Carmarthenshire Association of Voluntary Services

Your local county voluntary council

8. Managing money

8.10 Pensions

Pensions are an extremely complex and important area. With the state pension decreasing in value, and government increasingly committed to greater private provision of pensions, all voluntary sector employers will increasingly have to give more consideration to pension provision for their employees.

There is currently no obligation on employers to make pension contributions for their employees, but they may have to provide access to a stakeholder pension. However, many employers see making pension contributions as an important part of good practice, and a way of attracting and retaining good staff. Some voluntary sector employers enter into agreements with local authority pension schemes. If this option is not available, an employer may wish to set up their own pension scheme.

From October 2012, all employers including charities, will be legally obliged to offer a workplace pension. Despite the importance of this development, a recent survey showed that many charity trustees remain unaware of what this will mean for them.

The new duties are part of a programme of pension reforms that aim to make saving for retirement the norm. The new duties mean employers will be obliged to automatically enrol eligible workers into a qualifying workplace pension scheme and make a contribution.

A minimum employer contribution of 3% on a band of earnings will be required, although employers can put in more. The total minimum contribution for eligible workers should equal 8%, made up of employer contributions, worker contributions and tax relief. To help employers, the minimum contribution will be phased in from 1% to 3%.

As part of these overarching reforms a new scheme, personal accounts, is being created to provide a low charge workplace pension scheme that any employer can use. It will be run by a not-for-profit Trustee Corporation and is aimed at low to medium earners, many of whom will not have had access to a workplace pension before. Employers can choose personal accounts, or another qualifying scheme.

The Personal Accounts Delivery Authority (PADA) was charged with delivering this scheme but has since wound up. The NEST Corporation is now the trustee body responsible for overseeing NEST (National Employment Savings Trust).

The following options are available, but expert advice is likely to be needed to decide on the best option.

Final salary occupational schemes

In these schemes the employees make contributions of a fixed percentage of their salaries. In return they receive a pension that relates to the number of years that they have contributed and their ‘final salary’. The employer’s contributions are not fixed but must vary to ensure that employees receive the agreed pension. These types of pension scheme are common in the public sector and are generally regarded as being the most attractive type of scheme from the employee’s point of view. It may also be an attractive option for employers, if they can join an existing scheme, such as a local authority scheme or The Pensions Trust scheme, where the complex administrative requirements are already taken care of.

Money purchase occupational schemes

As in final salary schemes, employees make regular contributions of a fixed percentage of their salary. Employers also make a fixed contribution.

Personal pensions

Employees, who are not members of an occupational pension scheme, may join a personal pension. These are generally run by insurance companies, and allow employees (and their employers, if they choose) to make regular tax-free contributions.

Group personal pensions

This is like a personal pension, except that it covers a number of employees. A group personal pension is likely to be the cheapest option in terms of administration from an employer’s point of view.

Stakeholder pensions

Stakeholder pension schemes are low cost, affordable pensions aimed at those earning between approximately £10,000 and £20,000 per annum who do not have access to an occupational or personal pension plan. Most employers who employ five people or more are required to offer their employees access to a stakeholder scheme. Failure to comply could result in significant fines.

The State Earnings Related Pension (SERPS)

All employees and employers contribute (via higher National Insurance contributions) to SERPS, unless the employee is a member of a contracted-out occupational pension scheme, or has chosen to contract out of SERPS through their personal pension scheme. Stakeholder pensions will also provide for contracting out of SERPS.

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Further information

Pensions and retirement planning
www.direct.gov.uk/en/Pensionsandretirementplanning

The Pensions Trust
www.thepensionstrust.org.uk

The Pension Sorter
www.pensionsorter.co.uk

The Pensions Advisory Service
www.pensionsadvisoryservice.org.uk

Occupational Pensions Regulatory Authority
www.thepensionsregulator.gov.uk

National Employment Savings Trust
www.nestpensions.org.uk

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The information provided in this sheet is intended for guidance only. It is not a substitute for professional advice and we cannot accept any responsibility for loss occasioned as a result of any person acting or refraining from acting upon it.

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