



Stakeholder Pensions

Employers who employ 5 or more employees are obliged to offer their employees access to a stakeholder pension scheme (unless another qualifying pension scheme is provided by the employer), which means that they have to designate - *formally choose* - a stakeholder pension scheme their employees can join if they want to. By 2012 enrolment in a pension scheme and minimum employer contributions will become compulsory.

1. What is a Stakeholder Pension?

Stakeholder pension schemes are money purchase schemes designed to provide retirement benefits, mainly for employees or the self-employed. They are intended to be low cost simple pension schemes which should encourage individuals to provide for their own retirement. Using their own money, together with tax relief and investment returns, employees can build up a pension fund which they can use to buy a pension when they are older or retire.

Stakeholder pension schemes must satisfy a number of minimum government standards to ensure that they offer value for money and flexibility. These standards include:

- Management charges in each year must not amount to more than the charge cap as set down by law. The current cap is an annual management charge of 1.5% of the total value of the fund.
- The stakeholder pension contract must not have charges for members transferring into or out of the stakeholder pension scheme.
- All stakeholder pension schemes must accept contributions of £20 or more, though some may accept lower payments.
- Stakeholder pension schemes must be run in the interest of their members, and will either have trustees or they will be run by a scheme manager.

The benefits of a stakeholder pension scheme for employees are as follows:

- Employees get tax relief on their contributions up to HM Revenue & Customs limits. This broadly means that for every £80 they pay into a stakeholder pension, the Government adds an extra £20.
- The charges are capped – there are limits to how much employees have to pay the pension fund provider.
- There are low minimum payments.
- They are more flexible than many other private pension schemes – employees can choose when and how often they pay into the scheme and there are no penalties if they miss a payment
- Other people, as well as the employer, can pay into a stakeholder pension on behalf of the employee. This means that partners or other family members can help the employee to save for retirement
- People don't need to be working to save in a personal pension scheme

2. Who has to offer access to a Stakeholder pension?

Basically every employer must provide access to a stakeholder pension unless they are exempt. Exemption applies if employers meet one of the conditions listed below:

- They employ fewer than five people (which mean four or fewer people). If employers employ five or more employees they must provide access to a stakeholder pension scheme **even if fewer than five employees meet the conditions to have access to it.**
- They offer an occupational pension scheme that all their staff can join within a year of starting work for them. (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.)
- They offer their employees access to a personal pension scheme which meets the following conditions:
 - It is available to all employees who should have access to a stakeholder pension scheme (except those under 18).
 - Employers 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.
 - Employers deduct the employees' contribution from their pay and send it to the personal pension provider if the employee asks for that.
- They offer an occupational scheme for some staff and a personal pension scheme for the rest of their employees, which meet the conditions set out.

3. Employees who do not need to have access to a Stakeholder Pension

Employers do not have to offer access to a stakeholder pension scheme to employees meeting one of the following conditions:

- Employees having worked for the employer for less than three months in a row;
- Employees being members of the occupational pension scheme offered by the employer;
- Employees that cannot join the occupational pension scheme of their employer because its rules do not admit people if they are under 18 or they are within five years of the scheme's normal pension age;
- Employees who could have joined the occupational pension scheme offered by their employer but decided not to;
- Employees with earnings below the National Insurance lower earnings limit for one or more weeks within the last three months; or
- Employees who cannot join a stakeholder pension scheme because of HM Revenue & Customs restrictions.

Notwithstanding the fact that employers do not have to offer such employees access to a stakeholder pension scheme, employers need to take these employees into account for the purposes of II above.

4. How do you offer access to a stakeholder pension scheme as an employer?

- Select a registered stakeholder pension scheme or schemes from the list of registered pension schemes held by the Pension Regulator Stakeholder Register;
- Discuss the choice with those employees who qualify for access to a stakeholder pension scheme. Employers have to make sure, that every employee entitled to have access to a stakeholder pension scheme can join it;
- Formally choose the stakeholder pension scheme;
- Provide employees with name and address of the chosen scheme;
- For employees who have chosen to pay into the stakeholder pension scheme through their employer, arrange to deduct contributions from employees' pay,

inform their employees about the arrangements, make the deduction and record the payments.

Employers have 3 months to designate a stakeholder pension scheme from the date they become liable under the regulations to provide access for their employees. At present, employers are not obliged to make contributions to their employees' stakeholder pension scheme.

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