PADA was wound up in July 2010 and its main functions transferred to NEST)..

1.3.5 Taxation of Pensions Act 2014

From 6 April 2015, the government implemented what were known as the 'freedom and choice' reforms set out in the Taxation of Pensions Act 2014.

This radically changed the way in which money purchase benefits could be taken, providing individuals with greater choice about what to do with their funds on retirement. These allow members of money purchase arrangements, once they have reached normal minimum pension age (usually 55), to flexibly access their savings how and when they want, subject to their pension scheme rules. The money purchase flexibilities apply to cash balance arrangements and money purchase additional voluntary contributions (AVCs) within defined benefit schemes as well as pure money purchase funds.

The changes also led to rules on guidance and advice to be provided for those seeking to take benefits or transfer into money purchase arrangements. This is covered within 1.19.6 below.

In July 2020 the Work and Pensions Committee (WPC) launched a three-part inquiry into the impact of the pension freedoms and the protection of pension savers:

- Part one looked at pension scams and what more can be done to prevent them. A key WPC recommendation was for tighter online regulation; the Government said that it would review the regulatory framework of paid-for online advertising.
- Part two looked at how savers are prepared and protected to move from saving for retirement to using their pension savings. The WPC concluded that although the 2015 freedoms have on balance been a success, many savers need more support than they currently receive. As a response, following several consultations on helping savers understand their pension choices, the government confirmed that it would introduce legislation requiring trust-based occupational DC schemes to offer a decumulation framework to support members when they take their pension – these guided retirement provisions are being introduced through the Pension Schemes Bill 2025 (see 1.7.3).
- Part three looked at saving for later life and what more needs to be done to help people plan and save for retirement. The WPC's report noted that

over 60% of people are at risk of missing out on an adequate standard of living in retirement, despite the introduction of automatic enrolment. It warned that minimum contributions to pensions are too low and that many self-employed and gig economy workers are being excluded completely from pension saving. Phase 2 of the Pensions Review, looking at adequacy, is expected to address these concerns..

1.3.6 The Pension Schemes Bill 2025

In 2024 the government launched a pensions review, as promised in Labour's general election manifesto. Phase one focused on investment and phase two (launched in July 2025) will consider pensions adequacy (see 2.1.1 on obstacles to saving). The final report on phase one confirmed that the government would introduce several resulting measures through the Pension Schemes Bill, which was introduced to Parliament in June 2025. The Bill is currently making its way through Parliament and is expected to receive Royal Assent in 2026. It will provide the legal framework for various DC measures (e.g. consolidation of small deferred pots, the introduction of a value for money framework, a decumulation framework for retirement and DC megafunds), as well as consolidation of the DB market through commercial superfunds, and the treatment of DB surpluses. Much of the detail will be set out in regulations, which will be subject to consultation. Most of the changes are due to come into force between 2027 and 2030.

1.4 STATE BENEFITS

The State Pension is a regular income from the government that most people can claim when they reach State Pension age. The amount depends on when the individual was born and how many years they made National Insurance contributions (NICs).

For those who reached SPA before April 2016, the state pension was in two parts: a contributory flat rate Basic State Pension (BSP), sometimes called the old age pension, and an earnings-related Additional State Pension, known as the State Second Pension (S2P). S2P replaced the State Earnings Related Pension Scheme (SERPS) with effect from April 2002.

For those reaching SPA from April 2016, state retirement provision is from one 'flat-rate' State Pension, referred to here as the new State Pension.

Most State pension arrangements, including the UK's, are funded on a pay as you go basis. This means that the contributions of today's workers are used to pay the pensions of today's pensioners, rather than the contributions of each individual worker being set aside as a nominal fund to pay their pension in the future.

This can be viewed as a contract between generations. However, problems can arise in an ageing population (such as the UK and many other developed nations, as a consequence of increasing life expectancy). In this case, unless there is an increase in the birth rate or in net immigration (on the basis that immigrants are on average younger than the population as a whole), the number of contributors compared with recipients declines. In order to avoid an unaffordable burden on younger generations, either the level of state pension would need to reduce or it would be paid for a shorter period (by delaying the start date).

In the UK, pensioners on low incomes and with modest savings have also been able to receive extra payments from the State through a means-tested benefit (called the Pension Credit, formerly the Minimum Income Guarantee), which brings their total benefit up to a prescribed level. However the new State Pension has been set at a level that will mean that eligibility for Pension Credit is expected to decline and eventually become unnecessary.

Also, in recent years the government has operated what is known as the 'triple lock', which guarantees that the state pension rises each year in line with either inflation, wage increases or 2.5% - whichever is the highest. This has raised a lot of pensioners out of poverty.

1.5 RETIREMENT PROVISION FROM PENSIONS

In addition to the State Pension people might have one or more private pensions set up through a workplace or by individuals themselves.

Valuable tax reliefs are offered to employees and the self-employed to encourage them to make provision for themselves through group or individual schemes.

1.5.1 Workplace Pension Schemes

Employer sponsored schemes are established either as a trust, by an Act of Parliament or on a contract basis. In the past, most members of such schemes could expect to receive pay-related benefits, called final salary benefits or defined benefits (DB), where the benefit is expressed as a proportion of pay close to retirement (or date of leaving if earlier) for each year of service. Most private sector schemes now provide benefits on a money purchase or defined contribution (DC) basis in respect of future service, where the benefit is the product of the contributions paid in, the investment returns achieved while those contributions are invested. As time goes by, more and more members will be relying on DC.

To the extent that the benefit is provided in the form of an annuity, the amount will depend on the price of annuities at the time of purchase.

The proportion of employees with workplace pensions has increased steadily following the introduction of automatic enrolment in 2012. Auto-enrolment legally requires all employers to enrol eligible employees into a workplace pension scheme (see Part 3).

1.5.2 Public Sector Pension Schemes

Public sector schemes are divided between statutory schemes and non-statutory schemes. Statutory schemes have their provisions set out in legislation. The non-statutory schemes are mainly those of the nationalised industries and are usually established by a Trust Deed and Rules in a similar way to employer sponsored private sector schemes.

A relatively small number of public sector schemes cover millions of employees whereas in the private sector smaller groups of employees are covered by thousands of schemes.

The largest public service pension schemes in the UK are the Armed Forces, the Civil Service, NHS, Teachers, Police and Firefighters pension schemes. These are unfunded DB schemes that operate on a pay-as-you-go basis. An exception is the Local Government Pension Scheme (LGPS), which is funded (i.e. contributions from employees and employers are paid into a fund, which is invested and then meets the cost of the pension benefits.

1.5.3 Personal/Individual arrangements

Most individual plans are on a money purchase/DC basis. These are often used by the self-employed, or to supplement an occupational pension.

Individuals who belong to an employer`s scheme can also pay additional voluntary contributions (AVCs) to supplement their pension.

1.5.4 Stakeholder Pensions

A stakeholder pension is a type of personal pension designed to be accessible and easy to use. They were introduced in 2001 but did not encourage pension saving to the degree that had been anticipated and have largely been overtaken by the auto-enrolment regime.

Stakeholder pensions must meet government requirements, including capped charges and minimum contributions. Until October 2012 every employer with five or more employees had to provide access to such a scheme unless they offered a suitable alternative, but there has never been any requirement for the employer to contribute to it, nor for employees to join it

1.6 NON-PENSIONS SAVINGS

Non-pensions sources of retirement provision can take many forms. The most common of these are savings accounts, insurance policies, Individual Savings Accounts (ISAs) (which in 1999/2000 replaced PEPs (personal equity plans) and TESSAs (Tax Exempt Special Savings Arrangements), unit trusts and investment trusts and the proceeds of the sale of houses or businesses. These are covered in more detail in Chapter 2.

Summary

We began this Chapter with an outline of the origins and development of retirement provision and pensions. As well as occupational pension schemes this included an overview of State pensions, personal pensions and public sector pensions. Finally, it included a summary of the current retirement provision options and more recent developments relating to money purchase benefits, sometimes known as pension flexibilities or pension freedoms.

Self Test Questions

- What is the EET Principle?
- How are State pensions funded?

CHAPTER 2

The Needs of the Employee when Saving for Retirement, the Options Available and Employee Engagement

The question of how to support individuals financially after they can no longer work, has always been an issue. Solutions tend to be found in a number of ways including using up savings; depending on family or on the community; and/or relying on the State. The balance between these solutions differs between societies and it also changes over time, driven by political, social and economic factors.

In 2019, Pensions UK (previously known as the Pensions & Lifetime Savings Association, PLSA) launched its Retirement Living Standards, designed to help members understand how much money they will need for different levels of lifestyle. The standards provide benchmark levels of annual income to fund three different standards of living - minimum, moderate and comfortable - which aim to provide a rule of thumb guide based on common costs for many people. The latest figures, published in June 2025 to reflect the cost of living in 2024, show that a single person living outside of London will need £13,400 a year to achieve the minimum living standard, £31,700 a year for moderate, and £43,900 a year for comfortable. For couples, the figures are £21,600, £43,900 and £60,600, respectively. There are separate, slightly higher, figures for London. Pensions UK's ambition is for the standards to become widely adopted across the industry (with organisations using them in the communications and tools they provide for their savers).

2.1 THE NEEDS OF THE EMPLOYEE WHEN SAVING FOR RETIREMENT

2.1.1 Obstacles to Saving

Around the turn of the millennium there was a growing concern that people were not saving enough for their retirement, the problems being particularly acute for lower paid workers. There are a number of factors that have contributed to successive generations not making sufficient savings.

As a result of these concerns, in 2002 the Government set up the Pensions Commission which in 2005 reported its findings. These included the fact that most people do not make rational decisions about long-term savings without encouragement and advice. Also, the cost of advice is often expensive and so not everyone who would benefit from taking it, does so.

The Commission went on to report that the behavioural barriers to savings and the costs of provision have been made worse by the 'bewildering complexity' of the UK State and private pension system, which has caused confusion and mistrust. Furthermore, it found that means-testing within the State system both increased complexity and reduced the incentives to save via pensions. The Commission's work led to the introduction of automatic enrolment.

More recently, the COVID-19 pandemic put more financial pressure on the economy and individuals.

The Money and Pensions Service (MaPS) has been tasked with coordinating a national strategy to improve the country's financial wellbeing, after research by the Organisation for Economic Co-operation and Development (OECD) found that the UK is well down the rankings of G20 countries in terms of financial wellbeing. In 2020 it launched a 10-year strategy setting out five goals to work on over the next decade:

- Financial foundations: increasing the number of children and young people who get a meaningful financial education
- Nation of savers: encouraging regular saving
- Credit counts: reducing the number of people often using credit to pay for food or bills
- Better debt advice: helping more people get the debt advice they need
- Future focus: ensuring people understand enough to plan for and during retirement

The strategy will also examine factors that can make people particularly susceptible to financial detriment, such as mental health conditions and gender.

In July 2025 the government announced that it had revived the Pensions Commission to explore the long-term questions of adequacy and retirement outcomes. The government's decision is based on research indicating that retirees in 2050 are on course to receive pension income 8% lower than those retiring today, and that four in ten are under-saving for retirement. It also cites analysis revealing a 48% gender pensions gap between women and men approaching retirement.

The Commission's work forms part of the government's pensions review and builds on the measures contained in the Pension Schemes Bill that is currently going through Parliament (see 1.3.6). The Commission's final report is due in 2027.

The gender pensions gap

Several papers were released to coincide with the re-launch of the Pensions Commission, including official statistics on the gender pensions gap (GPeG) in private pensions in the period 2020 to 2022. The data revealed that during this period for those aged between 55 and 59, the gap between men and women's uncrystallised private pension wealth stood at 48% compared to 35% for the period 2018 to 2020.

The gender pensions gap broadly describes inequality between male and female retirement income, but there is currently no official measure. For the purposes of this latest report, the DWP used the same measure of the GPeG that was used in the previous publication – it is defined as the difference between female and male median uncrystallised private pension wealth held by those around normal minimum pension age (NMPA, currently 55). The analysis excludes individuals with no undrawn private pensions – so does not allow for pensioners who have commenced all their private benefits, or for individuals who have no private pensions..

2.1.2 High Level Solutions

Individuals can often face difficult decisions when it comes to saving for retirement – should they spend now or save for a rainy day? The cost of living in retirement continues to rise and the need to save becomes even more important because of it. So, what are the solutions? This is a key question for governments. There are various views on what the optimal solution may be, but we set out below some of the potential solutions.

- Moving away from unfunded State provision and favouring a privately funded alternative, or more means-testing of State benefits.
- Encouraging people to save more.
- Encouraging more people to save. The thought process is simple: if it is possible to encourage/enable people who are currently not saving to save a little, this would reduce reliance on the State and would also help enhance people's standard of living. The Government is actively trying to encourage more people to save by the introduction of automatic enrolment (which is covered in depth elsewhere in this manual).

2.1.4 Partial and late retirement

Partial retirement

Partial retirement enables a pension scheme member to reduce the number of hours they work by drawing on their pension while remaining in employment. This enables an individual to continue to earn a salary for a longer period, while easing their way into retirement by gradually reducing their hours.

Late retirement

Members of DC arrangements can normally access their pensions early from age 55 (rising to 57 in 2028).

Many other schemes allow members to retire once they reach their scheme's Normal Retirement Date.

The default retirement age of 65 (i.e. an employee's contracted retirement age) was abolished from

1 October 2011. This means that it is unlawful, on the grounds of age discrimination, for employers to retire employees simply because they have reached their 65th birthday. An employer can only operate a compulsory retirement age if they can objectively justify it.

Some members of DB schemes may choose to retire later and call upon the scheme's late retirement provisions, whereby an individual can increase their scheme pension by starting it later..

2.2 DEVELOPMENTS IN STATE PENSION PROVISION

The fact that the State pension is unfunded means that the system is very susceptible to demographic changes, in particular the age

dependency ratio (the ratio of individuals who are retired to those who are economically active). Factors such as increasing longevity and falling birth rates have put State pension provision in the UK, and in developed nations more generally, under increasing strain.

In response to Lord Turner's 2005 Pensions Commission report, the government reformed the way in which State retirement benefits are provided - the Pensions Act 2007 included the following changes:

- Changes to eligibility for the Basic State Pension from 6 April 2010 – see Part 3
- Linking BSP increases to earnings – see below
- Moving the State Second Pension (S2P) towards a flat rate. It was subsequently decided to replace S2P altogether – see Part 3.

The new State Pension is dealt with in Part 3. Note that although it has now replaced the BSP and S2P for those reaching SPA from April 2016, the two previous types of State pension are still relevant since they will continue to be paid to those who reached SPA before April 2016.

2.2.1 State Pension Increases

The Pensions Act 2007 provided that the BSP would be increased in line with average earnings. In fact, from April 2011 government policy has been that annual increases to state pensions are usually made in line with the triple lock i.e. the highest of National Average Earnings, price inflation and 2.5% p.a. This triple lock is not, however, written into legislation and has been the subject of some political debate (see State benefits in Part 3).

2.2.2 State Pension Age (SPA)

Prior to April 2010, State Pension Age (SPA) was 65 for males and 60 for females. This has now changed and the rules that determine SPA operate on the basis of an individual's date of birth. From 2010, legislation gradually raised the SPA for women so that it aligned with the male age of 65 from 2018. The SPA for both males and females is then subject to further increases - see Part 3.

There has been some concern regarding the effectiveness of the communication of the increases in SPA. This particularly affected women, many of whom were unaware of the equalisation of the SPA legislated for in 1995. In 2016 a report by the Work and Pensions Committee concluded that successive governments' attempts to communicate the SPA changes had been too little too late for many women. The cohort of women born in the 1950s were felt to be particularly affected, with some retaining an NRA of 60 while others have seen their SPA pushed back to age 66.

Following judicial review, the courts found this was not discriminatory but simply addressed historical asymmetry between men and women.

Separately the Parliamentary and Health Service Ombudsman (PHSO) investigated the way the DWP communicated changes to women's SPA, recommending that those affected should be compensated. In response, the government said that it had decided not to introduce a financial compensation scheme, as it would not be fair nor feasible and would not represent good value for taxpayers. In 2025, the Women Against State Pension Inequality (WASPI) campaign group reported that the High Court had granted a judicial review into the government's decided not to pay compensation.

2.2.3 The new State Pension

The Pensions Act 2014 introduced a universal flat-rate pension, dependent on how many years the individual made National Insurance contributions (these are called qualifying years), set above the threshold for most means tested benefits. The new State Pension applies to those who reach SPA on or after 6 April 2016. The level of the new pension is set in regulations each year but in 2025/26 is £230.25 per week. The legislation provides that it will be increased in line with earnings, although the current intention is that the triple lock currently applying to the BSP (see 2.2.1) will also apply to the new State Pension.

For further details see Part 3 on State pensions.

2.3 PERSONAL SAVINGS AND OPTIONS FOR RETIREMENT SAVING

Pensions are just one form of providing an income for individuals at retirement. There are many other saving vehicles which individuals can take advantage of to help boost their retirement income. In the following sections we provide an outline of three available options.

2.3.1 Individual Savings Accounts: ISAs, NISAs and LISAs

ISAs / NISAs

Individual Savings Accounts (ISAs) were introduced in April 1999 and are tax-privileged savings vehicles. A saver using an ISA is exempt from paying tax on the income received within their ISA.

There are four types of ISA:

- Cash ISAs
- Stocks and Shares ISAs
- Innovative Finance ISAs
- Lifetime ISAs
- Help to Buy ISAs (closed for new accounts on 30 November 2019).

Up to 5 April 2024 it was possible to save in one of each kind of ISA during a single tax year. From 6 April 2024 legislation gives more flexibility to split ISA savings (within the total limit) between more than one ISAs within each kind (other than for the Lifetime ISA).

Irrespective of the type of ISA, contributions are paid out of taxed income but no further taxation (e.g. capital gains tax) is applied. This differs from the tax treatment of pensions where contributions are paid before tax and tax is paid once the pension is in payment (20% for basic- rate taxpayers and 40% or 45% for higher-rate or additional-rate taxpayers).

One of the key advantages of saving in an ISA has been that money can be taken out at any time subject to specified notice periods, whereas a pension is a longer-term investment (even taking into account the introduction of more flexibility in terms of accessing pension savings). This provides savers with additional flexibility. While this can be an advantage when saving for a rainy day, having easy access to savings can sometimes be a disadvantage when saving for the longer term.

Help to Buy ISA

The Help to Buy ISA was briefly introduced in December 2015 to help those are saving to buy their first home. You can no longer open a Help to Buy ISA. It was only available to new savers until 30 November 2019; but it is open to contributions until 2029. Any bonus must be claimed by December 2030. During 2017/18 it was possible to transfer funds in a Help to Buy ISA into a Lifetime ISA (see below) without using up the £4,000 LISA annual allowance. Any transfers after that date count toward the £4,000 limit.

LISAs

The Lifetime ISA (LISA) was introduced in April 2017 and sits alongside the current pension tax regime. It provides an alternative means of saving for those under 40, allowing individuals to use their funds to provide a deposit for a first home or to save for retirement. Any adult between the ages of 18 and 40 can open a LISA and contribute up to £4,000 each tax year (post- tax) until they reach 50. Contributions are eligible for a 25% government bonus paid shortly after the contribution, and savings can be withdrawn at any time, but may be subject to a charge.

The main features of the Lifetime ISA are currently:

- It is only possible to pay into one LISA in each tax year;
- Any contributions sit within the overall £20,000 ISA contribution limit;
- Individuals can transfer savings from other ISAs as a way of funding their Lifetime ISA. The transferred savings count towards the £4,000 threshold but
- do not affect the £20,000 limit.

Funds can be used to buy a home (valued up to £450,000) at any time from 12 months after opening the account, or they can be withdrawn from age 60 without a withdrawal charge. If an individual is buying their first home with someone else, they can each use a LISA (but the £450,000 cap remains). Where an individual is terminally ill and has less than 12 months to live, they can withdraw all the funds without a withdrawal charge, regardless of their age. On death, the funds can be drawn without a withdrawal charge and will form part of the estate for inheritance tax purposes.

Funds can be withdrawn at any other time, but a withdrawal charge would be applied to the funds withdrawn (including the bonus element of the fund plus any interest or growth on it). To see the effect of the charge on early withdrawal (other than to buy a house or when terminally ill etc.), consider an individual who contributes £4,000 and then withdraws it shortly after it has received its 25% bonus. The fund plus bonus will be £4,000 + £1,000 = £5,000 (ignore any fund growth). A 25% charge is then deducted, i.e. £5,000 x 0.25 = £1,250. The residual fund is therefore £5,000 - £1,250 = £3,750. So the effective penalty is £4,000 – £3,750 = £250, or 6.25% of the original £4,000.

The government said that it would explore whether there should be the flexibility to borrow funds against the LISA without incurring a charge if the borrowed funds are fully repaid. However, this facility is not currently available.

The LISA can be sold without advice although FCA rules require providers to disclose information on the LISA along with appropriate risk warnings. In particular, individuals must be warned that they may lose out on their employer's pension contributions and that the LISA could potentially affect their right to claim means-tested benefits.

In January 2025 the Treasury Committee launched a review into whether the Lifetime ISA is still an appropriate financial product.

2.3.2 Corporate Wraps

The concept of introducing a corporate wrap (also known as workplace savings or corporate platforms) has attracted some interest. A typical arrangement might allow employees to contribute through their payroll into a choice of ISAs, pensions and investment accounts. It allows the employee to manage workplace and personal financial benefits in one place. Its aims are quite simple:

- To encourage employees to take an active interest in their medium and long term financial affairs;
- To enable employees to become more financially educated; and
- To encourage better outcomes at retirement.

Some of the financial advantages of this vehicle include:

- Employees can maximise their tax breaks by investing in a number of savings options.
- Flexibility – DC employer pension contributions can be invested in an ISA, which is beneficial for an employee wanting to save for a deposit or a high earner affected by pension tax restrictions.
- Money can be transferred e.g. maturing shares can be rolled into an ISA.

However, the vehicle is complex to create and it is extremely important that the level of financial education is right, the communication is concise and clear, and that employees have sufficient tools to enable them to make appropriate decisions.

2.3.4 Property

Property (or real estate), as part of an investment portfolio can help provide diversification. It is a physical asset that enables investors to spread their risk by investing in an asset class that is a growth asset, which in the long term would be expected to be immune to inflation and which should not mirror short term volatility expected of assets such as equities or and gilts. This section provides a brief outline of how property can be used by an individual to provide income in retirement.

Buy to Let

Buy to Let is a form of investment where you buy (or invest in) a property to rent out. When you buy such a property, you become a landlord, which means you have a legal responsibility to your tenant(s). A textbook analysis suggests that as an investment strategy (as opposed to a professional occupation), Buy to Let should normally only be one part of a more diversified strategy.

This kind of property investment does have its attractions to the retail investor. For example:

- It is a real asset, where there is a limited supply and increasing demand;
- It provides a known (pre-agreed) income;
- It has a real-world appeal for non-sophisticated investors because it is a familiar and visible asset;
- There is a commonly held view that property is a good investment or that house prices always seem to increase; and
- In a property boom, stories explaining how some investors have done well are widely circulated and sound attractive.

However there are disadvantages, including:

- A focus on short term capital gains instead of long term yields, and (in times when finance is readily available) becoming heavily geared can leave you dangerously exposed to downturns in the property market;
- Individual investments can go wrong due to lack of expertise or bad luck;
- Unintended costs e.g. repairs;
- The risk of extended rental voids, before replacement tenants can be found and
- The asset can be difficult to sell or exchange, which can lead to a loss in value.
- Governments have increasingly imposed additional taxes on Buy to Let investments such as a 3% stamp duty surcharge, and gradual reduction of mortgage interest tax relief. The erosion of Capital Gains Tax allowances has also increased costs for those selling their rental properties.
- The recent increase in mortgage rates is raising the buying costs of the properties.

For the investor there is therefore a political risk of taxation or other measures being introduced in order to discourage speculative investing in housing stock which would then negatively impact the value of their investment..

Principal Private Residence

An individual can use their main home as a means of providing further income. For example:

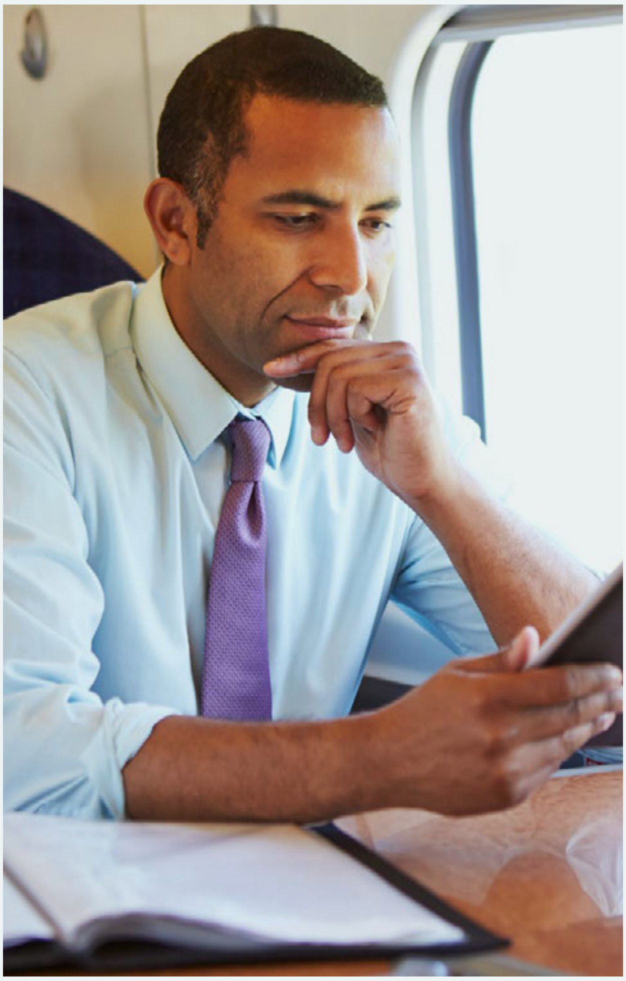
- ***Downsizing***
  A simple approach, where you decide to sell your home on retirement, and buy a cheaper property (smaller or in an area which is less expensive) so releasing capital to help fund retirement.
- ***Equity Release***
  Equity release is a term that refers to the various ways that (usually older) homeowners can use their homes to generate a lump sum or regular income, either with a loan secured on their home or by selling all, or part, of their property but continuing to live in it during their lifetime.

Using a Principal Private Residence in this way shares some of the downsides of a Buy to Let, but it does have the advantage that any increase in the value of the property isn't subject to Capital Gains Tax. It is arguably also a half-way house between spending for immediate consumption and investing for the future, since the individual gets immediate enjoyment of the property (although renting of a room is an option).

In either case, there is a danger of overestimating the capital that can be released from the property and underestimating the cost of retirement provision. In some cases, the notion of 'my house is my pension' is one that has not been fully thought through, and is sometimes being used to rationalise a behavioural choice not to save.

Self-Invested Personal Pensions (SIPPs)

SIPPs, which are referred to elsewhere in the manual, can be used to invest in commercial property (but not directly in residential property - although exposure can be obtained via a Real Estate Investment Trust (REIT)). This vehicle enables individuals to provide for their retirement by using a pension fund and investing in property.



2.4 ENGAGING EMPLOYEES WITH SAVING FOR RETIREMENT

Being able to save for retirement, either through a pension scheme or equivalent vehicle, is an important part of an employee's benefits package, which has the potential to be highly valued by an individual. It is therefore important to ensure effective member communication as an aid to ensuring an employee's engagement.

2.4.1 Effective Communication

The art of creating an effective piece of communication is all about getting the right message, to the right person, at the right time. The Pensions Regulator has released guidance on producing effective member communications to help pension schemes to support members and help them get the best out of their pension provision.

It is widely agreed that members who have a lack of understanding of their pension arrangements may make ill- informed decisions or take no action at all. This is particularly significant for members of DC schemes where many of the important decisions relating to member benefits are taken by the members themselves, including: the amount to contribute, what to invest in (which can change over time), when to take benefits and in what form.

Key points relating to effective communications include:

- Be clear about the purpose of communications materials – this helps with providing focus on key messages;
- Agree the target audience e.g. differentiate, where appropriate, between DB and DC members or active, deferred and pensioner members;
- Communications should be clear, helpful and relevant;
- They should also be timely;
- Agree a suitable method of delivery e.g. paper, electronic, face-to-face; and
- Communications should provide members with the information they need throughout their membership of the scheme.

The introduction from April 2015 of the pension flexibilities for money purchase benefits (see 1.4.4) has arguably made effective member communication even more important: members with money purchase benefits have more options, including that of drawing out their entire pension pots in one go.

This introduces risks for the member such as: misjudging the pace at which the retirement fund can be safely spent, and depleting it too quickly; paying excessive tax (for example by drawing down amounts that put him in a higher rate tax band for that year than he would normally be in); or becoming victim to investment 'scams'.

Partly to address this, the April 2015 flexibilities have resulted in significant new disclosure requirements. These relate to 'flexible benefits' (broadly money purchase or cash balance benefits), and also to defined benefits when the member wishes to transfer his benefit entitlement.

2.4.2 Disclosure Requirements

Most of the disclosure requirements relating to pension schemes are contained in the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 ("the disclosure regulations"), and apply from 6 April 2014. Details to be disclosed differ depending on the type of benefits provided.

In relation to occupational pension schemes, the basic structure of the disclosure requirements is as follows:

- Certain information has to be given to all members on joining, and updated when it changes (generally via the member booklet);
- Members can request formal scheme documentation, and certain actuarial information;
- A trustees' report must be prepared annually, and made available to members on request;
- Information must be given to members when they leave or retire (including for DC benefits a retirement wake-up pack at least 4 months before their expected retirement date), and if the member were to die, to the member's beneficiaries;
- A 'summary funding statement' must be given to all members, normally annually, in respect of any non- money purchase benefits;
- Annual benefit statements must be given to members automatically in respect of any money purchase benefits, but need only be given on request to members in respect of non-money purchase benefits;
- Those accruing large pension benefits must be provided with annual 'pension savings statements' setting out the amounts in the scheme that need to be tested against the member's annual allowance.
- Information on specific events (such as winding up) needs to be disclosed when they occur.
- Where a member wishes to transfer 'safeguarded benefits' (broadly DB or certain money purchase benefits with an underlying guarantee) worth over £30,000 the member must be informed that the trustees or managers are required to check that independent advice has been received before the member is allowed to make a transfer for the purpose of accessing flexible benefits.
- Since 1 June 2022 where a member with flexible benefits (broadly, DC benefits) applies to transfer their pension rights or start receiving benefits, trustees must refer them to Pension Wise, see Part 2, 1.4 below.

Similar provisions apply to personal pensions.

In addition, certain other disclosure requirements that apply in certain circumstances – such as divorce, transferring out or a scheme winding up - are contained in separate regulations that relate to those specific circumstances. These rules are in addition to any provisions in schemes' trust documents (and override if the two are in conflict).

Information provided should be accompanied by a statement that further information is available on request, and giving the address (both postal and email) to which enquiries should be sent. Note also that "members" includes pension credit members, as well as active, deferred and pensioner members.

When a member is provided with the means to access flexible benefits (for example when the member is given an application form, online access or certain other information), they must be provided with prescribed retirement risk warnings. The rules for these warnings differ depending on whether the benefits are being taken from a contract-based arrangement, such as a personal pension, governed by FCA rules, or from an occupational pension scheme, regulated by the Pensions Regulator.

These risk warnings address the attributes and features of the choices available that have the potential to adversely affect retirement income, and factors that have the potential to affect the appropriateness of options (such as health status and lifestyle choices, and whether the member has dependants, is in debt or in receipt of means-tested benefits).

Under the regulations most disclosure requirements may be satisfied by electronic means (i.e. by email or on a website) subject to the conditions outlined below. However there are some specific areas, which are governed by regulations that do not explicitly refer to electronic communication.

The Department for Work and Pensions' (DWP) view (expressed in its consultation document from 2013) is that a disclosure requirement "in writing" would include email but not other forms of e-communication such as a website.

The conditions for information to be sent electronically include that:

- if at 1 December 2010 the recipient had been receiving the information in paper form, they must be given the choice of continuing to receive information in that form; and
- where information is made available on a website, members must be informed of the fact and given all the relevant access details. The information must be presented in such a way that it is capable of being stored and printed by the member.

Disclosure by this method is voluntary but there could be cost savings available from adopting electronic communication – in particular, the costs associated with printing, packaging and postage.

From the first scheme year ending on or after 6 April 2018, schemes providing money purchase benefits (unless these are solely AVCs) are required to make certain information from the scheme's most recent chair's statement publicly available free of charge on a publicly available website. From 1 October 2019, the scheme's latest Statement of Investment Principles (SIP), where it is required to have one, must be published on the website and from 1 October 2020, an implementation statement setting out how the trustees have acted on their SIP must also be published online. Members must be made aware that this information is available, via their annual benefit statements.

From 1 October 2022, trustees of auto-enrolment schemes under which all benefits are money purchase must provide their members with 'simpler annual benefit statements' that fit on one double-sided sheet of A4 paper. The changes are aimed at simplifying benefit statements to make them more consistent and easier to compare, following earlier consultation on how to improve member engagement.

In 2022, Pensions UK and the Association of British Insurers launched the Pay Your Pension Some Attention campaign to encourage people to reconnect with their pensions. It has been repeated annually..

2.4.3 Different Communication Methods

Selecting the most appropriate method of communication is linked to how well a scheme or an employer understands their audience. Traditional paper-based communications are still widely used in the following forms:

• Letters • Statements • Forms • Booklets / Guides • Leaflets • Newsletters • Factsheets • Reports

Electronic communications are also widely used. However, some members still prefer face-to-face communications via group presentations, meetings or one-to-ones, or by phone.

Whichever methods are used to communicate with members it is vital that the information contained within the communication is consistent.

2.4.4 Style and Communication Guidance

Various industry guides are intended to help trustees communicate with members, giving good practice suggestions, including:

- The DWP's Automatic enrolment and pensions language guide (last updated in April 2014). This sets out seven key principles underlying
- effective member communication and gives recommendations on the use of both auto-enrolment terms and general pensions terms.
- The Regulator's Communications and reporting detailed guidance.
- The FCA's discussion paper Smarter consumer communications.
- The European Insurance and Occupational Pensions Authority (EIOPA) 2016 report on Good practices on communication tools and channels
- for communicating to occupational pension scheme members.
- The Association of British Insurers' Making retirement choices clear, a guide to simplifying
- pensions language and communicating retirement options effectively.
- The Pensions Management Institute's (PMI) glossary of Pensions Terminology, covering a wide range of pensions terms.

2.4.5 Giving Financial Advice

In relation to pensions, an individual or company must be authorised by the FCA if they wish to:

- Give advice on; or
- Arrange transactions of (for example, making arrangements with a view to assisting another person to complete a deal); or
- Deal in (for example, buying or selling investments); or
- Manage (for example, managing the assets of another person) certain products, including the following:
- Insurance policies such as group pension contracts, personal pension plans, section 32 buy outs and Freestanding Additional Voluntary Contributions (FSAVCs), and other long-term assurance products with an investment element;
- Additional Voluntary Contributions (AVCs);
- Investment options in pension schemes;
- Group life assurance policies (and some individual policies);
- Group permanent health insurance or income protection policies (and some individual policies).

Authorisation is not required in order to advise on, arrange or provide non-financial products and or services (for example, third party administration). Authorisation is also not required to invest one's own money. Where trustees and others want to give advice or guidance to members, establishing whether authorisation is required can be complicated. In May 2006, the Financial Services Authority (FSA) (the FCA predecessor body) issued some formal 'perimeter guidance' setting out the circumstances in which authorisation is or is not required.

In September 2017, the FCA and the Pensions Regulator jointly published a factsheet on what help employers and trustees can provide on financial matters without stepping over the boundary into financial advice and hence being subject to formal regulation.

More recently, the FCA and HM Treasury have been undertaking a joint Advice Guidance Boundary Review that aims to close the gap between financial advice and other forms of support. As part of this, the FCA has been consulting on targeted advice, which it intends to fill a gap that exists between more bespoke advice (as might be provided by an Independent Financial Adviser) and the general support available (such as the free guidance available through Pension Wise). Targeted support would see people receive suggestions developed for a group of consumers who share the same characteristics - rather than based on their detailed individual circumstances..

2.4.6 Financial Advice Market Review

The Financial Advice Market Review (FAMR) was launched in 2015 by the FCA and HM Treasury to identify ways to make the UK's financial advice market work better.

Several initiatives have followed from the FAMR:

Public financial guidance

The Money Advice Service, the Pensions Advisory Service and Pension Wise were replaced by a single public financial guidance body responsible for delivering debt advice, money and pensions guidance to the public. The Financial Guidance and Claims Act 2018 established this single financial guidance body (SFGB) in October 2019, as well as setting out its objectives and functions. From 6 April 2019 the SFGB was named the Money and Pensions Service (MaPS); it is responsible for delivering debt advice, money and pensions guidance to the public (see Part 2).

Pension advice allowance

The pension advice allowance was introduced in April 2017, enabling providers/schemes to allow their money purchase members to take up to £500 tax free from their pension pots, up to a maximum of three times, to redeem against the cost of regulated financial advice.

The allowance is not available for guidance services (as opposed to regulated advice), and it is not mandatory for providers or schemes to offer the facility.

Pensions advice exemption

A tax exemption was introduced from 6 April 2017 for 'relevant pensions advice'. This exempts from income tax and NI the first £500 worth of pensions advice provided to a current, former or prospective employee in a tax year. For this purpose, pensions advice includes information or advice in connection with the individual's pension arrangements, or in connection with the use of the pension funds. The exemption is conditional on advice being available to all of the employer's employees, or all at a particular location, but it may be restricted to those who are within 5 years of Normal Minimum Pension Age (or of their protected pension age, if applicable) or who are retiring on the grounds of ill-health.

Amending the definition of financial advice

FAMR found a strong consensus for a clearer boundary between guidance and regulated advice and in March 2017 regulations were made that amended the definition of regulated advice. With effect from 3 January 2018, regulated firms are treated as only giving financial advice where they provide a personal recommendation. However the wider definition of advice regarding advising on investments (in the Financial Services and Markets Act 2000 (Regulated Activities) Order) remains in place for unregulated firms..

2.4.7 Pensions Dashboards

Pensions dashboards will enable members to access information about all of their pension savings, including their State Pension, online in one place.

The Pension Schemes Act 2021 provides a legal framework for dashboards, including new powers to compel occupational pension schemes to provide information. This framework is supported by regulations, guidance, and standards.

Regulations from the Department for Work and Pensions (DWP) set out the detailed requirements to be met by trustees of relevant occupational pension schemes. The Pensions Regulator will be responsible for enforcing compliance with the regulations. It has published guidance on pensions dashboards and encouraged trustees to take action to prepare.

The FCA has introduced equivalent rules for FCA-regulated providers that will apply for personal and stakeholder pensions.

From April 2025, schemes and providers started to connect to the dashboards ecosystem in line with connection guidance from the DWP. All schemes are required to connect by 31 October 2026.

The State Pension has already connected to the dashboards ecosystem.

The government has not yet confirmed the date that dashboards will go live to the public (Dashboards Available Point) but has said that it will allow a period while only the state-provided MoneyHelper dashboard is operational. Consumer testing, which will allow the MoneyHelper dashboard to be refined, began in summer 2025.

Summary

We began this Chapter summarising the need for saving that included the obstacles to saving and some high-level solutions to the issues. We included descriptions of the different options for retirement saving including ISAs, corporate wraps and property. Finally, we outlined the main points of effective communication and also the statutory requirements as well as the different methods of communication to engage employees with retirement saving.

Self Test Questions

- What are some of the obstacles to retirement saving?
- What are the main types of ISAs?
- What is the key to effective communication?

Part 2

PARTIES INVOLVED

OVERVIEW

This Part provides an overview and introduction to the key parties involved in retirement provision.

When you have completed this Part, you will know the various parties involved in retirement provision and understand their roles.

CHAPTER 1

The Role of Key Parties Involved in Retirement Provision

INTRODUCTION

A number of different parties may be involved in retirement provision, including:

- The Pensions Regulator (TPR);
- The Financial Conduct Authority (FCA);
- The Pensions Ombudsman;
- The Money and Pensions Service;
- Citizens Advice;
- The Financial Ombudsman;
- The Pension Protection Fund (PPF);
- The Financial Assistance Scheme;
- The Financial Services Compensation Scheme;
- Government departments (HMRC, DWP and HM Treasury);
- The trustees and secretary to the trustees;
- Investment Governance Committees (IGCs);
- employers/pensions manager, payroll and HR;
- members and their dependants;
- advisers to those running the scheme (including legal adviser; investment adviser; scheme actuary and auditor);
- those giving advice or general information and guidance to members;
- service providers including administrators;
- investment managers; and
- insurers.

1.1 THE PENSIONS REGULATOR

The Pensions Regulator (TPR) is the UK regulator of trust-based pension schemes. A workplace pension scheme is any scheme that an employer makes available to employees. This includes all occupational schemes and any stakeholder and personal pension schemes where employees have direct payment arrangements. The Financial Conduct Authority (FCA) has a similar role in relation to contract-based schemes (see 1.2).

TPR currently has the following statutory objectives:

- to protect the benefits of members of workplace pension schemes;
- to promote good administration of workplace pension schemes;
- to reduce the risk of situations arising that may lead to claims for compensation from the Pension Protection Fund (PPF);
- to maximise compliance with the employer duties relating to automatic enrolment (introduced by Pensions Act 2008); and
- to minimise any adverse impact on the sustainable growth of an employer (in relation to defined benefit (DB) funding functions only).

In order to meet these objectives, TPR concentrates resources on schemes where it identifies the greatest risk to the security of members' benefits Where possible, it will provide support to trustees, administrators, employers and others where potential problems are identified.

TPR also has a role in respect of the governance and administration of public service pension schemes (introduced by the Public Service Pensions Act 2013). Since 1 April 2015, it has set standards of practice in order to help the Local Government, NHS, Teachers, Civil Service, Armed Forces, Police, Firefighters and Judicial pension schemes to meet governance and administration requirements set out in legislation.

Also, from 1 October 2018, TPR is responsible for the authorisation and supervision of master trusts (see Part 4).

TPR is also responsible for enforcing compliance with the Pensions Dashboards legislation for trust-based occupational schemes (see 2.4.7).

Although TPR does not formally regulate administrators or professional trustee firms (PTs), it has stepped up its activity in these areas - recognising the importance of both to the smooth running of the pensions system.

The Pensions Act 2004 provides TPR with a range of powers to enable it to meet its objectives. Its stated intention is to use these powers flexibly, reasonably and appropriately, with the aim of putting things right and keeping schemes on the right track for the long term. From 1 October 2021, to prevent and penalise mismanagement of pension schemes, the Pension Schemes Act 2021 introduced two new criminal offences and gave new powers for the Pensions Regulator to help safeguard pension schemes.

1.1.1 The Powers of the Regulator

TPR's existing powers are defined in statute, and fall into three broad categories:

- investigating schemes: how it gathers information to help identify and monitor risks;
- putting things right: what it can do where problems have been identified; and
- acting against avoidance: how it will ensure that employers do not sidestep their pension obligations.

Investigating schemes

TPR collects data through an annual scheme return. It also expects to receive reports of significant breaches of the law from whistleblowers, and reports of notifiable events from trustees and employers. The Pension Schemes Act 2021 creates the structure for expanding these events and the information required; this has not yet been fully implemented, although stronger penalties for failure to notify are already in place.

Trustees or scheme managers are also responsible for notifying it promptly of changes to registrable information such as the scheme's address, details of trustees, or the types of benefit provided by the scheme. It also expects to receive reports where a scheme is unable to comply fully with the scheme funding framework.

In addition, it can demand relevant documents (or other information) from trustees and employers, among others. The Pension Schemes Act 2021 broadened TPR's powers to permit it to require a broad range of people to attend an interview; and extended the grounds on which TPR can inspect premises.

Putting things right

Where TPR decides that action must be taken to protect the security of members' benefits, it has a range of options available. The action taken will depend on the circumstances of the problem. These are some examples of the regulatory action:

- issue an 'improvement notice' to individuals or companies, or a 'third party notice', requiring specific action to be taken within a certain time;
- take action, on behalf of a scheme, to recover unpaid contributions from the employer if the due date for payment has passed;
- where a wind-up is pending and members' interests may be at risk, it can issue a 'freezing order'; this order temporarily halts all activity within the scheme, so that it can investigate concerns and encourage negotiations;
- imposing a schedule of contributions on a scheme
- prohibition of trustees who it does not consider to be fit and proper persons for the role;
- imposition of fines where breaches have occurred; and
- prosecution of certain offences in the criminal courts.

Acting against avoidance

TPR has powers to act where it believes that an employer is deliberately attempting to avoid its pension obligations, leaving the PPF to pick up its pension liabilities. To protect the benefits of scheme members, and to reduce the PPF's exposure to claims for compensation, TPR may issue any of the following:

- ***Contribution notices*** — where there is a deliberate attempt to avoid a statutory debt, these allow it to direct that those involved must pay an amount up to the full statutory debt either to the scheme or to the Board of the PPF.
- ***Financial support directions*** — these require financial support to be put in place for an underfunded scheme where it concludes that the sponsoring employer is either a service company or is insufficiently resourced.
- ***Restoration orders*** — if a transaction involving the scheme's assets has been undervalued (for example assets sold to some connected party at a price that is less than what would be expected from a genuine arm's length transaction), these allow it to take action to have the assets (or their equivalent value) restored to the scheme.

A clearance procedure is available for anyone who wishes to confirm that they will not be subject to either a contribution notice or a financial support direction following a proposed transaction. By obtaining advance clearance from TPR, the company receives assurance that that it can go ahead with the transaction without the risk that TPR will at some later stage use one of the anti-avoidance powers described above in relation to that transaction.

In 2018 TPR set out a new approach to regulation, noting that schemes could expect the volume and frequency of their interactions with TPR to increase. TPR sets out two types of supervision on its website - 'Relationship Supervision' and 'Events Supervision'.

1.1.2 The Regulator and Scheme Governance

TPR regards pension scheme governance as highly important. Its general code of practice (see below) sets out its expectations of the conduct and practice that governing bodies should meet to comply with their duties.

General code of practice

TPR's general code of practice came into force on 28 March 2024, initially combining 10 of the 15 existing codes of practice, mainly dealing with governance and administration, with the remainder to be consolidated in due course. The code incorporates changes introduced by the 2018 governance regulations (implementing key provisions in the EU pensions directive - see 2.3.3). The governance regulations introduce a new duty for schemes to establish and operate an effective system of governance (ESOG), which will be assessed via an Own Risk Assessment (ORA)..

1.2 FINANCIAL CONDUCT AUTHORITY

The Financial Conduct Authority (FCA) is responsible for regulating the standards of conduct in financial markets and for supervising the infrastructure that supports those markets. The FCA's remit extends across a range of financial services, including personal pension schemes. Its objectives are:

- to secure an appropriate degree of protection for consumers
- to protect and enhance the integrity of the UK financial system, and
- to promote effective competition in the interests of consumers.

In December 2022 the regulators published an update outlining how they will continue to work together to deliver good outcomes for pension savers regardless of their pension type. It includes eight joint work streams - broad strategic areas drawing out their current and future focus. These include productive finance; value for money; a regulatory framework for effective stewardship; pension scams strategy; DB transfer advice; DB schemes and transfer activity; pensions dashboards; and supporting consumer decision-making.

Like TPR, the FCA has issued guidance and reports, on subjects such as pension scams, annuity comparison websites and independent governance committees. The FCA also worked to develop standards for the provision of Pension Wise guidance at retirement to members with money purchase benefits.

From 31 July 2023 the FCA's Consumer Duty took effect, aimed at improving how FCA-authorised firms serve their consumers. The Duty is made up of an overarching principle and rules that firms have to follow. It means that consumers should receive communications they can understand, products and services that meet their needs and offer fair value, and get the customer support they need, when they need it.

1.3 THE PENSIONS OMBUDSMAN

The Pensions Ombudsman (TPO) investigates and decides complaints and disputes about the way that pension schemes are run. TPO is completely independent and acts as an impartial adjudicator, with any decision being final and binding on all the parties to the complaint or dispute. It can be enforced in the Courts. TPO's decision can only be changed by appealing to the appropriate court on a point of law.

Under the Pension Schemes Act 1993, TPO has powers to deal with complaints of maladministration and disputes of fact or law concerning personal and occupational pension schemes. The power to decide these matters rests with TPO and the Deputy Pensions Ombudsman who are appointed by the Secretary of State for Work and Pensions.

There is no charge for using the Pensions Ombudsman's services. It is funded by grant-in-aid paid by the DWP, which is largely recovered from the general levy on pension schemes administered by the Pensions Regulator.

Complaints can be made by actual or potential beneficiaries (who believe that they have been unfairly treated by the trustees or employer, or anyone else involved in scheme administration); or by trustees against the employer and vice versa; and disputes among the trustees of the same or different schemes.

The Pension Schemes Bill currently before Parliament includes provisions to clarify that a determination by TPO is treated as an order of a 'competent court', which removes the need for schemes to make a separate application to the courts to enforce TPO decisions in relation to the recovery of overpayments.

There is also a Pensions Protection Fund Ombudsman (PPFO) (currently the same person as TPO) who can review decisions made or consider complaints of maladministration in relation to the Pension Protection Fund (PPF). Points to note are:

- the PPF's two stage internal procedure must be completed; help to do this is available from the early resolution service;
- the final decision will be made by the PPF Reconsideration Committee;

- for complaints of maladministration, the PPFO may (in some circumstances) be able to review a problem before it has been through the second stage of the PPF process;
- The PPFO can accept applications from anyone who has had a decision made by the PPF Reconsideration Committee.

1.4 MONEY AND PENSIONS SERVICE

The Financial Guidance and Claims Act 2018 introduced the single financial guidance body (SFGB), a new statutory body that is accountable to Parliament. The SFGB went live on 1 January 2019 and was rebranded as the Money and Pensions Service (MaPS) from 6 April 2019.

MaPS' mission is to help people – particularly those most in need – to improve their financial wellbeing and build a better, more confident future. Working collaboratively across the UK, its aim is for customers to access high-quality money and pensions guidance and debt advice throughout their lives, how and when they need it.

MaPS has a key role in delivering pensions dashboards (see 2.4.7).

MaPS is funded by levies on both pension schemes and the financial services industry.

1.4.1 MoneyHelper

MoneyHelper (**https://www.moneyhelper.org.uk/en**) is the consumer-facing service provided by MaPS. Created in June 2021, MoneyHelper provides free and impartial money and pensions guidance, bringing together the financial guidance services and content from its legacy brands: the Money Advice Service and the Pensions Advisory Service (and replacing the websites for these legacy brands).

As well as providing information and tools on its website, MoneyHelper operates a live chat feature, telephone helplines for guidance, and an online enquiry form.

Pension Wise

Pension Wise was launched by the government in April 2015 as a free and impartial guidance service to help those aged 50 or over with defined contribution (DC) pensions to understand their options. Pension Wise is now delivered through MoneyHelper, providing telephone guidance and face-to-face appointments, as well as online information. The guidance must follow a prescribed format to meet FCA standards, and specific recommendations are not made.

From 1 June 2022, rules were introduced in a bid to improve take-up of pensions guidance. Where a member with flexible benefits (broadly, DC benefits) applies to transfer or start receiving benefits, trustees must refer them to Pension Wise, explain the nature and purpose of the guidance and offer to book an appointment. These measures are referred to as a stronger nudge to pensions guidance. They also apply to FCA-regulated pension providers.

Pension safeguarding

Since 30 November 2021, regulations have placed restrictions on the statutory right to transfer, enabling trustees to prevent a transfer going ahead in certain circumstances where they suspect a pension scam. Trustees must carry out checks to determine whether any red or amber flags are present. A red flag prevents the transfer. An amber flag indicates the risk of a scam, meaning the transfer can only proceed when the member has attended a **Pension Safeguarding Guidance appointment** with MoneyHelper and provided evidence that they have done so.

1.5 CITIZENS ADVICE SERVICE

Citizens Advice is a charity that aims to provide advice that helps people to overcome their problems. The service is made up of local members, who are all individual charities, along with the national Citizens Advice charity. The Citizens Advice network delivers advice services from local Citizens Advice premises and community centres, doctors' surgeries, courts and prisons across England and Wales.

1.6 FINANCIAL OMBUDSMAN SERVICE

The Financial Ombudsman Service (FOS) is the statutory dispute-resolution scheme set up under the provisions of the Financial Services and Markets Act 2000. The body that administers the ombudsman scheme has a board of directors appointed by the Financial Conduct Authority. The directors appoint the Ombudsman.

In connection with pensions, FOS will consider complaints relating to the sales or marketing of a personal pension (complaints of maladministration are dealt with by the Pensions Ombudsman). It

is empowered to award compensation, up to a maximum of £445,000 (depending on when the complaint was made).

Before contacting the Financial Ombudsman, the individual should write to the company about which they have a complaint who will then have eight weeks to investigate and issue a decision. If the member is still unhappy, then FOS can be approached.

The rules setting out how the Financial Ombudsman Service should handle complaints are published as part of the FCA's Handbook. There are procedures in place for ensuring cooperation between the FOS and the FCA on issues that might lead to large numbers of complaints..

1.7 PENSION PROTECTION FUND

1.7.1 Eligibility

The Pension Protection Fund (PPF) came into effect from 6 April 2005. It applies to DB and hybrid schemes (defined contribution schemes are not eligible).

Where a qualifying insolvency event occurs on or after 6 April 2005 (essentially either receivership or insolvency of the sponsoring employer) and the assets of the scheme are not sufficient to fully buy out the benefits otherwise payable by the PPF with an insurance company, then the scheme will go into the PPF. Otherwise, the scheme will have to be wound up, or may be allowed to run as a closed scheme. Schemes that started winding up before 6 April 2005 are not covered (although these schemes may be covered by the Financial Assistance Scheme – see 1.8).

1.7.2 Compensation

Once the PPF takes responsibility for a scheme, its assets and liabilities are transferred to the PPF, which will provide compensation broadly at 100% of accrued benefits for those over Normal Pension Age (NPA) or those in receipt of an ill health or survivor's pension. For others, the compensation will be 90% of accrued benefits. There is also CPI indexation, capped at 2.5%, on compensation attributable to benefits earned through service after 5 April 1997, and a 50% spouse's benefit on death.

There have been a number of court cases that have implications for the level of PPF benefits.

In December 2019, the CJEU gave its ruling in Pensions-Sicherungs-Verein VVaG v Bauer (known as the Bauer case), which related to the German equivalent of the PPF. The Court ruled that where a sponsor become insolvent, a reduction in the amount of occupational retirement benefits paid to a former employee is disproportionate if it would bring the former employee below an EU-defined poverty threshold (around £11,000 pa in the UK in 2018).

The government is still considering the implications of the Bauer judgment in relation to pre-2024 insolvencies; for schemes with an assessment period starting on or after 2 January 2024, the Retained EU Law (Revocation and Reform) Act 2023 disapplies the Bauer judgment and therefore such schemes need make no allowance for it.

1.7.3 Hybrid Schemes

For hybrid schemes, the Pension Protection Fund regulations set out the procedure for discharging money purchase benefits within schemes that are eligible for the PPF.

1.7.4 The PPF Levy

The main funding of the PPF comes from levies collected annually on eligible schemes. The levy, which is subject to an overall ceiling each year, comprises a risk-based element and a scheme-based element. The scheme-based element considers the amount of the liabilities for providing PPF benefits to the scheme members and the risk-based element broadly takes account of the funding level of the scheme and the risk of employer insolvency. Additional levies are also payable in respect of the fraud compensation scheme and the Ombudsman, and to cover the establishment and administration of the PPF.

1.8 FINANCIAL ASSISTANCE SCHEME

The Financial Assistance Scheme (FAS) was set up by the Government to provide financial assistance to members of schemes that do not qualify for the PPF and who have lost pension rights because their scheme wound up without sufficient funds to meet the pension liabilities.

The scheme was managed by the DWP and administered by the FAS Operational Unit. Responsibility has now been passed to the Board of the PPF.

FAS closed to new applications from 1 September 2016. Existing members, or those with a deferred entitlement to receive assistance payments from the FAS were not affected by this.

1.8.1 Eligibility

To be eligible the scheme must in most cases have started to wind up between 1 January 1997 and 5 April 2005 (although there are some special circumstances in which schemes commencing winding up before 27 March 2014 could qualify).

Originally the requirement was that the employer must be insolvent or no longer exist, or a 'compromise agreement' had been reached with the employer to prevent employer insolvency. However the eligibility conditions were widened to include underfunded schemes where there was no employer debt at the time wind up commenced.

Members are eligible for assistance as are a member's surviving spouse or civil partner who died after the scheme started to wind up.

1.8.2 Compensation

The compensation now given by the FAS is similar to the compensation provided by the PPF. Eligible members' pensions will receive 90% of their accrued pension subject to a cap. This will normally be payable from normal retirement age (NRA). A member can apply for payment earlier on the grounds of ill health but only up to five years before his NRA, and the compensation would be reduced for early payment. Any compensation accrued in respect of scheme service after 6 April 1997 will be increased each year by CPI (capped at 2.5% p.a.).

1.9 FINANCIAL SERVICES COMPENSATION SCHEME (FSCS)

The FSCS is a safety net for customers of authorised financial services firms that have failed. It was set up under the Financial Services and Markets Act 2000 (FSMA) to pay compensation where an authorised firm (such as an insurance company) is unable, or unlikely to be able, to pay claims against it. This is generally when a firm is insolvent or has gone out of business.

The FSCS is primarily concerned with protecting private individuals, although small businesses are also covered. The trustees of DB occupational pension schemes are eligible to claim on the FSCS, but only up to £50,000 in total (for example for losses incurred due to the failure of a firm authorised by the Financial Conduct Authority or the Prudential Regulation Authority) provided the sponsoring employer of the scheme is not 'large', as defined in FCA's rules.

From 29 April 2016 the FSCS covers all occupational pension schemes providing money purchase benefits, regardless of employer size. Where the pension scheme provides money purchase benefits, the FSCS is required to treat each scheme member as having a claim (up to the £50,000 limit for each member.

1.10 GOVERNMENT DEPARTMENTS

1.10.1 HM Revenue & Customs (HMRC)

HMRC (formerly the Inland Revenue) is responsible for the collection and administration of tax and National Insurance (NI). The tax and NI liabilities of pension schemes, companies and individuals are calculated in accordance with legislation. Since the tax regime introduced by Finance Act 2004 (FA04) came into force, HMRC has minimal discretionary powers. However it publishes comprehensive guidance on tax matters and will also answer queries on recent Finance Acts. For pension schemes, the main body of guidance is the Pensions Tax Manual. Other HMRC manuals that will sometimes be relevant include the Employment Income Manual, the VAT Manual and the Inheritance Tax Manual. HMRC also regularly publishes newsletters and other announcements about pensions tax matters.

1.10.2 The National Insurance Contributions and Employer Office (NIC&EO)

The National Insurance Contributions and Employer Office is part of HMRC. It is responsible for collecting and recording National Insurance contributions. This involves

- ensuring compliance with National Insurance-related legislation,
- collecting National Insurance contributions,
- administering the legacy contracted-out system,
- maintaining accurate National Insurance accounts and
- providing information about National Insurance It also deals with enquiries relating to:
- Class 1 National Insurance rates and thresholds
- Statutory Payments
- Married Women's Reduced Rate Election
- National Insurance statement requests
- Class 2 and 3 National Insurance
- Employment Histories

1.10.3 National Insurance Services to the Pensions Industry (NISPI)

The National Insurance Services to Pensions Industry (NISPI) is a directorate within NIC&EO.

NISPI deals with occupational pension schemes that were contracted-out of the State additional pension.

1.11 INFORMATION COMMISSIONER'S OFFICE

The Information Commissioner's Office (ICO) is an independent authority that seeks to uphold information rights in the public interest, promoting openness by public bodies and data privacy for individuals. The ICO rules on eligible complaints, gives guidance to individuals and organisations, maintains a registry of data controllers and takes appropriate action when the law is broken.

The ICO is responsible for promoting and enforcing data protection law; it interprets the legislation including the Data Protection Act 2018 and the General Data Protection Regulation (GDPR) and provides advice about it.

1.12 PENSION TRACING SERVICE

The Pension Tracing Service was introduced to enable members of pension schemes to easily trace the contact address of those schemes. The service is especially important for members who leave a scheme with deferred benefits and, when they come to retire some years after leaving a scheme, have difficulty contacting the scheme to arrange payment of their benefits (for example, where the scheme's administration office has moved). The official government website for members searching for lost pension benefits is https://www.gov.uk/find-pension-contact-details

1.13 DEPARTMENT FOR WORK AND PENSIONS

The Department for Work and Pensions (DWP) is the UK's Government department responsible for welfare and pensions policy. DWP's responsibilities include:

- providing information about pensions, benefits and retirement for current and future pensioners;
- providing a decent income for people of pension age and promoting saving for retirement;
- administering the State Pension.

You can browse literature on DWP's website: https://www.gov.uk/government/organisations/department-for-work-pensions

The DWP provides the overarching regulatory and legal framework governing TPR and the PPF. It has no responsibility for the day-to-day running of TPR and the PPF but expects to be informed by them of potentially significant problems.

A tripartite Memorandum of Understanding between the DWP, TPR and the PPF establishes the framework for cooperation between them, including discussion forums, and sets out the role and responsibilities of each body.

1.14 THE TRUSTEES

The trustees of an occupational pension scheme are the legal owners of the assets of the scheme and they are primarily responsible for ensuring that:

- the scheme is administered in accordance with the relevant legal and regulatory requirements (for DB schemes this includes ensuring that the scheme meets the statutory funding objective);
- the employer's and members' contributions are paid on time; and
- members' benefits are paid on time and in accordance with the trust deed and rules of the scheme.

Trustees owe a number of different legal duties to the beneficiaries of the scheme.

There are a number of statutory requirements that apply to the trustees of most occupational pension schemes.

Trust law provides the foundation for how trustees must act in relation to the scheme - these are a trustee's 'fiduciary' duties. The Pensions Regulator's Trustee guidance outlines some of the wide-ranging responsibilities placed on pension scheme trustees and some of the powers they usually have.

1.15 INDEPENDENT GOVERNANCE COMMITTEES

From 6 April 2015, providers of workplace contract-based schemes such as group personal pensions are required to operate Independent Governance Committees (IGCs) to act in the interests of policyholders, and independently from the provider, to oversee the governance and assess the value for money delivered by these schemes.

The Financial Conduct Authority (FCA) rules set out the requirements for the operation of IGCs.

As well as providing communication to scheme members and employers, IGCs enable greater transparency and comparability between contract-based schemes (group personal pension and stakeholder schemes). IGCs must report on how they meet minimum quality standards. They have the power to escalate concerns to members, employers and the FCA.

The chair of the IGC is responsible for publishing an annual report setting out the assessment of the value for money delivered by the schemes they oversee, how schemes meet the standards and how the IGC has acted in policyholders' interests over the course of the year.

Providers with smaller and less complex workplace personal pension schemes can establish a Governance Advisory Arrangement (GAA) instead of an IGC.

1.16 MEMBERS AND THEIR DEPENDANTS

The members and beneficiaries of a scheme include:

- active members (i.e. members who are currently accruing benefits under the scheme);
- deferred members (i.e. members who have ceased to accrue benefits under the scheme and who have a future right to the payment of benefits under the scheme);
- pensioners (i.e. members who are currently in receipt of a pension from the scheme);
- spouses, civil partners and dependants* (who are entitled under the rules of the scheme to the payment of benefits on the death of the member); and
- since April 2015, in DC schemes, as well as paying death benefits to individuals who were financially dependent / interdependent on the member, it is also possible to pay death benefits to other individuals nominated by the member or scheme administrator ('nominees') or to a nominated 'successor' on the death of a dependant, nominee or successor.

In an occupational scheme, the members and beneficiaries of a scheme are entitled to enforce the terms of the trust deed and rules against the trustees. In a contract-based scheme such as a group personal pension, they can similarly enforce the terms of the contract against the provider.

Members may also have certain contractual rights under their contract of employment which they can enforce against their employer.

The rules of the scheme should set out the eligibility requirements for membership of the scheme.

Members are generally required to contribute to their scheme at the rate set out in the rules or their employment contract (which can normally be changed from time to time). Member contributions are normally deducted directly from their salary and paid across to the trustees of the scheme by their employer. Alternatively, in some schemes all the contributions may be paid by the employer (so-called non- contributory schemes); or the member may have the choice of opting under a 'salary sacrifice' or 'flexible benefit' arrangement for a reduced salary in return for not having to contribute to the scheme (such arrangements may be efficient from a National Insurance point of view).

1.17 EMPLOYERS

Payment of contributions – DB schemes

The employer is generally responsible for making up any shortfall in the scheme's funding position and scheme expenses. Normally the employer and trustees will agree the rate of employer's contribution to the scheme. In some cases, however, the trustees have a unilateral power to set employer contributions. The rate of employer's contributions will be set out in the scheme's schedule of contributions. The employer will also be responsible for deducting members' contributions from their salary and for paying them across to the trustees of the scheme within strict timescales.

Payment of contributions – DC schemes

The employer is responsible for paying contributions at the rate which is specified in the trust deed and rules of an occupational scheme, or in accordance with the employment contract in the case of a contract-based scheme such as a personal pension.

The employer is also responsible for deducting members' contributions from their salary and for paying them across to the trustees or managers of the scheme.

The employer's powers and obligations under trust-based schemes

The employer will also typically have a number of powers that it can exercise under the trust deed and rules of a scheme (e.g. power to amend the scheme, power to appoint and remove trustees, etc.). The exercise of these powers by the employer may be subject to the consent of the trustees. It may also be restricted by statute or by the courts.

In the case of ***Imperial Group Pension Trust v Imperial Tobacco*** (1991) the court held that the powers held by an employer under an occupational pension scheme are subject to an implied duty of trust and confidence that exists between an employer and its employees. Therefore, an employer must exercise its powers under an occupational pension scheme in a way that is consistent with this duty. However, it is generally not considered difficult for an employer to comply with this duty.

The employer also owes a number of legal and contractual obligations to its employees based on the general law relating to employment and the employees' contracts of employment.

Where the scheme is a group scheme providing benefits for employees of one or more associated companies, one of the employers will act as the principal employer. The principal employer would normally be granted special powers or duties under the scheme's trust deed and rules, for example, appointing and removing trustees, power to amend the scheme and determining when the scheme should be wound up. The principal employer will also normally be nominated to represent the other participating employers in negotiations with trustees over issues such as scheme funding and the scheme's statement of investment principles.

Other trust-based schemes have been established for the use of a number of companies that are not associated. This includes industry-wide schemes for employers in a particular sector, and master trusts in which any employer can participate.

1.18 OPERATIONAL ROLES

1.18.1 Secretary to the Trustees

The trustees of most occupational pension schemes, and certainly the larger schemes, will be supported by a secretary (often, the secretary is the pensions manager – see below).

The secretary will be responsible for providing administrative support to the trustees to ensure that the scheme is run correctly. This would typically include:

- organising trustees' meetings; this includes giving notice to the trustees and preparing the agenda for the meetings;
- ensuring that the trustees' meetings are quorate and that any decisions that are taken comply with the requirements set out in the scheme's
- trust deed and rules (or the articles of association where there is a corporate trustee);
- producing the minutes of the trustees' meetings;
- filing the scheme's annual return and overseeing the preparation of the scheme's annual report and accounts;
- ensuring that the necessary formalities are complied with on the appointment and removal of trustees or the directors of a corporate trustee;
- ensuring that the information required by the Pension Protection Fund in connection with the calculation of the scheme's PPF levy (and any PPF
- contingent assets) is filed on time each year and that the levy is paid; and
- liaising with trustees' advisers on administrative matters.

1.18.2 The Pensions Manager

Where the employer is using an occupational scheme, it may employ a pensions manager (and sometimes a pensions team) to oversee the day- to-day operation of the scheme and help it run effectively. The pensions manager is typically responsible for a variety of tasks including any or all of the following:

- managing a team of pensions administrators and advisers
- acting for the trustees as the specified person to handle disputes under a dispute resolution procedure
- planning new pension schemes and developing existing ones
- reporting on the scheme's financial performance
- liaising with actuaries, solicitors, auditors, investment consultants and trustees
- liaising with payroll and HR (see 1.5.3 below)
- promoting the pension schemes
- preparing annual financial reports.

Often, the pensions manager will also act as secretary to the trustees (see 1.14.2 above).

1.18.3 Payroll and Human Resources (HR)

The employer may operate separate or combined Payroll and HR departments. The HR team will have responsibility for the development, recruitment and promotion of staff. This will include liaising with the pensions manager on pension arrangements and ensuring compliance with auto-enrolment requirements (see further Part 3, Chapter 3). The HR team will advise payroll of any changes to staff (joiners & leavers) and changes to salaries or pension scheme contributions.

The payroll team will process the weekly/monthly payroll requirements for the business, liaising with HR and Finance in order to receive and process payroll related data. Payments to be processed include salary, benefits and deductions. The payroll team will also be responsible for handling the monthly pension scheme in line with payroll and the Scheme requirements. This will include adding or removing members, changing contribution amounts and providing data to the HR team, pensions manager and service providers as required. The payroll team may also operate a pensioner payroll including any increases due..

1.19 ADVISERS

Trustees' Advisers

The trustees of an occupational scheme will appoint a number of different advisers to assist them in the running of their scheme. This will include:

- a legal adviser
- a fund manager
- an actuary (for DB schemes)
- an auditor

all of whom must be appointed in writing and their appointment must comply with the requirements of section 47 of the Pensions Act 1995.

Advisers typically also include an investment consultant and a benefits consultant.

Statutory Duties

In certain circumstances advisers may themselves be subject to statutory duties in relation to the scheme, such as the provisions of:

- The Financial Services and Markets Act 2000 (FSMA) (in the case of investment advisers); or
- The Pensions Act 2004 (which requires advisers to report breaches of the law relevant to the administration of the pension scheme which are likely to be of material significance to TPR).

1.19.1 Legal Adviser

The role of the trustees' legal adviser will include:

- advising the trustees on their legal duties and responsibilities;
- advising the trustees on the legal and regulatory requirements that apply to their scheme;
- advising the trustees on the interpretation of the scheme's governing documentation;
- drafting any changes that need to be made to the scheme's trust deed and rules and other documents such as deeds of appointment and removal of trustees;
- drafting documents such as recovery plans, merger agreements and contingent asset agreements;
- advising on the legal aspects of corporate transactions and drafting the sale and purchase agreement; and
- advising on disputes in relation to the scheme.

1.19.2 Investment Adviser

Pension investment advisers work in the following areas.

Investment Monitoring

They update clients on the short and long-term performance of their scheme assets by providing in depth quarterly, bi-annual or annual investment reports.

Investment Strategy Modelling

They advise on the most appropriate asset allocations for scheme assets, using an asset liability model. They review long-term investment strategies on an annual basis and/or three-year basis.

Investment Manager Research & Selection

They research, monitor and recommend a range of high-quality investment managers within the market place across all asset classes from equities, fixed income, property and alternatives.

Asset Transition Management

They coordinate and manage the transfer of assets between asset classes and investment managers.

Investment Trustee Training

They provide training for trustees, to introduce them to advanced investment concepts, for example, the benefits of diversification, risk assessment, and alternative asset classes suitable for trustees of UK based DB and DC pension schemes.

1.19.3 Actuary

The scheme actuary plays an important role in relation to DB schemes, in:

- assessing the funding position of the scheme;
- preparing actuarial valuations, and advising on decisions relating to scheme funding, such as the scheme's statement of strategy or schedule of contributions;
- advising the trustees on the methods and assumptions that should be used to set the scheme's technical provisions and low dependency funding basis;
- calculating members' benefit entitlements (including ill health pensions, early/late retirement pensions and cash equivalent transfer values);

- advising the trustees on the assumptions that should be used to calculate transfer values; and
- calculating any 'section 75' debts on the employer that become payable in respect of the scheme usually when an employer becomes insolvent, the scheme winds up, or in the case of a multi-employer scheme, when one of the employers is deemed to have ceased to participate in the scheme.

1.19.4 Auditor

The auditor's primary responsibility is to audit the annual scheme accounts. The auditor may also advise the trustees on the adequacy of the internal controls that they have in place to protect the scheme's assets.

1.19.5 Benefit Consultant

The benefit consultant advises the trustees on good practice when it comes retirement provision, and can advise and assist when the trustees are considering making changes to the scheme.

1.19.6 Communication/Engagement Consultant

The communication/engagement consultant advises the trustees on good practice in the area of member communications and engagement. This often includes helping the trustees devise and implement a strategy for member communications, both for business as usual, and during times of change.

Employers' Advisers

In practice, a sponsoring employer for an occupational pension scheme will also appoint legal and actuarial advisers. These may be the same as the trustees' advisers, although this is much less common than it once was because of the potential for conflicts of interest which may arise. If the employer and the trustees use the same adviser (or firm of advisers) and any conflict occurs, the employer/trustees may need to take advice from a different adviser.

An employer will also appoint an adviser in connection with a contract-based group arrangement.

An employer may appoint a communication/engagement consultant to help them with engaging their employees in the importance of retirement savings. If the employees understand this, they are more likely to appreciate the sponsor's contribution to the scheme and how the pension scheme forms a major part of the rewards package.

Members' Advisers

Most scheme information is issued to members via the trustees or the employer's advisers.

However, there will be occasions when some or all of the members need advice.

In a DB scheme, an employer undertaking an 'incentive exercise' may arrange for advice to be made available to the members involved – indeed, one of TPR's published principles relating to such exercises is that the employer should make independent and impartial financial advice available to all members and ensure that it is strongly promoted. In limited circumstances this may not be appropriate, in which case detailed guidance should be provided instead. Examples of incentive exercises are invitations to members to surrender their right to future pension increases in return for a higher, but not increasing, pension; and an invitation to transfer their benefits out of the scheme in return for a higher transfer value than would normally be available. In both cases, the motivation for the scheme sponsor is normally to reduce the risk or cost to the scheme.

In a DC scheme, advice may be needed when a member starts drawing his benefits. Such advice can cover the different options available and/or the best product for the option chosen (for example where the member has chosen an annuity, the best rate available in the market for the type of annuity selected). Less commonly, members may seek advice on investment strategy during the accumulation phase.

Advice may also be sought when a member wishes to transfer out of either a DB or DC scheme. In the case of a DB scheme, it is a statutory requirement that advice is taken where the value of the benefits is £30,000 or more and a transfer is being used to access the new pension flexibility. Many DC providers will in any case insist on advice having been taken before accepting a transfer from a DB arrangement and have done so for a number of years.

In addition to advice, members can also obtain general guidance from a number of sources. One such source is Pension Wise (the service set up by the Government in connection with the new pension flexibilities) which provides free and impartial guidance on DC pensions over the phone or face-to-face. Such guidance stops short of recommending any particular product or advising the member what to do with his pension pot.

1.20 SERVICE PROVIDERS

Pension scheme trustees may also appoint other service providers to assist them with the day-to- day running of their scheme. This may include:

- an administrator - to perform various administrative functions, such as paying members' benefits and transfer values and maintaining membership records;
- a consultant - to advise them on strategic decisions in respect of the scheme (e.g. whether or not to buy out some or all of their members' benefits);

Where trustees delegate any of their functions to a third party (such as an administrator), they should first ensure that they have the power to do so under their scheme's trust deed and rules. Trustees should also regularly monitor the performance of any service provider to whom they have delegated any of their functions.

1.21 INVESTMENT MANAGERS

The trustees of an occupational pension scheme are ultimately responsible for the investment of the scheme's assets. However, in practice, most trustees will delegate their day-to-day investment responsibilities to investment managers authorised by the Financial Conduct Authority (FCA).

The FCA requires investment managers to comply with a large body of rules. These are designed to ensure that investment managers:

- have minimum asset levels; and
- are members of a compensation scheme or have indemnity insurance arrangements in place.

An investment manager should be appointed in writing by the trustees. The terms of engagement which investment managers enter into with trustees should in particular include:

- the trustees' investment objectives;
- particular market restrictions;
- particular investment restrictions;
- warnings of investments that are difficult to realise;
- details of how to terminate the agreement;
- arrangements for communicating with the trustees;
- special warnings where investment is made in futures and options; and
- special rules for portfolios managed on a discretionary basis.

These terms of engagement will take the form of a standard set of terms and conditions that are reviewed by the trustees' legal advisers, with amendments being negotiated as appropriate.

Since 2019, trustee have been subject to duties introduced by the Competition and Markets Authority (CMA). Among the requirements, is that trustees must carry out a competitive tender before appointing fiduciary managers and must set strategic objectives for investment consultancy providers. From 1 October 2022, DWP regulations introduced requirements on trustee oversight of investment consultants and fiduciary managers that replace those in the CMA Order. The Pensions Regulator is responsible for monitoring compliance and does this via the scheme return.

Trustees who delegate any of their investment functions to an investment manager are not responsible for the acts or defaults of the investment manager in the exercise of those functions provided they have taken all reasonable steps to satisfy themselves that:

- the investment manager has the appropriate level of knowledge and experience to manage the investments of the scheme; and
- the investment manager is carrying out his work competently and is complying with the requirements of section 36 of the Pensions Act 1995 and those contained in the Occupational Pension Schemes (Investment) Regulations 2005.

To fulfil their obligation to monitor the investment manager, the trustees should ask to see regular reports from the investment manager.

Often, the investment manager will also act as custodian, but trustees may appoint a separate custodian if they wish.

1.22 INSURER

Insurers provide contract-based schemes such as personal pensions and stakeholders. However they can also have a role in trust-based schemes (other than a purely investment role):

In a trust scheme, the trustees (or employers) may choose to insure some or all of the benefits that are provided under their scheme (e.g. lump sum death benefits) with an insurer, provided the rules of the scheme allow them to do so. Trustees may also purchase annuities to secure some or all of the members' benefits under the scheme (e.g. to secure pensions in payment under their scheme).

In the case of a DB scheme, the insurance or annuity policy will generally be issued in the name of the trustees (or, where appropriate, the employer).

In these circumstances the relationship between the trustees (or the employer) and the insurer will be contractual and the trustees (or the employer) will be able to sue the insurer to enforce the terms of the policy. This is referred to as a buy-in.

In some circumstances, policies may be issued to named beneficiaries (e.g. where a scheme is being wound up). Where this happens, the beneficiaries can directly enforce the policy against the insurer. In addition, a policy that was originally issued in the name of the trustees (or the employer) may be assigned (for example, on a wind- up of a DB scheme) to the beneficiary. Once the policy has been assigned the beneficiary will be able to enforce the policy directly against the insurer. This is referred to as a buy-out.

If a policy is issued to the trustees or an employer and has not been assigned, it may still be possible for the beneficiaries to enforce the policy against the insurer under the Contracts (Rights of Third Parties) Act 1999.

However, insurers normally exclude the application of that Act to ensure that beneficiaries cannot enforce policies directly. If that is the case, then the beneficiaries' rights to payment of benefits arise either::

- against the employer, as a claim under the contract of employment; or
- against the trustees, as a claim for benefits under the terms of the scheme's rules.

In addition, it was decided in the case of ***Century Life v Pensions*** Ombudsman (1995) that a complaint by a member against an insurance company for maladministration of his benefits is possible, in principle, if the insurer is in practice the "manager" (but not necessarily the trustee) of the scheme.

A trust scheme, particularly one providing defined benefits, may also use an insurer to provide an AVC facility whereby members can make top-up contributions on a money purchase basis to increase their retirement provision. In this situation, although the insurer provides access to the funds that the contributions are invested in, and the insurer will issue various communications, it is the trustees who are ultimately responsible for providing the AVC benefits to the member. (The exception to this is where the AVC is a free-standing arrangement, a situation which is now uncommon.)

In the case of DC schemes, where the member is taking an annuity, normally the member will select the Open Market Option to use his pot to buy an annuity from an insurer offering competitive rates. In this case, the annuity will be written in the name of the member.

Summary

The members and beneficiaries of a scheme include:

- active members;
- deferred members;
- pensioners;
- spouses, civil partners and dependants; and
- the employer.

The members and beneficiaries of a scheme are entitled to enforce the terms of the trust deed and rules against the trustees.

The employers in relation to a DB scheme are generally responsible for making up any shortfall in the funding of the scheme.

The powers held by an employer under an occupational pension scheme are subject to an implied contractual duty of trust and confidence that exists between an employer and its employees.

The trustees of a pension scheme are the legal owners of the assets of the scheme and they are primarily responsible for ensuring that:

- the scheme is administered in accordance with the relevant legal and regulatory requirements (for DB schemes this includes ensuring that the scheme meets the funding objectives, and has a statement of strategy);
- the employer's and members' contributions are paid to the scheme on time; and
- members' benefits are paid on time and in accordance with the trust deed and rules of the scheme.

The trustees of an occupational pension scheme are ultimately responsible for the investment of the scheme's assets. However, in practice, most trustees will delegate their day-to-day investment responsibilities to an investment manager.

The trustees of an occupational scheme will appoint several different advisers to assist them in the running of their scheme.

Self Test Questions

- Identify the members and beneficiaries under a pension scheme.
- What is the role of the trustees in relation to a pension scheme?
- What are the requirements that the FCA places on investment managers?
- List the advisers that trustees normally appoint

Part 3

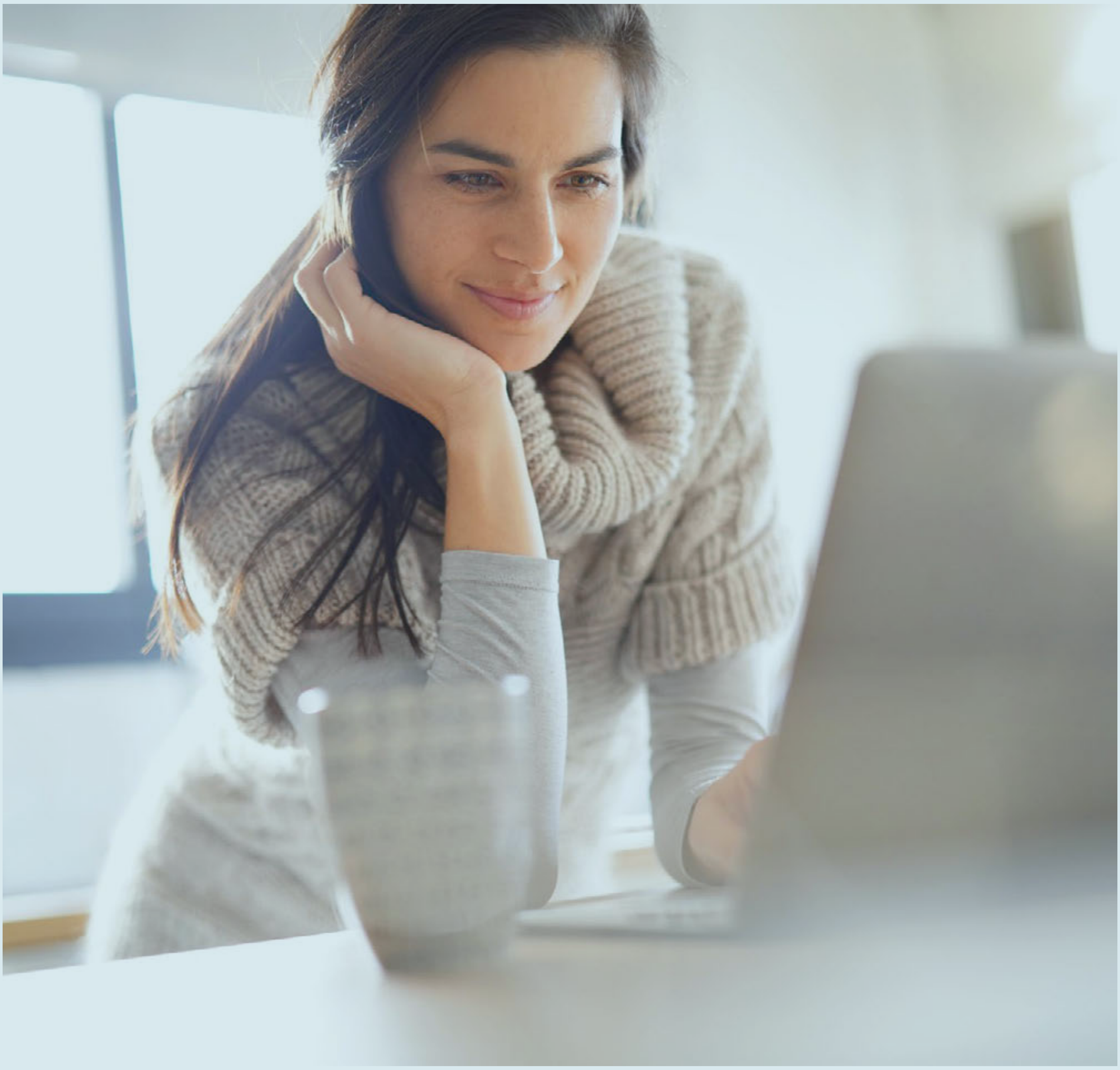
STATE BENEFITS

OVERVIEW

This part considers the different benefits that are provided by the State and how these interact with benefits provided by private arrangements (both occupational schemes and personal pensions).

Chapter 1 explains the different pension benefits provided by the State. Chapter 2 considers other State benefits that may be provided if certain conditions are satisfied.

When you have completed this Part you will be aware of the pension benefits provided by the State and understand how contracting out works, its purpose and effects.



CHAPTER 1

State Retirement Pensions

INTRODUCTION

This chapter describes the principal pensions provided by the State, as well as the Pension Credit, a benefit that is payable to those in retirement with a total income below a certain level.

People have an entitlement to State pension according to their history of National Insurance contributions (NICs). The National Insurance scheme operates on a pay-as-you-go basis, meaning that today's contributors are paying for today's social security entitlements and pensions. Payment of contributions entitles an individual or, in certain circumstances, their spouses or civil partners to various social security benefits, depending on the rules in place at the time of the claim. Contributors do not accumulate an individual pension fund of actual monies they have paid which is personal to them. Instead, it all goes into a general pot which is used to pay current recipients, whilst a record is retained for each individual's contributions.

For those reaching SPA before 6 April 2016, the State Pension had two tiers:

- Basic State Pension (see 1.1 below)
- State additional pensions (see 1.2 below)

For those reaching SPA on or after 6 April 2016, the new State pension is payable (see 1.4 below).

State pension triple lock

The triple lock on State pension increases is a government commitment to annually increase the state pension by the greater of average earnings growth, price inflation (as measured by the Consumer Prices Index), or 2.5%. However, this is not guaranteed - legislation provides only for increases in line with average earnings. (The Government did suspend the earnings element just for the 2022/23 tax year because the Covid pandemic had distorted the earnings increase measure for 2021), meaning that the BSP and new State Pensions would rise either by 2.5% or in line with inflation. The Autumn Budget 2024 confirmed that the current government will maintain the triple lock for the duration of the current Parliament (i.e. until the next general election).

1.1 BASIC STATE PENSION (BSP)

This is a flat-rate pension payable to men and women when they reach SPA provided that they have paid NICs for a sufficient period. For those reaching SPA on or before 5 April 2010 the full amount is payable if contributions have been paid or credited for 9/10ths of a person's working life (44 years for a man and 39 for a women). For those reaching SPA on or after 6 April 2010, the number of qualifying years needed for eligibility for the full BSP was reduced to 30. Those with less than the required number of qualifying years were entitled to a proportion of the BSP for each qualifying year they have built up.

The BSP for 2025/26 is £9,175.40 p.a. for a single person and £14,671.80 p.a. for a married couple.

1.2 STATE ADDITIONAL PENSIONS

The State Earnings Related Pension Scheme (SERPS) came into effect on 6 April 1978. SERPS was an earnings-related addition to the basic pension and depended upon the level of earnings between the Lower Earnings Limit (LEL) and the Upper Earnings Limit (UEL). The limits were broadly equal to the BSP and higher rate tax threshold, respectively.

When it was finally replaced by the State Second Pension (S2P) on 6 April 2002 it was targeting a pension of approximately 20% of earnings between the upper and lower limits.

From 6 April 2002, individuals started earning S2P instead of SERPS, although they retained the right to the SERPS pension they had earned up to that point.

Prior to its abolition, accrual of benefits under S2P was based on two earnings bands and two accrual rates. Low earners accrued a flat rate of S2P benefit, while higher earners accrued an additional earnings-related benefit alongside the flat-rate accrual.

1.2.1 Contracting Out

Contracting out stopped in April 2016, when the new State Pension came into effect. Prior to this, a person could give up part or all of their State Additional Pension entitlement in return for a reduction in NICs.

Contracting out was restricted to people who were members of private pension schemes that satisfied certain conditions – essentially ensuring as far as possible that the State Additional Pension given up would be replaced by a broadly equivalent benefit from the private scheme.

A pension scheme that contracted out agreed to provide a minimum level of pension benefits, or the investment proceeds of a minimum level of contributions, in lieu of the S2P (and the State

Earnings Related Pension Scheme prior to 6 April 2002). When a pension arrangement was contracted out, both the members and the sponsoring employer paid NICs at a reduced rate because no S2P benefits were being provided by the State for employees who were in contracted out employment.

Prior to 6 April 2012, there were a number of ways in which a pension scheme might be contracted out:

1. Contracted Out Money Purchase (COMP) Scheme
2. Contracted Out Mixed Benefit (COMB) Scheme
3. Appropriate Personal Pension (APP)
4. Stakeholder pension scheme
5. Contracted Out Salary Related (COSR) Scheme

From 6 April 2012 contracting out on a money purchase basis (i.e. the first four options) was abolished. And from 6 April 2016, it has not been possible to contract out using a final salary scheme.

1.2.2 Reasons for Contracting Out

The principal financial reasons behind the decision to contract out were as follows.

- For schemes contracting out on a money purchase (or protected rights) basis, the prospect of investing the NI savings to achieve higher benefits than the S2P benefit given up. This applied to COMPS, APPs and the DC part of COMBS.
- For DB Schemes the prospect of providing the contracted-out benefit in the scheme at lower cost than the value of the NI rebate received.

With a COSR scheme, the employer took on the liability of providing earnings related benefits of at least a minimum level. This is known as the Guaranteed Minimum Pension, or GMP. In broad terms, for a member in a COSR, the additional State pension that they would otherwise have been entitled to was reduced by an amount approximating to the GMP provided by the scheme.

The occupational scheme would also provide benefits in excess of the GMP. Different rules apply to how GMP and excess benefits are treated, for example in terms of: the minimum increases that apply between the date the member leaves the scheme and the date he retires ('revaluation'); the minimum increases that apply once the pension comes into payment ('indexation'); the earliest date the pension can come into payment (the GMP only comes into payment at GMP age even if the member's pension starts before then); exchanging pension for a lump sum at retirement ('commutation' – GMP is non-commutable).

When contracting-out ceased on 6 April 2016, HMRC stopped tracking GMPs and no longer issues statements to individuals or schemes upon retirement or death confirming the GMP payable. Scheme administrators and trustees therefore had to reconcile scheme records with HMRC's records.

Although since 6 April 2016 contracting out through a COSR has no longer been possible, members of former COSRs retain rights to GMPs, and the regulations applying different rules to GMP and non-GMP benefits remain in force. While there are provisions to allow schemes to convert GMPs into normal scheme benefits of equal actuarial value, thus simplifying administration (these have been in force from 6 April 2009) there are a number of technical problems that have made conversion difficult in practice.

A high court ruling in 2018 finally settled the long standing question of whether and how GMPs needed to be equalised between men and women.

A cross-industry GMP Equalisation Working Group (GMPEWG), chaired by the Pensions Administration Standards Association (PASA), has been issuing guidance for the industry. Separately, HMRC has published newsletters giving guidance on pensions tax issues that arise when benefits are equalised for the effects of unequal GMPs. One way a scheme can deal with its GMPs is by converting GMPs into other benefits. The Pension Schemes (Conversion of GMP) Act 2022 is intended to allow for clarification of certain technical aspects of the existing GMP conversion legislation, which many schemes intend to use as part of their GMP equalisation projects. The provisions set out in the Act will require regulations to bring these amendments into force and to add further details. These are expected to be consulted on shortly.

When a member contracted out on a money purchase basis, the reduction in NICs was paid into the scheme by way of a NI rebate. The rebates, together with investment returns in the scheme, built up to form part of the member's total fund known as protected rights (the name derives from the fact that protected rights were subject to certain additional restrictions compared with benefits from non-protected rights funds). The additional State pension that the member would otherwise have been entitled to is reduced to reflect the contracted out period in a similar way to in a COSR scheme. Following the abolition of contracting out on a money purchase basis from April 2012, the distinction between protected rights and non-protected rights has little practical significance as the regulatory restrictions relating to the former have now fallen away.

1.3 PENSION CREDIT

Pension Credit was introduced in October 2003 and replaced the Minimum Income Guarantee, targeting pensioners on low and modest incomes. It has two elements, the Guarantee Credit payable from the female SPA (see the introduction to this Chapter) and the Savings Credit payable from the male SPA. (Note however that the term 'Pension Credit' is often used when strictly speaking only the Guarantee Credit is meant.) It can be claimed by one member of a couple, but not both.

The Guarantee Credit is a means-tested benefit which is paid if the income of the person, and where applicable, partner, is below a certain level, taking into account a notional income from capital. For this purpose, undrawn pension rights will be taken into account as capital. Where the individual has drawn and spent the proceeds of their pension pot (or other capital) for the purpose of securing an entitlement to pension credit, they will be treated as deliberately depriving himself of capital. In this case they will be treated as still being in possession of that capital (i.e. a notional figure will be used for the purpose of the pension credit calculations). The deprivation rule will not apply where the money was spent on reducing or paying off a debt, or on purchasing goods or services if the expenditure was reasonable in the circumstances. It is the individual's responsibility to inform the DWP when they take money from their pension pot.

For 2025/26 it guarantees an income of at least:

- £227.10 per week if they are single
- £346.60 per week if they have a partner

The Savings Credit is intended to reward those on modest incomes who have saved for their retirement during their working life. It is paid to those who have attained the male SPA and who have made some provision towards their retirement. The credit works by providing an income of 60p for each £1 of income between a lower limit and the Guarantee Credit amount above. For2025/26, the lower limit is:

- £198.27 per week if they are single
- £314.34 per week if they have a partner

This means that the maximum amount of Savings Credit in 2025/26 is:

- £17.30 per week if they are single
  (= 0.6 x [227.10 – 198.27])
- £19.36 per week if they have a partner
  (= 0.6 x [346.60 – 314.34])

To focus the benefit on the less well off, when the person's income reaches the level of the Guarantee Credit, the Savings Credit tapers off. This is done usually by reducing it by 40p for each £1 of income above the Guarantee Credit level.

Note that the new State Pension (see 1.4) has been purposefully set at a level that exceeds the level of the Guarantee Credit for a single person (although not all individuals who reach SPA from 6 April 2016 will be eligible to receive the new State Pension at the full level).

With some exceptions, Savings Credit does not apply to those reaching SPA after 5 April 2016..

1.4 NEW STATE PENSION

For those reaching SPA after 5 April 2016, the BSP and the State additional pensions above were replaced by a new flat-rate pension. This is set above the basic level of the Guarantee Credit, and the Savings Credit is not generally available. Individuals who reached SPA before 6 April 2016 receive pension under the previous rules, whether or not they actually claimed their pension before that date.

The full new State Pension is payable to individuals with 35 or more qualifying years who reach SPA on or after 6 April 2016. Qualifying years are determined in the same way as under the BSP, derived from National Insurance contributions either paid, treated as paid or credited on earnings of at least 52 times the Lower Earnings Limit.

A reduced rate of new State Pension is payable to individuals with between 10 and 35 qualifying years. The reduced rate is 1/35 of the full rate for each qualifying year - so based on the 2025/26 rate of £230.25 per week as the full rate, a worker would earn £6.58 per week in State Pension for each qualifying year.

An increased weekly pension amount is available to individuals choosing to defer their new State Pension beyond SPA (see the Introduction to this Chapter). However there is no lump sum option.

For those with qualifying years before 6 April 2016, allowance is made for the State Pension already accrued. This is achieved by comparing the total of the BSP and S2P accrued for qualifying years up to 5 April 2016 with what the new State Pension would be based on the same qualifying years. (In both cases, a deduction is made to reflect any period of contracted out service.) The greater of the two then becomes the individual's Starting Amount:

- If the Starting Amount is lower than the new State Pension at its full rate (i.e. based on 35 or more qualifying years) then, the individual can use future qualifying years to accrue further pension under the new rules, up to the level of the full rate of State Pension.
- If the Starting Amount exceeds the full rate of new State Pension, the excess is a "protected payment". This excess will be increased (in line with prices) but no further pension can be earned through future qualifying years.

1.5 STATE PENSION AGE (SPA)

State Pension Age (SPA) is the earliest age a person can start receiving their State pension. Prior to April 2010 , it was 65 for males and 60 for females.

The Pensions Act 1995 provided for SPA for women to gradually increase so that by 2018 it was aligned for men and women at 65.

Under the Pensions Act 2011 SPA increased incrementally from 65 to 66 between 2018 and 2020.

Current legislation then provides for the unisex SPA to gradually rise to 68 by 2046:

- From 66 to 67 between 2026 and 2028 (Pensions Act 2014).
- From 67 to 68 between 2044 and 2046 (Pensions Act 2007).

The Pensions Act 2014 provides for periodic government reviews of future increases to take place at least once every six years. The reviews will seek to give individuals affected by changes to their SPA at least ten years' notice. The reviews will be based around the idea that people should spend a certain proportion (intended to be broadly a third) of their life after age 20 drawing the State Pension. The government must commission two independent reports: one from the Government Actuary on longevity; and another on other factors relevant to setting SPA (such as healthy life expectancy and differences in life expectancy between socio-economic groups) led by a person independent of government.

In March 2023 the DWP published the outcome of the government's second review of SPA. The government's 2017 review had proposed that the rise in SPA from 67 to 68 should be brought forward to 2037-2039. However, the government decided to make no changes at this time. In July 2025 the DWP launched the third SPA review, commissioning two independent reports as required.

Deferring State pensions

State Pensions are usually payable from SPA. Usually, however, individuals have the option of not claiming them at that point, in which case payment is deferred.

Summary

In old age, people can receive State benefits. Before April 2016 these were in the form of the BSP (flat-rate), the State Second Pension (earnings related) and Pension Credit (a minimum income guarantee). From April 2016, the benefit is a single-tier flat-rate pension. None of these benefits are pre-funded, all being paid on a pay as you go basis.

Self Test Questions

- How have retirement benefits that are paid by the State changed in recent years?
- How was the State Second Pension (S2P) calculated?
- What is the difference between the BSP and Pension Credit?
- What is the new State Pension?

CHAPTER 2

Other State Benefits

INTRODUCTION

Note:
All monetary values quoted for State benefits are the relevant rates for the tax year 2025/26.

The provision of State benefits will constantly change. In the last decade or so the cost of UK State benefits has become a major concern, particularly working age benefits. In 2012 the Coalition Government enacted the Welfare Reform Act with the stated intention to 'restore the welfare system to one that is fair for society and will make work pay'. This Act was one of the biggest reforms for 60 years, with the introduction of Universal Credit.

Employers are also being involved in the payment of benefits and this is considered in section 2.1. The following sections set out the present position including the main benefits payable.

2.1 STATUTORY BENEFITS PAID BY THE EMPLOYER

2.1.1 Statutory Sick Pay (SSP)

When an employee is unable to work due to sickness or disability, employers must make payments for time off sick to at least a minimum level. Therefore, during the first 28 weeks of time off work employers must, as a minimum, make statutory payments.

SSP is payable at a flat rate of £118.75 per week (2025/26 level) irrespective of the employee's income, after the employee has been off work sick for at least four consecutive days. SSP is paid through the employer's payroll and any liability for Income Tax and/or NICs is deducted at source in the usual way.

2.1.2 Statutory Maternity Leave (SML) and Statutory Maternity Pay (SMP)

Employees eligible for SML can take up to 52 weeks' maternity leave. SMP for eligible employees can be paid for up to 39 weeks, usually as follows:

- the first 6 weeks - 90% of their average weekly earnings (AWE) before tax
- the remaining 33 weeks - £187.18 per week (2025/26 level) or 90% of their AWE (whichever is lower)..

Tax and National Insurance need to be deducted from SMP payments.

2.1.3 Statutory Paternity Leave and Statutory Paternity Pay

Employees eligible for Ordinary Statutory Paternity Leave can choose to take either one week or two consecutive weeks' leave.

Statutory Paternity Pay for eligible employees is either £187.18 per week (2025/26 level) or 90% of their average weekly earnings (whichever is lower).

Tax and National Insurance need to be deducted from SPP payments.

2.1.4 Statutory Adoption Leave (SAL) and Statutory Adoption Pay (SAP)

Eligible employees can take up to 52 weeks SAL.

SAP for eligible employees is £187.18 per week (2025/26 level) or 90% of their gross average weekly earnings, whichever is lower. It is paid for up to 39 weeks of adoption leave.

Tax and National Insurance need to be deducted from SAP payments.

2.1.5 Shared Parental Leave (SPL) and Statutory Shared Parental Pay (ShPP)

A person may be entitled to Shared Parental Leave (SPL) and Statutory Shared Parental Pay (ShPP).

Partners can share the leave if they are both eligible for SPL, and they can choose how much of the leave each will take. The mother must take a minimum of 2 weeks' maternity leave following the birth (4 if she works in a factory) but then either partner can:

- take the rest of the 52 weeks of leave (up to a maximum of 50 weeks) as Shared Parental Leave (SPL)
- take the rest of the 39 weeks' pay (up to a maximum of 37 weeks) as Statutory Shared Parental Pay (ShPP)

ShPP is paid at the rate of £187.18 per week (2025/26 level) or 90% of their average weekly earnings, whichever is lower. This is the same as SMP except that during the first 6 weeks SMP is paid at 90% of whatever the mother earns (with no maximum)

2.1.6 Statutory Parental Bereavement Leave and Statutory Parental Bereavement Pay

Since 6 April 2020, employees may be entitled to parental bereavement leave following the death of a child under the age of 18 or a stillbirth after 24 weeks of pregnancy. Employees entitled to take leave include natural and adoptive parents, intended parents, and the partners of any of these individuals, as well as those providing day-to-day care for the child (subject to conditions).

Eligible employees are entitled to up to two weeks' parental bereavement leave, irrespective of their length of service. Additionally, subject to satisfying certain conditions, the employee may be eligible to receive statutory parental bereavement pay.

Statutory Parental Bereavement Pay for an eligible employee is either £187.18 a week (2025/26 level) or 90% of their average weekly earnings (whichever is lower).

2.1.7 Employer's Reclaim of Statutory Benefits

Prior to 6 April 2014 it was possible for employers to claim back SSP paid. However this was abolished under the government's Health, Work and Well-Being Initiative. To compensate, the Employment Allowance was introduced in April 2014; this means that businesses and charities can claim an annual discount (for 2025/26 this is £10,500) on their NICs bill (or can be exempted from paying NICs if their NICs bill is less than £10,500 in the tax year).

Reclaims of SMP, SPP, SAP and ShPP are more straightforward in that payments made can be offset against NICs or tax without limit. From 3 April 2011, the employer can claim back either:

- 92% of any SMP etc. payment made, or
- 108.5% if they qualify for Small Employers' Relief (SER).

2.2 OTHER BENEFITS PAID BY THE STATE

People may also claim the following, depending on their circumstances.

2.2.1 Universal Credit

Universal Credit is a single payment for people who are looking for work or on a low income. It was intended to simplify the benefits system by bringing together several working-age benefits into a single payment.

Universal Credit replaced::

- Income Support;
- Income-based Jobseeker's Allowance;
- Income-related Employment and Support Allowance;
- Housing Benefit;
- Child Tax Credit; and
- Working Tax Credit.

The following non-means-tested benefits are outside Universal Credit and remain in place:

- Contributory Jobseeker's Allowance;
- Contributory Employment and Support Allowance;
- Disability Living Allowance;
- Child Benefit;
- Bereavement benefits;
- Statutory Sick Pay;
- Statutory Maternity Pay;
- Maternity Allowance; and
- Industrial Injuries Disablement Benefit.

There is a withdrawal rate of 55% (to be applied to employed earnings net of tax, National Insurance and pension contributions). This was initially 65% then reduced to 63% from 10 April 2017 to 23 November 2021 and set at 55% since then. The withdrawal rate is intended to provide sufficient incentive to work. In addition, there will be a system of 'disregards' to enable some groups to earn varying amounts according to their circumstances before the taper starts to apply.

In calculating the amount of earnings to be taken into account in Universal Credit, 100% of contributions to an occupational or personal pension are disregarded.

2.2.2 Incapacity Benefit

Incapacity benefit continued for existing claimants whose disability or illness commenced before 27 October 2008, being replaced by the Employment and Support Allowance for new claimants (see 2.2.3).

Incapacity benefit can be short-term or long-term:

Short-Term Incapacity Benefit

Where there is no entitlement to SSP, incapacity benefit may be payable. This is in the form of

short-term incapacity benefit and is payable at the lower rate (£106.65 per week – 2025/26 level) for a maximum of 28 weeks. This benefit is tax free. The higher rate of short-term incapacity benefit (£126.10 per week- 2025/26 level) is payable from week 29 to week 52. This is a potentially taxable benefit.

Higher amounts apply if the claimant is over State Pension Age.

Long -Term Incapacity Benefit

Long-term incapacity benefit is payable from week 53. This is a potentially taxable benefit and is £141.25 per week (2025/26 level).

In addition, if claimants were under age 45 when they first became unable to work they can claim an Incapacity Age Addition. An additional adult dependant's allowance is payable if the claimant's partner is over the age of 60 or the claimant has dependent children.

Incapacity benefit ceases on resumption of work or when the individual is considered capable of work.

2.2.3 Employment and Support Allowance (ESA)

ESA may be available for people who have limited capability to work because of an illness or disability, but who are not getting Statutory Sick Pay (SSP), may be able to claim the ESA. This benefit depends on a number of factors, including age and income circumstances.

Employees will usually receive SSP from their employer for the first 28 weeks of absence but may then qualify for ESA, which is paid by the Government. ESA is non-means-tested and is based on contributions: to be eligible individuals must have paid enough NICs. They must undergo a Work Capability Assessment (WCA) by the DWP within the first 13 weeks of the claim to determine the extent to which their illness or disability prevents them from working.

After being assessed, the DWP will place individuals into one of 2 groups if they are entitled to ESA:

1. the work-related activity group (for those that are able to get back into work in the future), entitled to up to £92.05 per week;
2. the support group (those whose health/disability means they can't attend appointments or activity designed to move them closer to work), entitled to up to £140.55 each week.

If the claimant gets an occupational or personal pension that pays more than £85 a week, the ESA payment will be reduced.

2.2.4 Personal Independence Payment (PIP)

The Personal Independence Payment is for those under SPA who need extra help because of long term ill-health, a disability or mental health condition. It has replaced the Disability Living Allowance and is payable on top of ESA or other benefits regardless of income, whether NICs have been paid, or whether the claimant is working.

PIP is made up of two parts and eligibility for either or both depends on how severely the claimant is affected by the condition - for 2025/26:

- the weekly rate for the daily living part of PIP is either £73.90 (standard) or £110.40 (enhanced).
- the weekly rate for the mobility part of PIP is either £29.20 (standard) or £77.05 (enhanced).

2.2.5 Industrial Injuries Disablement Benefit

Entitlement for this benefit is for those who have become disabled as a result of an accident or the contraction of a prescribed industrial disease during employment. It is not means tested and there is no consideration of the claimant's NICs record. The amount payable depends upon the extent of disablement as a consequence of the accident or prescribed disease. The maximum rate of benefit is £225.30 per week (2025/26 level)..

2.2.6 Working Tax Credit

Working Tax Credit has been replaced by Universal Credit for most people. It was designed to boost the income of working people who are on a low income. .

2.2.7 Income Support

Income support has been replaced by the Universal Credit for most people. Its purpose was to top up the income of those whose income from all sources is below a minimum threshold level. .

2.2.8 The Benefit Cap

The Benefit cap is a limit on the total amount of benefits that working-age people (i.e. 16 to SPA) can receive even if their full entitlement would otherwise be higher.

The weekly level of the cap for those living outside of London is £283.71 for a single person and £423.46 for a couple. For those who live in a Greater London borough it is £326.29 for a single person and £486.98 for a couple.

Households may be exempt from the cap if they include somebody receiving certain benefits such as Disability Living Allowance.

Summary

Chapter 2 considered some of the benefits available to those who are unable to work because of sickness or disability and those with low incomes, payable by either their employer as statutory benefits or direct from the State, including:

- Statutory Sick Pay
- Universal Credit
- Employment and Support Allowance (replacing Incapacity Benefit)
- Personal Independence Payment (Disability Living Allowance)
- Industrial Injuries Disablement Benefit
- Pension Credit.

It explored the structure and basic eligibility requirements of each benefit and the current payment rates; and looked at the Benefit Cap.

Self Test Questions

- After what period of sickness is Statutory Sick Pay applicable?
- On what date was the Employment and Support Allowance (ESA) introduced?
- What is the Working Tax Credit and who is it designed to help?
- What is the Benefit Cap?

Part 4

WORKPLACE PENSIONS

OVERVIEW

This Part deals with pension provision outside of State schemes.

Chapter 1 covers the different methods of providing workplace pensions schemes, occupational pension schemes, and personal pensions (both those set up on an individual basis and those set up by companies on a group basis for their employees).

Chapter 2 looks at the different types of schemes, the common types of benefit design that they employ and how schemes are financed.

Chapter 3 evaluates what an employer might consider when selecting a trust, master trust or contract-based arrangement.

Chapter 4 explains the automatic enrolment regime and the National Employment Savings Trust (NEST).

When you have completed this Part, you will understand what the different types of pension provision are outside the State schemes and will be able to give an outline of the principal characteristics of each type.

CHAPTER 1

Methods of Providing Workplace Pension Schemes

INTRODUCTION

Broadly, there are two main methods of providing workplace pension schemes in the UK: occupational pension schemes and personal pension schemes. Occupational pension schemes are established by an employer for the benefit of its employees. Personal pension schemes are individual arrangements entered into between an individual and an insurer.

Most occupational pension arrangements are established by the creation of a trust.
A trust can be established by:

- a trust deed that is made between the employer and the initial trustees; or
- a declaration of trust by which the employer appoints itself as trustee.

However, most schemes are constituted by a trust deed and a set of rules (which sets out the benefits payable under the scheme and which is normally attached to the trust deed). In both cases the document will set out the terms of the trust.

Some pension arrangements are not set up as trusts. Unfunded schemes and retirement annuity contracts often take the form of a contractual arrangement or promise. Also, there are statutory occupational schemes for public sector employees which are set up by legislation and which do not take the form of a trust. Personal pension schemes can be set up under irrevocable trusts or, if the provider is an authorised insurance company or friendly society, can be established by deed poll.

The most common types of pension arrangement are examined in more detail below.

1.1 OCCUPATIONAL PENSION SCHEMES

An occupational pension scheme is (broadly) a scheme that is established by an employer to provide pensions and other ancillary benefits (e.g. death benefits) to its employees (and their spouses and dependants) and that is administered in the United Kingdom. This definition covers a wide range of pension schemes, including those governed by a letter between an employer and an employee, or a complex pension scheme that provides benefits to all of the employees in a corporate group.

Most occupational pension schemes are regulated by the requirements of the Pensions Act 1995, the Pensions Act 2004 and the Pension Schemes Act 1993. The Pensions Acts of 1995 and 2004 deal with matters such as funding and administration. The Pension Schemes Act 1993 covers protection for early leavers (i.e. members who leave their scheme before normal retirement age and who do not take an immediate pension) as well as the requirements relating to schemes which were contracted out of the State second pension.

Occupational pension schemes are commonly described as either defined benefit (DB) schemes or defined contribution (DC) schemes, depending on the type of benefits they provide. The benefit structures of occupational schemes are described in more detail in Chapter 2.

Broadly, in DB schemes, the amount of pension that the member receives is directly related to pay. For example, a member may receive 1/60th of final pensionable salary for each year of pensionable service. In DC schemes, the amount of pension reflects the contributions made to the scheme in respect of the member and the investment return on those contributions, which is then used to purchase an annuity from an insurance company.

The most important difference between the two types of schemes is how they are funded and what this means for the burden of risk between the employer and the member. Under a DB scheme the majority of the risks relating to funding, investment and life expectancy are on the employer, whereas in a DC scheme the member bears these risks. Hybrid schemes provide both DB and DC benefits. Often these are provided by different sections of the scheme. A quite different type of hybrid scheme is one in which the benefit provided is itself hybrid in nature – for example, where the benefit is the best of a pension calculated on some formula and the proceeds of a money purchase pot.

In the past, an employee could not generally be a member of an occupational pension scheme if they were also contributing to a personal pension scheme. This position changed as a result of the Finance Act 2004, and they can now be a member of as many registered pension schemes (whether personal or occupational) as they like. There is however an annual limit on the total increase in the value of their pensions savings that will qualify for tax relief.

Occupational pension schemes are set up under trust, with trustees or managers appointed to run the scheme. Trustees are required to operate schemes in accordance with the scheme's trust deed and rules, and are also under a fiduciary duty to act in the best interests of members of the scheme. Trustees are responsible for appointing (in some cases) and holding to account (in all cases) those parties who are responsible for the day- to-day running of the scheme.

The benefit structures of occupational schemes are described in more detail in Chapter 2..

1.2 PERSONAL PENSION SCHEMES

A personal pension scheme is a pension scheme that is not an occupational pension scheme and which is established by a person with permission under the Financial Services and Markets Act 2000 to establish such a scheme. In practice, this means that personal pension schemes tend to be provided by insurance companies. To set up a personal pension scheme an individual will enter into a contract with the insurer.

This will set out the terms upon which the scheme will operate.

With effect from 6 April 2015, regulated firms operating workplace personal pension schemes (excluding individual personal pension schemes) are required to establish and maintain an Independent Governance Committee (IGC); providers with smaller and less complex workplace personal pension schemes are able to establish a Governance Advisory Arrangement (GAA), instead of an IGC. Although IGCs are established by firms they have a contractual duty to act independently of the firm and in the interests of relevant scheme members.

Like occupational pension schemes, personal pension schemes must be registered with HMRC in order to benefit from favourable tax treatment.

1.2.1 Personal Pensions for Individuals

Personal pension schemes (personal pensions) were introduced from 1 July 1988 to replace retirement annuity contracts. They all operate on a DC basis.

A personal pension can be established under irrevocable trust, by deed poll or, in Scotland, by a board resolution. A personal pension set up under trust may itself be under a master trust, or may consist of individual trusts for each member. To take advantage of the tax reliefs available, the personal pension must be a registered pension scheme'.

Existing 'approved' personal pensions automatically became registered schemes on 6 April 2006.

Originally, personal pensions were meant to provide benefits on retirement, death or disability for the self- employed, and for employees who were not members of an occupational pension scheme.

One consequence of this was that if someone was already a member of his company's occupational scheme, the only way that they could join a personal pension scheme was by leaving, or opting out of the company scheme.

Regrettably, some people took this course in the late 1980s or early 1990s in spite of the fact that by doing so they would normally cease to benefit from any employer contribution to their retirement provision (at the time, employers who sponsored an occupational pension scheme would normally not also contribute to a personal pension taken out by an employee).

Where someone took such action relying on inadequate advice, their case had to be subsequently reviewed and often compensation was paid. This is often referred to as the 1980s pensions mis-selling scandal. Guidelines were produced for how to identify and compensate those who had received poor advice, and companies involved in sales of personal pensions were instructed to review relevant cases. Where the review identified that the person had been disadvantaged financially by opting out of an occupational scheme, or transferring their benefit entitlement out, the adviser had to offer to rectify the situation. This took the form of paying for the employee to be fully or partially reinstated into the employer's scheme or, if this was not possible, by making a compensation payment into the personal pension scheme.

In 1991, the rules regarding simultaneous membership of occupational and personal pension schemes were relaxed, allowing most low and moderate earners to be a member of their company's occupational scheme and of a personal pension at the same time.

In April 2006 the restrictions on concurrent membership of pension schemes were removed completely and there is now no limit to the number or type of pension arrangements a person may be a member of..

1.2.2 Personal Pensions for Groups of Employees

Often an employer wanting to make pension provision for its employees will do so by using personal pensions. In this case, a group personal pension' (GPP) is usually the preferred vehicle.

A GPP is a collection of individual personal pensions that have been taken out with the same pension provider (normally an insurance company) and which were taken out for the employees of one particular company or group of companies. The benefits of scale, and in particular efficiencies on the sales and marketing side, mean that the terms offered by

GPPs will often be better than those that could be obtained by employees setting up personal pensions on an individual basis through a financial adviser.

Usually, the employer will contribute to the GPP and these contributions will normally be deductible against corporation tax. While a GPP is not an occupational pension scheme, it shares some of the characteristics of one. In particular, the GPP can often be branded with the company's name and logo and, to the member, it appears much like an occupational money purchase scheme.

Unlike most occupational schemes, contributions made by members are made from net earnings. Members' contributions are then grossed up in respect of basic rate tax by the pension provider. In other words, every £80 actually contributed by the member is grossed up to £100 by the provider (based on the 2025/26 basic tax rate of 20%). The provider then reclaims this tax from HMRC. This is known as relief at source (RAS).

Higher and additional rate taxpayers can claim further tax relief either through their tax assessment or by writing to HMRC to request an adjustment to their tax code.

Note that this tax treatment differs from that which applies to most occupational pension schemes. In the case of these arrangements, members' contributions are usually made from gross earnings and are offset against the member's taxable earnings. So a member who makes a gross contribution of £100 would have this amount paid from their salary and their income tax liability would be based on the residual earnings. This is known as a net pay arrangement.

Although almost all occupational schemes use the net pay method, this is not a requirement. NEST is an exception in being a trust-based occupational scheme that operates on a relief at source basis. All personal pensions (including GPPs) are required to use relief at source.

Low earners can have different levels of take-home pay depending on whether their pension scheme is administered using RAS or the net pay method – see 3.8 for more on tax relief for low earners.

1.2.3 Self-Invested Personal Pensions (SIPPs) and Income Drawdown

A SIPP is a type of personal pension that allows individuals to manage their own pension fund investment.

SIPPs received a boost to their popularity when the 1995 Finance Act introduced income drawdown , or income withdrawal, whereby a member, who wants to start taking benefits but does not want to buy an annuity, could defer the purchase of an annuity and, in the meantime, take an income from the fund which can vary from year to year.

A SIPP works in much the same way as a normal personal pension plan. Contributions are paid in the form of regular or single contributions. Transfers can be paid to or accepted from other registered pension schemes.

A SIPP might appeal to someone who wishes to control their own investment strategy using the greater investment freedom that a SIPP offers. Although the member has the right to direct the investment strategy the Scheme Administrator will decide which investments are to be permitted in the SIPP.

A SIPP is often used by a partnership or a sole trader to buy a commercial property. Often the rent will cover both the interest payments and capital repayment. The whole of the rent will usually qualify for tax relief for the trading entity.

SIPPS and pension scams

One inevitable consequence of the rise in popularity of SIPPs and the investment freedom that they offer has been the use of fraudulent arrangements that have apparently been set up as SIPPs but are actually vehicles used for pension scams. There are two ways in which this can happen: one is that an arrangement is established which describes itself as a SIPP in order to accept a transfer of a member's pension pot from a bona fide (registered) pension scheme. However, once the transfer has been received, the receiving arrangement pays out the money in a way which would not be authorised under the Finance Act 2004, exposing the member to large unauthorised payments charges in addition to any fees charged by the arranger, which are typically themselves large amounts. The other way is that the arrangement does indeed qualify as a SIPP, but the arranger then uses the ability of the member to direct investments to make an inappropriate or even fraudulent investment, again often deducting large fees. Administrators of genuine pension schemes work hard to spot such pension scams and where possible avoid complying with a members' requests to pay transfer values to them; however in spite of their best efforts, they have not always been successful.

1.2.4 Authorised Provider

Only an authorised pension provider, as defined by the FCA, may establish a personal pension. These are likely to be insurance companies, building societies, banks, unit trusts and friendly societies.

1.2.5 Payment of Personal Pension Providers

The way providers receive income will differ with the type of provider. Charges are usually taken in the following ways:

- **Insurance companies** - from the premiums paid into their products or the money invested in their funds.
- **Building Societies and Banks** - from the difference between the interest they earn and the interest they pay.
- **Unit Trusts** - from the bid/offer spread.
- **Friendly Societies** - as for insurance companies.

Other costs will be levied by other advisers. For example, financial advisers may be paid by hourly rates, a percentage of the customer's investment a fixed fee plus annual review fee (but not commission, which has been banned since 1 January 2013 following the Retail Distribution Review).

1.2.6 Retirement Annuities

The retirement annuity was the forerunner to the personal pension. No new retirement annuity contracts have been permitted from 1 July 1988, although contributions to existing policies were allowed to continue, and some such contracts are still in existence.

Historically, retirement annuity contracts (sometimes also referred to as section 226 policies) were set up by insurance companies principally for the self-employed. There were differences between the rules governing personal pensions and retirement annuities, including the following:

- the tax treatment meant that employers did not contribute to retirement annuities direct;
- retirement annuities were set up with a minimum retirement age of 60, whereas personal pension benefits could usually be taken from age 50 (increased to 55 from 2010);
- the amount that could be taken as a tax-free cash sum at retirement was calculated differently.

1.2.7 Stakeholder Pensions

A stakeholder pension scheme is essentially a personal pension scheme that is sponsored by an employer, but the legal contract is still between the individual and the pension provider. It must satisfy certain minimum standards, including low minimum contributions and capped charges.

From 8 October 2001, every employer with five or more employees had to designate a stakeholder pension scheme for its employees, unless it provided a suitable alternative. Employees did not have to join the pension scheme and employers did not have to contribute.

From 1 October 2012, when automatic enrolment was introduced (see Chapter 4), employers no longer had to designate a stakeholder scheme in relation to new members.

However existing members must be allowed to remain in the scheme; and where employees were already contributing to a stakeholder, the employer remains under an obligation to continue deducting contributions and remitting them to the provider until such time as the employee leaves or choses to stop payment.

Summary

Personal pensions can be set up on a group or individual basis. They include stakeholders and SIPPs.

SIPPs offer more flexibility of investment and almost always offer an income drawdown facility (although this is not unique to SIPPs)..

Self Test Questions

- What is the difference between group and individual personal pensions and the circumstances in which each might be used?
- Outline the mechanism whereby an individual benefits from the tax relief given to contributions paid to a personal pension and explain how this differs from a member contributing to an occupational scheme.
- Why might an individual set up a SIPP and what are the investment restrictions that apply?

CHAPTER 2

Types of Benefit Design

INTRODUCTION

Broadly, there are two main methods of providing workplace pension schemes in the UK: This Chapter examines the different benefit structures found in workplace pension schemes. It describes the two most common structures, which are DB (including final salary or CARE) and DC (which is also referred to as money purchase). It covers hybrid schemes, which provide benefits on both DC and DB bases; and goes on to describe the different types of workplace pension scheme that you might expect to encounter.

2.1 BENEFIT STRUCTURES FOUND IN WORKPLACE PENSION SCHEMES

2.2.2 Defined Benefit Pensions

DB arrangements are always occupational schemes. The term defined benefit means that the pension provided is calculated by reference to a formula set out in the scheme's rules, rather than being directly related to the amount of contributions paid or the investment performance of the assets held in the scheme's fund. There are two types of DB arrangement commonly used in the UK: final salary and career average (or CARE).

The number of DB schemes has shrunk in recent years, with many closed to future accrual, but these schemes still have many years to run. In contrast, public sector schemes (almost) all still provide DB benefits for current employees.

Funding DB schemes

Generally in a DB scheme of whatever type, members contribute at a fixed rate. The contribution rate is set out in the scheme's rules. However, although the rate at which benefits accrue is known in advance, the ultimate cost of providing them is not. The employer's contribution rate is variable, and is determined by an actuary on a periodic basis. Although the contribution rate is variable, typically the ongoing rate is significantly higher than that paid by members with this difference often being greatly magnified when deficit reduction contributions (which are paid by the employer when the scheme is underfunded) are taken into account.

The Pension Schemes Act 2021 introduced a new funding regime that applies to valuation dates on or after 22 September 2024. One of the requirements is that trustees must have a funding and investment strategy (FIS) aimed at making sure benefits can be provided over the long term. They must then prepare a Statement of Strategy that describes their FIS and other matters and send it to the Pensions Regulator (TPR). TPR has issued an accompanying code of practice.

DB consolidation - superfunds

In 2018 the DWP consulted on a legislative framework for authorising and regulating DB superfunds i.e. commercial consolidators that are vehicles for DB schemes to secure their members' benefits. In its July response, the government set out the key features of its proposed regime, noting that it would bring forward primary legislation as soon as parliamentary time allowed.

Draft legislation that sets out the framework for a permanent regime is included in the Pension Schemes Bill 2025 (see 1.7.3). Regulations are expected to be in place by 2028.

The Pensions Regulator would be responsible for authorising and supervising superfunds and in June 2020 it issued its own guidance, setting out how it would regulate such schemes until future legislation is put in place. It has published guidance for trustees and employers considering transferring DB scheme liabilities to a superfund.

2.1.2 Final Salary Schemes

This has been historically the more common type of design (although in recent years career average schemes have grown in popularity). Such has

been its dominance in the past that it is sometimes mistakenly believed that the terms final salary and defined benefit are essentially synonymous.

The amount of pension provided on retirement is calculated by reference to a formula:

Pension = N x Accrual Rate x Final Pensionable Salary

Where:
N is the length of time that the member has been a member of the scheme, and is usually described as Pensionable Service

The **accrual rate** is a fraction - commonly sixtieths or eightieths or hundredths – or a percentage say 1.5%

Final Pensionable Salary (FPS) is based on the member's salary at the time the member leaves the scheme. The exact definition varies from scheme to scheme, but common definitions are based on basic earnings as at a specified date in the preceding year or an average of basic salary over the final 12 or 36 months of scheme membership. In some cases, part of basic earnings may be omitted from the definition of FPS. For example, an amount equal to the Lower Earnings Limit (LEL) may be disregarded. It should also be noted that gross earnings, which may vary from year to year due to bonuses and overtime, are sometimes used to calculate FPS.

In the case of a member who leaves a 60th accrual scheme after 30 years' membership with an FPS of £30,000, the benefit calculation will be:

Pension = 30 / 60 x £30,000 = £15,000 p.a.

2.1.3 Career Average Revalued Earnings

Career Average Revalued Earnings (CARE) schemes are an alternative to final salary schemes. Major examples in the private sector have included the schemes sponsored by Tesco and the Co- Operative Group (and following the Hutton review and the Public Services Pensions Act 2013, most public sector pension provision will be made through CARE schemes in the future).

The principal difference when compared to a final salary arrangement is that benefits are calculated based on earnings throughout the period of membership rather than just using salary near retirement.

Broadly, CARE schemes work out the accrued benefit for each scheme year and credit it to a pension pot. These amounts are revalued each year, typically in line with inflation, until the member retires.

The appeal to employers of this design compared with a final salary alternative is that it remains possible to offer a DB scheme whilst maintaining a measure of predictability. This is because in a final salary scheme the accrued liability in relation to any member is difficult to ascertain with certainty as it depends on future earnings received in the period prior to the date of leaving or retiring (a date that is difficult to predict). Furthermore it is difficult for the scheme to make investments that are expected to match future earnings growth with any certainty. In contrast in a CARE scheme, the liability is more predictable. In addition, finding investments that are expected to match or exceed inflation-linked liabilities is in theory relatively straightforward.

A CARE scheme design may also be suitable if the employees have varying earnings patterns due to changes in working hours or bonuses and overtime over their period of membership. For example, the remuneration of some manual workers may have a significant element of overtime which often decreases with age. In this situation, effectively averaging the remuneration over the working lifetime may be preferable.

2.1.4 Defined Contribution Pensions

Pension schemes established on a DC basis are also referred to as money purchase arrangements. However the term money purchase scheme is defined in legislation so caution must be exercised when using either term as depending on the context they are not always interchangeable.

Under a DC scheme, the level of contributions paid by and/or on behalf of the member is known, but the amount available at retirement (a combination of the contributions paid in plus any investment returns earned) is not known in advance. The fund can increase or decrease depending on market conditions.

In addition, for members who wish to secure an income for life by purchasing an annuity, the income their pot will buy will also depend on annuity prices at or near retirement - and these can vary depending on economic conditions. So, the member bears all the risk (compared with DB schemes, where the employer bears all the risk).

The funding characteristics of a DC scheme are the exact opposite of those for a DB scheme. Because contribution rates for members and the employer are set out in the rules, the cost of running the scheme can be easily predicted. However, the amount of pension that will ultimately be paid to the member will be subject to a range of variables such as:

- The period of time over which contributions are paid
- Investment growth within the fund
- The timing of the member's retirement

This means that although the cost of the scheme is known in advance, the amount of benefit provided is not.

The most common solution to the problem of volatility in asset values and annuity costs close to retirement has been the use of lifestyle funds. These attempt to gradually switch the member's account into a mix of assets that matches the type of benefits expected to be paid out.

For example, if you assume that the member will take 25% of their pot as a tax-free lump sum and use 75% of their funds to purchase an annuity at age 65, then the aim might be to gradually switch 75% of the funds into long-dated bonds over the 5-10 year period prior to age 65. The idea is that, while this type of investment might not be expected to give the highest return over the long term, changes in its value near retirement should match changes in annuity prices.

Any changes to the expected retirement date in the 5-to-10-year period before that date, or to the form in which benefits will ultimately be taken (e.g. drawdown or annuity) may undermine the lifestyle strategy.

Most people will be better off gradually withdrawing income from their pension pots rather than buying an annuity to fund retirement. However, if the member does not buy an annuity, then they can either spend their pot too quickly - and run out of money before they die - or too slowly - and have a poorer lifestyle than they need to.

Examples of DC pension arrangements can include personal pension plans, occupational money purchase schemes, master trusts (including NEST) and stakeholder pensions,

The Pension Schemes Bill currently before Parliament (see 1.7.3) includes several measures that will affect DC schemes:

- DC schemes will need to offer clear default options for turning savings into retirement income (known as guided retirement).
- A new Value for Money framework will be introduced to show how well DC schemes are performing.
- There are measures to combine small DC pots as explained above.
- New rules will create multi-employer DC megafunds (see master trusts below)..

2.1.5 Cash Balance Schemes

Cash balance schemes are DB schemes, although they share some characteristics of DC schemes. Like DC schemes, contributions are paid each year by the employee and employer, are invested, and at retirement the member is provided with a cash sum which is then used to provide benefits in retirement.

However, unlike DC, the cash sum at retirement is defined at the outset, and does not depend on investment returns. The employer will pay in whatever level of contributions is necessary to provide this lump sum. For example, a company might set up a cash balance scheme where members pay 5% of salary each year and in return get a lump sum at age 65 of 20% of final salary for each year of membership. So a member with ten years' service when they reach age 65 will have a pot equal to twice their final salary, and can use this to fund their retirement benefits (although if they buy an annuity the amount the fund can buy will depend on annuity rates at retirement). In common with other schemes, part of the benefit can usually be taken in the form of a lump sum.

Alternatively, the rules might set out what the employer's minimum contribution rate is and also stipulate a rate of investment return to be allocated, for example 7% p.a.. This alternative cash balance structure is also DB, because it is possible to work out in advance what benefit (expressed in cash terms) the member will get for a given number of years' service and for a given salary.

In either case, the sum of money available to provide benefits for the member at retirement is calculated in accordance with a formula. This is fundamentally different from a money purchase arrangement, where the fund at retirement depends on the investment returns actually earned, and cannot be known in advance.

However, although the cash value of the benefit at retirement is defined, the amount of pension that the member will receive is not known in advance and will depend on market conditions prevailing when the member retires. In this aspect, a cash balance scheme is more like a money purchase scheme than a DB scheme such as a final salary or CARE scheme.

2.1.6 Hybrid Schemes

A hybrid scheme is an occupational pension scheme that offers both DC (money purchase) and DB (final salary or CARE) benefits. It may also be referred to as a mixed benefit scheme.

DB schemes that provide AVC benefits on a DC basis are technically hybrid schemes, but in most contexts this type of scheme would not be described as such.

With the decline in DB benefit provision, a common type of hybrid scheme is one that has a DB section that is closed to new entrants with all new members after a certain date being put into a separate

DC section of the scheme. It would then not be uncommon in time for the original DB section to be made paid up, i.e. no further benefits are accrued under it, with all benefit accrual after a certain date being provided on a money purchase basis in the DC section.

Alternatively, a hybrid scheme can be one where the benefits are calculated as the better of two alternatives, perhaps comparing the benefits available on a DC basis to those available on a DB basis. One example would be a scheme that offers DC benefits funded by an annual member contribution of 5% of salary, and an employer contribution of 10% of salary, but with an 80ths underpin – in other words, the members would receive the proceeds of their DC pot but with a guarantee of a pension of at least 1/80th of pensionable salary for each year of service.

Care is needed not to confuse DB/DC underpin schemes with schemes that have separate DC and DB sections. These types of arrangement are quite different in character, although the term hybrid might be used to refer to either.

2.1.7 Collective defined contribution schemes

The Pension Schemes Act 2021 sets out the framework for 'collective money purchase schemes', commonly referred to as collective defined contribution (CDC) schemes.

From 1 August 2022, CDC schemes became available as a new option for pension provision, for single employers or groups of connected employers.

In April 2023 the Pensions Regulator announced its authorisation of the first CDC scheme – the Royal Mail Collective Pension Plan.

CDC schemes pool risks and costs between members, rather than each member having their own individual pot. They offer a targeted – but not guaranteed – level of income in retirement, with the flexibility to adjust benefits if circumstances require. The employer benefits from fixed-cost defined contributions and is not required to pay additional contributions to ensure that the funding for a level of benefits remains on target.

The Pensions Regulator's code of practice on the authorisation and supervision of CDC schemes came into effect on 1 August 2022. The necessary criteria to be authorised include, for example, that the trustees and others involved in the scheme are fit and proper, and that the scheme is financially sustainable. For ongoing supervision, trustees may be asked to submit a supervisory return no more than once a year; and the Regulator must be notified of significant events that might affect the scheme's ability to continue meeting the authorisation criteria.

In 2024 the DWP consulted on draft regulations to extend CDC to whole-life multi-employer schemes. The government plans to lay regulations in autumn 2025 that will come into force in 2026, along with an updated code of practice from the Regulator.

The government has also committed to creating provision for decumulation-only CDC products, and exploring how these products could operate in the best interests of members, but has not set a timescale for these actions.

2.1.8 Master Trusts

A master trust is a multi-employer trust-based pension scheme under which each participating employer has its own, effectively ring fenced, section. Benefits are usually provided on a DC basis. There is a single professional trustee board that is responsible for administering the scheme, selecting service providers and selecting the range of investment options, while each participating employer determines the eligibility criteria and contribution rates for its section. Master trusts therefore offer a trust-based structure with some of the benefits of a contract- based scheme in terms of cost savings and a reduced administrative burden for employers.

The numbers of commercial master trusts grew considerably following the introduction of automatic enrolment, and this was the cause of some concern. Although the regulatory regime for master trusts was broadly the same as any other trust-based DC occupational pension scheme, there was broad consensus that the regulatory controls were insufficient to provide appropriate levels of assurance to master trust scheme members. Therefore, the Pension Schemes Act 2017 created a formal authorisation and supervisory regime for master trust schemes from 1 October 2018.

For these purposes, a master trust scheme is broadly defined as an occupational pension scheme that provides money purchase benefits and is used, or intended to be used, by two or more employers (that are not connected with each other). The associated regulations include further exclusions, including where the only money purchase benefits relate to AVCs or transfers-in. As well as including industry-wide schemes in the definition, the government has extended the regime to other schemes that it believes pose similar risks to beneficiaries.

The Regulator has issued code of practice no. 15 on the authorisation and supervision of master trusts, as well as issuing supporting guidance and its supervision and enforcement policy. It maintains an online list of the schemes that have been authorised.

2.1.9 DC consolidation – megafunds

Following consultation, in May 2025 the government published its final report on the first phase of its pensions review, confirming the introduction of DC megafunds, with provisions included in the Pension Schemes Bill (see 1.7.3). Master trusts and GPPs will need to have assets of at least £25 billion in a single main default fund by 2030 (or at least £10 billion by 2030 with a credible plan to get to £25 billion by 2035).

2.2 PUBLIC SERVICE PENSION SCHEMES

2.2.1 Types of Public Service Pension Schemes

A public service pension scheme is a statutory occupational scheme that provides benefits for the employees and former employees of central Government, local authorities and various public bodies, including employees of the health service, teachers, the police and former employees of nationalised industries.

Public sector schemes, for employees of the State and its agencies, include some of the oldest and some of the largest group schemes such as the Principal Civil Service Scheme, the Police Pension Scheme and the Firefighter's Pension Scheme.

Features of Public Sector Schemes

Summarised below are the common features of Public Sector schemes prior to the changes introduced by the Public Services Pensions Act 2013.

- The pay-as-you-go system is used by many public sector schemes – benefits are payable from the public purse as they fall due, rather than from a fund built up from employers' and employees' contributions paid in the past and then invested.
- Pension age historically has usually been 60 for both men and women, and can be earlier (for example the police, fire fighters, and armed forces). However from 2006, for new entrants to many public sector schemes, the pension age increased to 65.
- Pension is typically calculated as 1/80th of final pay for each year of service, with an additional lump sum of 3/80ths for each year.
- Ill health early retirement provisions can be more generous than the private sector.
- Benefits accrued in many of the larger public sector schemes are fully 'inflation proofed.' Both pensions in payment and deferred pensions are guaranteed annual increases in line with price inflation. Originally, increases were aligned with the Retail Prices Index (RPI), but since 2011 the relevant index has been the Consumer Prices Index (CPI).
- Transfers of accrued rights between most public sector schemes are carried out on specified terms under the rules of the Public Sector Transfer Club. Periods of service accrued in one club scheme may frequently be reproduced exactly following a transfer to another.

Public Sector Pensions Reform

Following the recommendations of the Hutton review of public sector pensions, the Public Services Pension Act 2013 introduced changes to schemes across the sector. The main provisions of the Act are:

- The main existing public service schemes may not provide benefits in relation to service after 31 March 2015 (or service after 31 March 2014 for the Local Government Pension Scheme)
- For regulations to be made to establish new schemes; most are CARE schemes
- In general, normal pension age will be linked to State Pension Age, with some exceptions for members of the police, fire fighters and armed forces
- A cost control mechanism will keep the ongoing cost of the schemes, when measured as a percentage of pensionable salaries, within defined margins, by adjusting either member contributions and/or the level of benefits.

The Act also introduced the framework for the governance and administration of public service pension schemes and provided an extended regulatory oversight by the Pensions Regulator. Prior to this, the Regulator had very little responsibility in relation to the oversight of public service pension schemes. The Regulator issued code of practice no. 14 on the governance and administration of public service pension schemes (now part of the Regulator's general code of practice, see 1.1.2)..

2.3 INSURED AND SELF-ADMINISTERED SCHEMES

Insured Pensions

An insured pension scheme is an arrangement where benefits are provided and managed by an insurance company that guarantees a certain level of benefits, often through an insurance policy. This differs from self-administered pension schemes where the members or trustees manage the investments.

An insured arrangement benefits from the security of an insurance company, which is regulated under the Financial Services and Markets Act 2000. There is also the protection available under the Financial Services Compensation Scheme if the insurance company goes into insolvency.

The policy would be established to accept employer and/or employee contributions, either on a regular or single premium basis. Those contributions would then be invested into one or more of the funds offered by the particular insurance company.

Insured schemes can be either bundled or unbundled.

A bundled product is one in which all the contract, including the charge structure, covers all main components associated with the arrangement, such as investment management, trustee services (including administration and communication) and insurance services. Personal Pensions are examples of bundled products (arguably excluding SIPPs, see Chapter 1).

In an unbundled scheme, the different components are charged for separately or even provided by different organisations.

Self-administered Pensions

The term does not relate to the manner to which the scheme is administered. It relates to the way in which scheme assets are invested and generally means that instead of arranging the investment, administration and other services with one provider, usually an insurance company, the trustees seek separate organisations to provide fund management and administration services.

Self-administered pension schemes, therefore, tend to be those occupational pension schemes that are of a size to warrant more control by the trustees over the ways and methods by which assets are invested.

The scheme trustees are able to monitor investment performance on an ongoing basis and make changes to the managers of their investments in the light of poor performance.

2.3.1 Small Self-administered Schemes and other Executive Arrangements

A small self-administered scheme (SSAS) is a trust-based occupational scheme set up for a small number of employees, typically the owner-directors of a company, and selected key staff.

Because the members are able to direct investments, HMRC is concerned that the tax reliefs available to the pension scheme might be abused. In particular, members could acquire assets through a SSAS and then use those assets personally (for example a house or holiday home, or a work of art). Because of this, SSASs and other schemes where members can direct investments such as SIPPs (see Chapter 1.2.3) are classified as 'investment regulated pension schemes' and subject to special tax rules.

As well as SSASs and SIPPS, the other arrangements commonly used for senior company personnel are executive schemes and top up schemes.

Executive schemes (historically sometimes known as top hat schemes) are schemes that typically offer a higher level of benefits than is provided for the majority of the company's employees; alternatively, it might provide benefits of a different type – for example the executives might receive final salary benefits and the staff average salary or money purchase benefits. Having completely separate schemes is sometimes preferred to the alternative of providing benefits for the staff and executive in different arrangements but within the same scheme.

A top up, or supplementary, scheme is one that sits alongside the main scheme. The executive will be entitled to benefits from the main scheme at the same level as staff members, but these will be topped up to some higher amount by the supplementary scheme. When the executive retires, the benefits will often be aggregated and paid from one scheme only (a transfer payment being made between the two schemes).

Where the executive's desired retirement benefits exceed the thresholds for what can be provided through a registered scheme, to benefit from the tax advantages of a registered scheme, the company may provide additional benefits from an employer- financed retirement benefits scheme (EFRBS, previously known as unapproved schemes). EFRBS are covered in 2.3.6 below.

Employer Financed Retirement Benefit Schemes (EFRBS)

Before the current pensions regime was introduced on 6 April 2006 there were limits on the maximum benefits that could be paid out from an approved pension scheme, based on an employee's earnings. Employers who wanted to provide more than this, typically for their high earning executives, often did so by way of a top up to an 'unapproved scheme'.

Such schemes which could be funded schemes with an associated trust (Funded Unapproved Retirement Benefit Schemes) or simply contractual promises made by the employer on an unfunded basis (Unfunded Unapproved Retirement Benefit Schemes). With effect from 6 April 2006, the concept of scheme approval fell away, and both FURBS and UURBS became known as employer-financed retirement benefit schemes – EFRBS (which is the term used here).

The tax advantages of using EFRBS have been eroded by legislation and they are no longer attractive, as the benefits can be provided through registered pension schemes. There may still be some legacy EFRBS schemes.

2.3.2 Investment-Regulated Pension Schemes and SIPPs

Investment-regulated pension schemes

Broadly, an investment-regulated pension scheme is a scheme where a member has a say over which assets their pension fund is invested in. The definition differs depending on whether the pension scheme is an occupational pension scheme or not i.e. it is:

- A scheme where at least one of the members (or someone connected to him) is able to influence how his own pension pot is invested; or
- An occupational pension scheme with fewer than 50 members and at least one of the members (or someone connected to him) is able to influence what the pension scheme invests in.

This means that both SIPPs and SSASs are investment regulated pension schemes and they make up the vast majority of the investment regulated pension scheme market.

If the scheme invests either directly or indirectly in taxable property, including residential property, an unauthorised payment will occur. This is designed to prevent pension schemes being used as a tax-efficient vehicle for investment instead of for retirement saving.

Self-invested Personal Pensions (SIPPs)

This is a personal pension plan that allows a member to select the scheme's investments. SIPPs are particularly attractive to those who want more control over their investments. They give the opportunity to invest in a wide range of investments in addition to insurance products, including some property (but as investment-regulated pension schemes they are subject to the taxable property rules outlined above. Contributions to a SIPP count towards an individual's annual allowance (and lifetime allowance up to 5 April 2024 – see 1.1 above).

Summary

The most common benefit structures found in occupational pension schemes are DB (including final salary and CARE schemes) and DC or money purchase. In the former, the amount of pension that the member receives is directly related to pay. In the latter, the amount of pension reflects the contributions made to the scheme in respect of him and the investment return on those contributions. The most important difference between the two types of schemes is how they are funded and what this means for the burden of risk between the employer and the member.

Also available are cash balance, hybrid and CDC schemes.

Personal pension schemes tend to be provided by insurance companies and provide benefits on a DC basis.

Public sector schemes are normally set up by statute and they cover the employees of central Government, local authorities and various public bodies, including employees of the health service, teachers and the police.

Self Test Questions

- What is meant by the term DB scheme?
- What is met by the term DC scheme?
- Outline the main reasons why employers have historically established funded and unfunded EFRBS.
- Outline the steps employers should consider taking in preparation for their automatic enrolment staging date.
- What is the difference between a final salary scheme and a CARE?
- How might a scheme contain both DB and DC elements.
- Explain the principal risks present in DB and DC pension schemes and explain how these affect the employer and the members.
- Outline the main features of a public sector scheme.
- When designing a private sector scheme, what are the main design features that need to be considered?

CHAPTER 3

Selecting a Trust, Master Trust or Contract-Based Arrangement

INTRODUCTION

As the previous chapter demonstrates, there are a number of different options available for providing workplace pensions. A range of factors will influence the employer's choice of pension scheme, including their budget and their aims in offering the scheme to its employees.

After reading this chapter, the student should be able to identify the advantages and disadvantages of the different options for providing workplace pensions. It is important that anyone involved with workplace pension schemes understands why an employer might choose one option for providing workplace pensions over another.

3.1 COSTS

With the exception of the largest schemes, single-employer trust-based schemes often involve a higher level of cost for the employer due to the need for the employer to fund not only the costs of establishing the scheme, but also the scheme's ongoing running costs such as administration and professional adviser costs.

Contract-based schemes in contrast are often cheaper for smaller employers. The establishment costs are low as they can be bought off the shelf and, as the provider handles all the administration, spreading the cost over all the employers participating in the arrangement, the ongoing running costs for any particular employers is contained. However additional costs may be incurred in relation to any voluntary governance arrangements that the employer may wish to put in place and any pensions-related employee communications that the employer chooses to make.

Master trusts are able to offer lower costs for employers than most trust-based schemes as they likewise benefit from economies of scale and are able to spread fixed costs over a large client base..

3.1.1 Employer Contributions

In a DB scheme the employer's contribution rate is variable and is determined by an actuary on a periodic basis (see Chapter 2.1.1).

Unless the scheme is being used for automatic enrolment (see Part 3, Chapter 3), an employer is not required to contribute to a DC pension scheme. Many employers do however contribute to the workplace scheme that they have made available to their employees. Employer contributions are usually expressed as a percentage of the employee's salary. Some employers will offer a fixed contribution level, regardless of the extent to which the employee contributes to the scheme, while others will match the employee's chosen contribution rate up to a ceiling. Contribution structures that increase the employer contribution level according to the employee's seniority or length of service are also popular, but care must be taken to comply with age discrimination legislation.

Employer contributions therefore are dependent on the benefit basis and not determined by whether a trust, master trust or contract-based scheme..

3.2 EMPLOYER CONTROL AND FLEXIBILITY

With some exemptions, such as master trusts and other trust-based schemes set up non-associated employers operating in specific industries, trust-based schemes offer an employer a far greater degree of control over scheme design and administration than contract-based schemes.

An employer can design an entirely bespoke trust- based scheme at the point of establishment and, as employer consent will usually be required for scheme amendments, can exercise a degree of control over the subsequent development of the scheme. The employer is also usually able to appoint some of the scheme's trustees. With a contract- based scheme, however, the employer's control is limited to the contribution level and the range of investment options. Beyond that, the employer is required to effectively take the scheme as it is.

Changes can be made to the operational aspects of a trust-based scheme if these are considered necessary in future – for example, if a service provider does not provide the requisite level of services or investment or retirement options prove not to meet member needs. If the employer does not like changes that the provider makes to a contract-based scheme, for example. In terms of the investment funds or the retirement options on offer, or feels that the scheme is being poorly administered, its only option is to move to a new scheme with an alternative provider. This is unlikely to be an attractive option for a number of reasons, not least the employee communications exercise that would be involved, and the fact that employees would be left with two pots relating to the same employment in different pension schemes.

Trust-based schemes can be designed to include automatic provision for dependants in the event of the member's death. Contract-based schemes usually require members to exercise an option to provide for dependants.

3.3 ADMINISTRATIVE BURDEN

Trust-based schemes carry a higher administrative burden than contract-based schemes. The scheme will need to be designed and established and then administered on an ongoing basis in a way which complies with the significant regulatory burden to which trustees are subject. This will require adviser and other service provider support and, although trustees can delegate many of their responsibilities, they must still ensure that they select appropriate advisers/service providers and monitor their performance. Most, if not all, of the trustees will be lay trustees who will not have the time or experience to be involved in scheme business on a day to day basis, and the employer will therefore need to provide administrative support to the trustees.

Contract-based schemes are largely off-the-shelf products involving limited set-up work, and the administration is carried out entirely by the scheme provider who will require little, if any, involvement from the employer beyond the deduction and payment of contributions and the provision of employee information.

3.4 RISK

Trust-based schemes are perceived as being higher risk due to the higher administrative burden and the legal requirements to which trustees are subject, in particular in relation to the management of investments. As trust- based schemes are effectively employer branded, any member dissatisfaction with the scheme could also have a negative impact of the employer's relationship with its employees and on its reputation more generally. Failure on the part of the trustees to properly administer the scheme can, in some circumstances, lead to personal liability for the trustees.

Contract-based schemes carry a very limited administrative burden for the employer. Administration failures and poor investment performance are more likely to be associated by employees with the provider than with the employer (although this may not be the case if the employer has taken a more active role in overseeing the scheme and employees therefore perceive it as being actively engaged with the scheme). It will generally be the provider who is liable for any administration failures.

3.5 RETIREMENT OPTIONS

A single-employer trust-based scheme is unlikely to offer the full range of retirement options to members as, unless it is a very large scheme, it is unlikely to be cost effective for the scheme to do so. To access an option not provided by the scheme, members will need to transfer to another scheme providing that option. A contract-based scheme however is far more likely to offer the full range of retirement options given the greater economies of scale that such schemes enjoy.

3.6 EMPLOYER PENSION PROVISION EXPERIENCE

The employer is more involved in a trust-based scheme, so an employer who has no previous experience of making pension provision for its employees may prefer a contract-based scheme.

In contrast, an employer which has previously operated a trust-based DB pension scheme may prefer to continue with a structure that is familiar to it and its employees. Moving from one trust-based scheme to another also offers familiarity and therefore reassurance for employees who are moving from the old scheme to the new scheme.

3.7 EMPLOYEE PERCEPTIONS

A trust-based scheme is often perceived by employees, particularly those who have previous experience of trust- based scheme membership, as being part of the employer's operations and therefore under closer employer supervision than a contract-based scheme. The fiduciary nature of the duties owed by pension trustees also provides reassurance to employees that the scheme is well-managed.

In contrast, the fact that contract-based schemes are operated by insurance companies for the purposes of a profit-making business can lead some employees to feel that their best interests are not central to the scheme.

3.8 TAX RELIEF FOR LOW EARNERS

As explained at 1.2.2 above, contract-based schemes such as GPPs operate on a relief at source (RAS) method of tax of tax relief, whereas almost all trust-based schemes (with the notable exception of NEST) operate a net pay arrangement (NPA). While the two methods usually give the same ultimate result, there is a difference for some low earners (principally part time workers) whose earnings are below the tax-free allowance and who consequently do not pay tax.

Such employees do not benefit from tax relief on their contributions to a NPA (there is no advantage of pension contributions being deducted from pre-tax pay if no tax is being paid). However where RAS is being used, the provider can reclaim basic rate tax on contributions of up to £2,880 (assuming a 20% basic rate tax rate) even where no tax has been paid. This means that non-tax payers benefit as if they were receiving tax relief on contributions up to £3,600.

In the past, this has been more of a theoretical anomaly as very few pension scheme members would be earning less than the tax-free threshold. However in recent years, the threshold has increased so that it is now significantly higher than the automatic enrolment earnings trigger (see Part 3). For some employers therefore, this might be a factor worth taking into account when deciding what scheme to use for automatic enrolment.

In July 2020, HM Treasury published a call for evidence on the operation of the different methods used by pension schemes to administer income tax relief, and the improvements that could be made. In the Autumn 2021 Budget the Government announced that low earners will be due top-up payments in respect of pension contributions they have made using an NPA. HMRC has said that such payments will be made for 2024/25 and subsequent tax years but payments for 2024/25 are likely to be offered later than planned - in 2026.

Digitisation of RAS was originally planned to be in operation from April 2025; however, after consultation with industry, the government has delayed implementation until at least April 2028.

3.9 COMPARISON

The table below evaluates what an employer might consider when selecting a trust, master trust or contract-based arrangement and the advantages and disadvantages of each.

	TRUST	MASTER TRUST	CONTRACT
Contractual relationship (ignoring contracts of employment)	None – Trust law applies with the Employer(s) and Trustee being parties to the Trust and members		Provider and Employee. There is no contractual relationship between the Employer and Provider
Formal Scheme Documentation	Legal Advisers required to prepare trust documentation	Documentation prepared by Master Trust provider	Policies prepared by Provider
Trustees	Required	Appointed by Master Trust provider	Not required however Independent Governance Committee required
Regulated by	The Pensions Regulator		The Pensions Regulator and the Financial Conduct Authority
Administration	An Administrator will need to be appointed	Administrator appointed by Master Trust provider	Provider is the administrator
Scheme expenses	Met by employer	Met by employers but economies of scale	Normally met by charges deducted from member's fund(s)
Leavers	Vested leavers maintained in scheme		After leaving, the relationship is solely between the Provider and the individual
Benefit structures	DB or DC	DC only	DC only
Employer contributions	Variable for DB (employer usually meets balance of cost). Usually fixed for DC	Usually fixed	Fixed
Tax on Employee contributions	Net pay	Usually net pay	Relief at source

Summary

The type of workplace pension scheme (i.e. whether it is trust-based or contract based) will affect the governance arrangements that will be required for that scheme – both in terms of what the specific governance requirements are and in terms of who is responsible for ensuring that those requirements are complied with.

There are a range of advantages and disadvantages to both trust-based and contract based workplace schemes. An employer's decision as to which type of scheme to offer its employees will depend on which factors are most important to it.

Relevant factors will include the relative costs of the scheme, the degree of employer control, the level of flexibility offered by the scheme, the administrative burden associated with the scheme, the level of risk created by the scheme, the retirement options offered by the scheme, the employer's previous experience (if any) of pension provision, and likely employee perceptions of the scheme.

Self Test Questions

- Identify the factors that are likely to influence an employer in deciding whether to choose a trust-based or contract-based workplace pension scheme.
- How does the level of employer control and flexibility vary between a trust-based and a contract-based workplace pension scheme?
- How does the administrative burden differ between a trust-based workplace pension scheme and a contract-based workplace pension scheme?
- Compare the main risks associated with trust-based schemes and master trusts with those associated with contract-based workplace pension schemes.
- Discuss why employees might prefer their employer to offer a trust-based workplace scheme rather than a contract-based workplace scheme.

CHAPTER 4

Automatic Enrolment

INTRODUCTION

This Chapter looks at employers' duties in relation to automatic enrolment, introduced in 2012 by the Pensions Act 2008. The background to this was concern about the ageing population in the UK, resulting in rising state pension costs. The new regime was introduced as a way of encouraging more people to save for retirement and targeted at individuals on low to moderate incomes.

Employers are required to automatically enrol workers who satisfy certain eligibility conditions into a qualifying scheme – this can be their own scheme, a personal pension scheme or a master trust such as the National Employment Savings Trust (NEST), which was set up by the government. The Pensions Regulator maintains a list of authorised master trust schemes that may be used for these purposes (see Part 4 section 2.3.2).

In 2017 the Government undertook a review of automatic enrolment, which found that the overall framework remains the right foundation but contained proposals that are expected to be implemented in the mid-2020s. These include lowering the age for auto- enrolment, from 22 to 18, and removing the lower earnings limit, so that contributions must be calculated from the first pound of earnings. The Pensions (Extension of Automatic Enrolment) Act 2023 is intended to enable legislation that could be in line with these proposals. The Government announced plans to consult in autumn 2023 on the implementation approach and timetable for the changes, but this did not happen; it is unclear what will happen to this initiative under the current government.

Current Issues – small pots

The introduction of automatic enrolment has brought millions of people into workplace pension saving. However, it has also resulted in a rapid increase in the number of deferred small pension pots and this trend is expected to continue. In January 2023 the Government issued a call for evidence on addressing the challenge of deferred small pots, and a follow-up consultation explored next steps. The Government has confirmed that it plans to introduce a multiple default consolidator model to deal with the proliferation of deferred small pension pots – this is being introduced through the Pension Schemes Bill 2025 (see 1.7.3).

4.1 WHY AUTOMATIC ENROLMENT?

Automatic enrolment began in October 2012 and requires employers to auto-enrol employees who satisfy the earnings and age criteria into a qualifying scheme - either their own scheme, a personal pension scheme or an alternative such as the government's National Employment Savings Trust (NEST).

4.2 THE AUTOMATIC ENROLMENT REQUIREMENTS

4.2.1 Main Features of Automatic Enrolment

- Broadly, all eligible jobholders (see below) must be automatically enrolled into a qualifying scheme. They may opt out of the scheme within one month of being auto-enrolled.
- The employer has a duty to automatically re-enrol eligible jobholders who have opted out, approximately every three years. This process of re-enrolment (see 3.2.4) means that employees who decide not to be in a pension scheme can only do so by repeatedly making a positive decision to opt out.
- Employers can postpone their obligation to automatically enrol by up to three months, starting from the date an individual becomes eligible for auto-enrolment. During this period, eligible jobholders do not need to be automatically enrolled but they must be informed of their right to opt in during this period.
- The automatic enrolment duties were introduced in stages, between October 2012 and February 2018. For new employers, the duties apply from the date on which they employ their first member of staff.

Assessing who is eligible

- There are three categories of worker in respect of which employers have obligations: eligible jobholder, non-eligible jobholder and entitled worker. The definition of worker includes a wide range of individuals (working in the UK), including temporary and agency workers.
  - Eligible jobholders are those between age 22 and SPA earning more than an earnings trigger. Generally, eligible jobholders must be automatically enrolled into a qualifying scheme.
  - Workers with qualifying earnings (see below) who earn less than the earnings trigger are known as non- eligible jobholders, as are workers with qualifying earnings who are between 16 and 22 or between SPA and 75. Non-eligible jobholders do not have to be automatically enrolled into a qualifying scheme but they have to be informed of their right to membership of such a scheme.
  - Workers aged between 16 and 75 who do not have qualifying earnings (i.e. earn less than the lower qualifying earnings threshold) are known as entitled workers. Entitled workers must be informed of their right to membership of a scheme, but this need not be a qualifying scheme, and the employer is not required to contribute towards the scheme.
- Qualifying earnings are gross earnings, including sick pay and statutory maternity, paternity and adoption pay, between lower and upper thresholds. For 2025/26, qualifying earnings are earnings between £6,240 p.a. and £50,270 p.a. and the earnings trigger is £10,000 p.a. The gap between the earnings trigger and the lower qualifying earnings threshold is intended to prevent individuals earning just over the lower threshold being automatically enrolled and receiving very low benefits, and the associated administration for employers.

Scheme used for auto-enrolment and alternative requirements

The employer must auto-enrol employees who satisfy the above earnings and age criteria into a qualifying scheme. A qualifying scheme is broadly a HMRC-registered occupational or personal pension scheme that meets certain minimum quality requirements. These minimum requirements differ depending on the type of pension scheme (e.g. whether it is a DC, DB or hybrid scheme).

- For a DC scheme to be treated as a qualifying scheme, statutory minimum levels of contributions must be paid (see 3.2.3 – these are contributions of at least 8% of qualifying earnings, of which at least 3% must be paid by the employer) OR it must meet the alternative quality requirements for DC schemes (see below).
- For a DB scheme to be treated as a qualifying scheme, it must either satisfy a test scheme standard, or it must meet the alternative quality requirements for DB schemes (see below). A test scheme for a scheme providing a pension at retirement is one that gives a pension payable from age 65 (or the member's SPA if higher) of 1/120 of final qualifying earnings (averaged over the final 3 years of service) for each year of service. However, the test scheme differs for schemes that provide a sum of money to be made available for the provision of benefits (i.e. cash balance).
- It is possible for a care average (CARE) scheme to meet the test scheme standard or the alternative requirements, but it must meet additional requirements relating to the revaluation of benefits.

For most pension schemes, the earnings definition for benefits (in the case of DB schemes) and for contributions (DB and DC) is not equal to qualifying earnings. For example, a DC scheme might base contributions on earnings excluding overtime; a DB scheme might base benefits on basic salary less an offset intended to take account of an assumed state pension.

For DC schemes, it was recognised that having a pensionable salary definition that differs from that for qualifying earnings could cause practical difficulties when trying to determine whether adequate contributions have been made. To address this, employers who provide a DC pension scheme have an alternative way of meeting the requirements - called certification - whereby they certify periodically that their scheme satisfies alternative quality requirements. These are based on the scheme's definition of pensionable salary, which is subject to a minimum of the individual's basic pay: the minimum contribution is 9% of pensionable pay where that is no less than basic pay (minimum 4% from the employer); OR if pensionable salary is no less than basic pay and, across all jobholders, constitutes at least 85% of total pay, the minimum is 8% (minimum 3% from the employer); OR if all earnings are pensionable, the minimum is 7% (minimum 3% from the employer).

From 1 April 2015, two alternative tests were introduced for a DB scheme to satisfy the qualifying criteria. One is based on the cost to the scheme of the future accrual of active members' benefits and the other is intended to allow DB schemes that satisfy certain conditions and that meet the minimum requirements for DC occupational schemes to be used for automatic enrolment.

4.2.2 Anti-avoidance

There are various anti-avoidance measures in place to prevent employers from only hiring those who have signalled their intent to opt out of the pension scheme or from giving inducements to jobholders to opt out.

There is provision in the 2008 Act for the Secretary of State to make regulations that prevent a pension scheme with an employee contribution rate that is set so high that it might discourage membership from being a qualifying scheme.

4.2.3 Automatic Re-enrolment

From the point that the automatic enrolment duties apply to a particular employer, there may be some employees not in a qualifying scheme. Of these, some will be eligible jobholders who have opted out; others will be non-eligible jobholders or entitled workers who have not been automatically enrolled and who have not opted into a scheme.

These two groups are treated differently:

- eligible jobholders who have opted out are generally automatically re-enrolled on the next cyclical re- enrolment date. The first cyclical re-enrolment date will be a date chosen by the employer within 3 months either side of the third anniversary of the employer's staging date. Subsequent cyclical re-enrolment dates occur every 3 years on the anniversary date, also with a six-month window;
- non-eligible jobholders and entitled workers are not automatically enrolled unless they become eligible jobholders (for example, on reaching age 22 or earning above the earnings trigger), in which case they are automatically enrolled under the process described above; they can opt in to a scheme.

4.2.4 Restriction on Charges

Since April 2015, various charge controls have been introduced in defined contribution (DC) schemes (or sections of schemes), including:

- From April 2015, regulations made under the Pensions Act 2014 introduced a charge cap for trust-based schemes – this restricts the combined effect of any charges that can be levied on members' funds in a default arrangement in a DC qualifying scheme to 0.75% p.a. of funds under management. For this purpose, a default arrangement is any fund that members are put in if they do not express a preference and also any fund in which broadly 80% of members are invested where they do have to make a decision.
- Once an arrangement has become subject to the cap, the cap will continue to apply even if it subsequently ceases to satisfy the definition of a default. The FCA made equivalent rules to implement a charge cap on default funds for automatic enrolment in contract-based schemes.
- From April 2016, a ban applies to member- borne charges or commission in a DC qualifying scheme. This ban prevents charges from being levied on a member's funds to pay an adviser for services given to the member.
- Members are able to opt out of either or both of the 0.75% charge cap or the ban on member-borne charges if they sign a written agreement that satisfies certain conditions. This will enable them for example to receive advice or a service such as one relating to the flexible drawdown provisions, and to pay for it by a deduction from their fund.
- Pensions Act 2014 regulations also ban so-called active member discounts in DC qualifying schemes from April 2016. An active member discount is usually a differential charging arrangement in a workplace scheme under which former employees suffer a higher level of charges than current employees.
- From 6 April 2022 there is a de minimis pot size of £100, below which the flat fee element of a combination charge cannot be charged to members.
- From 6 April 2023 specified performance-based fees are excluded from the charge cap.

4.3 NEST

The automatic enrolment regime requires employers to automatically enrol workers who satisfy the earnings and age criteria into a qualifying scheme. For employers without their own pension scheme and for workers who do not qualify for entry into such a scheme, the employer may use the National Employment Savings Trust (NEST). Responsibility for running the scheme has been given to the NEST Corporation, a non-departmental public body reporting to the Secretary of State for Work and Pensions.

NEST is effectively a very large multi-employer occupational DC pension scheme. It is one of a number of master trusts. Employers participate in these centralised arrangements but do not actively appoint or remove trustees or have a role in the management of the scheme. Master trusts are covered in more detail in Part 4, Chapter 2.

The Pension Schemes Act 2017 requires all master trusts to be authorised by TPR. NEST received this authorisation in 2019.

The intention is that the large scale of NEST will mean that the set-up costs can be spread over a long period and recovered from what eventually will be very large funds under management, thus resulting in a low average charge.

Although it is an occupational scheme, it shares the 'portability' characteristics of personal pensions in that individuals can keep their account as they change jobs and can continue to make contributions.

The stated aim is that NEST will complement, rather than compete with, existing high quality pension provision. To support this, initially there were limitations on transfers in and out of NEST (i.e. members were restricted in their ability to transfer a pension entitlement already built up in another pension scheme into their NEST account, or vice versa). There was also a maximum annual contribution allowable to a NEST account. For 2016/17, this maximum was £4,900. However from April 2017, the annual contribution limit was removed and at the same time, NEST removed certain other restrictions, primarily the restriction on receiving transfers from other arrangements.

4.3.1 Trustee body and legislative framework

NEST acts as a Trustee Corporation, with powers to manage the scheme. The trustee takes the key strategic decisions but delegates all executive and operational functions to a management board.

Pensions Act 2008 makes provision for scheme Orders to be made for NEST's establishment, administration and management. Subject to scheme Orders, further provisions about the scheme are made by Rules. Changes to the Order require the approval of Parliament as well as the consent of the trustees, who in turn must consult with the members' and employers' panels that are set up for this purpose. The NEST Rules can only be changed either by the trustees after consultation with the panels and other interested persons, or with the consent of the trustees.

4.3.2 Charges

NEST's charging structure is an annual management charge (AMC) of 0.3% of a member's fund, and a charge on contributions of 1.8%. The contribution charge was originally intended to persist until such time as the initial setting up costs have been recovered.

4.3.3 Employer and member participation in the scheme

NEST must accept any employer who wishes to use the scheme to fulfil their duty to automatically enrol employees into a workplace pension scheme. The scheme must also accept all the employees of those employers that are eligible to be automatically enrolled and those employees that are not eligible but opt in.

From 1 April 2017, NEST may also admit members transferred into the scheme as part of a without-consent bulk transfer of accrued rights. The employer must be a participating employer under NEST, but the members transferred need not be current employees.

Self-employed people can also join NEST.

NEST has published an employer set-up guide and its terms and conditions to which employers need to agree. The terms and conditions require the employer to provide the information NEST needs to administer the scheme and to pay contributions in accordance with an agreed payment schedule. The employer also agrees to provide (unspecified) information to members on behalf of NEST, but not after they have left the company. The terms and conditions also allow NEST to introduce charges levied on employers who incur additional costs by, for example, not paying contributions on time or not paying by direct debit.

4.3.4 Investment options

NEST's default options are called Retirement Date Funds (one for every year a member could choose to take their money out). For example, if a member wants to access their pension pot in 2040, their money is invested in the NEST 2040 Retirement Fund. The Retirement Date Funds invest in pooled funds and use a broad and diversified set of asset classes, and the investment objective for these funds. In addition, NEST provides a range of other fund choices.

4.3.5 Benefits

NEST is subject to the same decumulation rules as other pension schemes under Finance Act 2004. A lifetime annuity was believed likely to be the most appropriate product for most members. Members can also transfer their funds, for example to make use of other options, such as income drawdown.

Members buy an annuity at retirement through the open market. However, NEST has appointed a panel of providers who will offer a limited range of annuities for members. These providers must meet certain conditions, including:

- Enabling quotes to be provided in real time;
- Offering rates which are at least as competitive as identical products they offer on the open market;
- Providing annuities for pots of £1,500 and above.

4.4 WHAT AUTOMATIC ENROLMENT MEANS FOR EMPLOYEES

For low earners who may not otherwise be saving into a pension, there has been a concern that they will not get value for money from any contributions they make because of the potential impact on means- tested State benefits. This concern has been addressed partly by the application of the earnings trigger and partly by the decision to deliver a State pension from 2016 at a level above which most means-tested benefits are not payable (meaning that anything that an individual receives from private pension saving over and above the State pension is unlikely to impact significantly on any means- tested benefits).

There has also been concern that those earning between the earnings trigger and the threshold for income tax could lose out on tax relief in schemes, such as occupational schemes, that give tax relief on net pay (with the pension contribution deducted before tax is calculated). Those saving via personal pensions do not lose out because tax relief is given at source. For more on this, see 3.8 in Part 4.

4.5 WHAT AUTOMATIC ENROLMENT MEANS FOR EMPLOYERS

Automatic enrolment has increased pension scheme take-up rates (i.e. the percentage of employees who participate in the scheme). The reasons for this are twofold:

- First, many more employees have been given access to a pension scheme to which their employer contributes. Previously, there was no legislative requirement for an employer to contribute to a pension scheme for any of its employees (in the past, employers were required to designate a stakeholder scheme but not to contribute it);
- Secondly, it is believed that many employees who would not have actively chosen to join a pension scheme have nevertheless remained in one when automatically enrolled.

However, working against this may be that some of the workforce, particularly young workers and low earners, feel that they cannot afford to make pension provision when they have other more immediate demands on their finances.

Although the take-up rates have increased generally, they vary from employer to employer, depending on various factors including the type of scheme provided and the demographic profile of its workforce.

Summary

Employer duties in relation to automatic enrolment were introduced by the Pensions Act 2008 with effect from 2012 in a bid to increase the numbers of individuals making their own retirement provision, particularly the lower paid. Master trusts such as NEST are simple, low charge products.

Self Test Questions

- Why was automatic enrolment introduced?
- Which employees need to be automatically enrolled into a qualifying scheme?

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