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The types of workplace pension scheme your employer can offer

A workplace pension scheme must meet certain minimum standards before an employer can automatically enrol workers.

What types of workplace pension scheme can an employer offer?

A workplace pension scheme must be a qualifying pension scheme to meet the requirements of automatic enrolment. It must also meet the minimum levels of contributions or allow benefits to build up at least at a minimum rate.

Qualifying schemes may be either **defined benefit** schemes, **defined contribution** (money purchase) schemes or Cash Balance Plans.

Defined Benefit Schemes

Defined benefit pension schemes provide retirement benefits that are based on earnings and the length of time that the person has been a member of the scheme. Each pension scheme defines what is meant by ‘earnings’. This may not be the same amount that is shown on the pay slip.

Earnings for pension purposes (or pensionable earnings) may not include payments received such as overtime, commission, bonuses or other benefits. They may also only be based on a proportion of wages or salary.

Examples of defined benefit pension schemes include final salary schemes and career average revalued earnings (CARE) schemes.

Defined Contribution Schemes

Defined contribution pension schemes invest the contributions, made by the individual and/or the employer, in a range of different investments. A person in a Defined Contribution scheme may be offered a choice about how their contributions are invested.

The benefits that they receive at retirement depend on:

- how much has been paid in on their behalf (by themselves and/ or their employer);
- the length of time that it has been invested; and
- how the investments have performed over this period.

Defined contribution pension schemes may also be known as money purchase schemes.

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Cash Balance Plans

Cash balance plans are also known as hybrid schemes, and include parts of both defined benefit and defined contribution pension schemes.

Each type of scheme may provide you with an income in retirement, or a tax-free cash lump sum and an income.

Employers have a number of different options available to them when selecting a suitable qualifying workplace pension scheme.

They can:

- use an existing workplace pension scheme, if it qualifies; existing members may notice no difference in the way that the scheme operates;
- amend an existing workplace pension scheme to meet the qualifying criteria; employers with existing pension schemes that do not meet the minimum qualifying criteria may decide to amend the scheme so that it qualifies;
- set up a new pension scheme which meets the qualifying criteria; or
- use a combination of these options for different areas of their workforce.