Employer's Guide to Stakeholder Pensions

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Introduction

The Welfare Reform and Pensions Act 1999 (and the Welfare Reform and Pensions [Northern Ireland] Order 1999) states that employers must offer their employees access to a stakeholder pension scheme. Membership of the scheme is optional and as employer you do not have to contribute; although this is due to change in 2012.

How Twismo Financial Planning Ltd will help you

Twismo Financial Planning Ltd is an independent financial adviser; Authorised and Regulated by the Financial Services Authority and works on a commission or fee basis. Full details are available upon request.

This document outlines various aspects of stakeholder pensions. This is a complex and highly regulated area and to help you Twismo Financial Planning will:

- Talk to you about your requirements.
- Recommend the most suitable scheme for your requirements from the whole of the market.
- Implement the scheme and help you with:
  - Employee consultation and announcements
  - Liaising with the scheme provider
  - Setting up payroll deductions for contributions
  - Advising individual employees regarding suitability, investment options and integration with existing pensions
- Provide ongoing advice to the employer and individual employees.
- Provide retirement advice.

About stakeholder pensions

The Stakeholder pension is designed to enable the individual member to:

- To build up a sum of money tax efficiently, this will give an income for life and a cash lump sum.
- Provide the flexibility to choose when to start taking an income, between ages 50 (rising to 55 from 6 April 2010) and 75.
- Take their pension fund from one employer to the next without being penalised.
- To build up a sum of money to provide benefits to a spouse, civil partner or dependant(s) should the member die before retirement.
- To enable the member to leave the State Second Pension (S2P) and build up a replacement for it in their own stakeholder pension. This is known as contracting out.

The exemptions

You will be exempt from having to provide your employees access to a scheme if you meet any of the following conditions.

- You employ fewer than five people (including Directors).

- You offer an occupational pension scheme that all your staff can join within a year of starting work for you. (Scheme rules can restrict membership to employees age 18 or over and to employees who have at least five years to go before reaching the scheme's normal pension age.)

- You offer your employees access to a personal pension scheme (see below) which meets the following conditions:
  - It is available to all employees who should have access to a stakeholder pension scheme (except those under 18)
  - You contribute an amount equal to at least 3% of the employee's basic pay to the personal pension
  - The scheme has no penalties for members who stop contributing or who transfer their pension
  - You deduct the employee's contributions from their pay and send them to the personal pension provider if the employee asks you to

- You do not have to provide access to a stakeholder pension scheme for any employee:
  - Who has worked for you for less than three months in a row
  - Who is a member of your occupational pension scheme
  - Who cannot join your occupational scheme because its rules don't admit people if they are under 18 or they are within five years of the scheme's normal pension age
  - Who could have joined your occupational pension scheme but decided not to
  - Whose earnings have fallen below the National Insurance lower earnings limit (the lower earnings limit is £82 a week in 2005/06) for one or more weeks within the last three months
  - Who cannot join a stakeholder pension scheme because of HM Revenue & Customs restrictions (for example, the employee does not normally live in the UK)

The things you need to do as an employer

- Select a registered stakeholder pension scheme.
- Discuss your proposed choice of scheme with your employees.
- Formally choose a stakeholder pension scheme.
- Give your employees the name and address of the stakeholder pension scheme adviser.
- Give your employees information about your payroll deduction arrangements.
- Deduct contributions from employees' pay for those who have chosen to join the scheme.
- Pay the contributions to the stakeholder scheme within the given time limits.
- Record the payments you make to the stakeholder scheme.

Choosing a stakeholder pension scheme

There are two key ways to select a stakeholder pension scheme:

1) Take professional advice from an Independent Financial Adviser such as Twismo Financial Planning.
2) Select one yourself from a list of registered schemes which is available from the Pensions Regulator; Napier House, Trafalgar Place, Brighton, East Sussex, BN1 4DW: Phone: 0870 606 3636: Email: customersupport@thepensionsregulator.gov.uk

What makes it a stakeholder pension?

- Management charges in each year must not amount to more than the limit set down in law. For people who join a stakeholder pension scheme on or after 6 April 2005, this limit is 1.5% each year for the first 10 years of membership. If these members stay in the scheme for more than 10 years, the management charge limit each year will reduce to 1% from then onwards.
- As well as the annual management charge, the law allows pension providers to recover costs and charges they pay for certain other things. For example, they can recover costs when they have to pay any stamp duty or other charges for buying or selling investments for a stakeholder pension fund, or for particular circumstances such as the costs of sharing a pension when a couple divorce. You will find these expenses in other pension schemes, not just stakeholder pensions.
- The stakeholder pension contract must not have charges for members transferring into, or out of, the stakeholder pension scheme. If members decide to leave the scheme, the provider can adjust the value of their pension fund by making a charge called a 'dilution levy', or in the case of with-profit funds a 'market-value adjustment'. This is to protect the members who stay in the scheme whose fund could otherwise be disadvantaged by money being taken out.
- A stakeholder pension schemes must accept contributions of as little as £20.
- Stakeholder pension schemes must be contracted out so that they can accept transfers in from all other schemes (scheme members can choose whether to be contracted out or contracted in).
- To make sure all stakeholder pension schemes are run in the interests of their members, these schemes either have trustees or they are run by a scheme manager authorised by the Financial Services Authority (FSA). In some cases, trustees will also be authorised by the FSA.

Things you should check before you designate a scheme

- Check if the stakeholder pension scheme you are considering is registered by looking at the Pensions Regulator's register.
- Make sure that all your employees who are entitled to have access to a stakeholder pension can join. You can choose more than one scheme – but at least one scheme must be open to all your employees.
- Make sure the scheme will accept your custom. Schemes can put limits on their membership (for example, allowing schemes only for members of a particular trade union or profession).
- Schemes may accept designations from certain employers only (for example, schemes may only accept your choice if it has been arranged through a third-party intermediary such as a financial adviser).
- Look at your own payroll and accounting systems to consider how easily you will be able to make the payroll deductions and send them to the scheme provider.

Giving your employees information about your designated stakeholder pension scheme

You will need to give information to your employees so that they can decide whether to sign up to your stakeholder pension scheme.
This information must include the name and address of the stakeholder pension scheme. You should also give your employees contact details such as a named representative at the company, phone and fax numbers and email address.

Giving your employees help and guidance

- Many employers ask what they can do to help their employees with their pension options and to explain the benefits of saving for retirement. However, at the same time, they want to be confident that what they do will not break the law. As an employer, you are unlikely to be in a position to give personalised advice to any employee about whether it is right for him or her to join your stakeholder pension scheme. A stakeholder pension is just one of the pension options available and every employee must make up their own mind about which option suits them best.
- FSA factsheet are available, such as, *Helping your employees with their pension options – a guide for employers offering stakeholder pensions or group personal pensions* useful.
- We recommend seeking assistance from an independent financial adviser such as ourselves.

Monitoring by stakeholder pension scheme providers

- Stakeholder pension scheme providers must check that all the payments they receive are on time and for the agreed amount. It is important that you keep payment records and tell the scheme provider if there are any changes.
- The scheme provider must report to the Pensions Regulator:
    - late payments
    - payments that are not made
    - reduced payments that are not explained
- The Pensions Regulator will then investigate why the scheme provider did not receive the agreed payment.

Summary of payment penalty regulations

The Pensions Regulator may fine you if you do not:

- Set up a record of the payments you make.
- Keep the record up to date.
- Send the record to the scheme provider.
- Tell the scheme provider about any changes.
- Make the correct payments on time.

For further detailed information about stakeholder pension schemes and how Twismo Financial Planning can help you and your employees please contact:

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