Pensions

Stakeholder and Personal Pensions

A personal pension is a privately funded pension plan. The rules were extensively changed from 6 April 2001 to reflect the introduction of stakeholder pensions.

A stakeholder pension is a more tightly regulated personal pension plan particularly over charging levels.

We highlight below the main areas of importance. It is important that professional advice is sought on pension issues relevant to your personal circumstances.

Key Features

Personal pensions

- Personal pensions are privately funded plans organised on money purchase lines.
- Contributions are invested for long-term growth up to the selected retirement age.
- At retirement (normally between the ages of 50 and 75) the accumulated fund is turned into retirement benefits - an annuity and a tax-free lump sum.
- Contributions up to £3,600 (gross) each tax year are not linked to earnings.
- Contributions over £3,600 are allowed depending on age and earnings. See maximum contributions below.
- Contributions over £3,600 are not allowed for certain employees in an occupational scheme.
- All contributions are payable net of basic rate tax relief, leaving the provider to claim the tax back from the Revenue.
- Higher rate relief is given as a reduction in the taxpayer's tax bill.

Stakeholder pensions

In addition to the features above for personal pensions, a stakeholder pension has the following constraints on the pension provider:

- a minimum payment cannot be set higher than £20, whether for regular or one-off contributions
- the management charges are set at an annual maximum of 1% of the stakeholder owner's fund
- there must be no penalties when the owner stops contributing or transfers the fund elsewhere.

Persons eligible for a personal pension

Many people can have one:

- self employed
- employees not in an occupational scheme
- employees in an occupational scheme who earn not more than £30,000 a year
- non-taxpayers such as non-earning spouses and children are able to contribute up to £3,600 (gross) a year. If they don't have the money, contributions to personal pensions can be made on their behalf.

The main persons excluded are therefore higher earners if they are members of occupational schemes.

Maximum contributions	
Up to age 35	17.5%
36 to 45	20%
46 to 50	25%
51 to 55	30%
56 to 60	35%
61 to 74	40%

The percentages are applied to 'Net Relevant Earnings' (NRE) or the 'Earnings Cap' (currently £102,000).

Fluctuating earnings

If an individual wants to pay more than £3,600 in a year, the age-related contribution does not have to be set by reference to the earnings in that year. The regime allows NRE in one tax year (the 'basis year') to cover pension contributions in the next five years. This facility will however cease in April 2006 when the taxation of pensions is reformed and a new regime introduced.

Example

Eric had earnings in 2001/02 of £80,000. Earnings for 2002/03 to 2005/06 are £50,000 per annum.

Eric could pay contributions in 2001/02 and in 2002/03 to 2005/06 (when the current pensions regime comes to an end) based on his earnings of £80,000 in 2001/02 - his basis year.

If his earnings increased in, say 2003/04 to £90,000 he could choose that year to become his basis year.

Furthermore, higher level contributions can continue for five years after relevant earnings have ceased.

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The Role of the Employer

To encourage more people to save in pension schemes, the government has placed greater responsibility on employers to provide access to pension provision.

There is no requirement for an employer to pay employer contributions into a scheme. If the employer chooses to do so, the employer contributions will be paid gross and will be treated as a business expense.

There is also no requirement for the employee to enter an employer provided scheme. An employee may decide to go direct to a pension provider (usually an insurance company).

Employers' stakeholder obligations

- A non-exempted employer must, in consultation with the employees, designate a registered plan they can join.
- The employer must then bring the plan to the employees' attention, mainly by allowing the provider to distribute information and promotional materials and arranging workplace meetings for the provider to talk to the employees - at the provider's expense.
- If the employee wants to become a member of the employer promoted scheme, the employer must set up a contribution deduction facility on the firm's payroll system.
- The contributions must then be paid into the stakeholder scheme within 19 days of the end of the month in which the contributions were deducted.

Exempted employers

These are:

- employers with fewer than five employees
- employers sponsoring a group personal pension plan and investing at least 3% of payroll from their own resources. There are a number of additional conditions including the plan having no termination or transfer charges and offering a payroll deduction facility for employee contributions
- employers sponsoring an occupational scheme which is open to all employees, whether or not they have joined it.

Most occupational money purchase schemes and some company organised group pension plans are thus exempted from the stakeholder regime. However both can opt to come within the stakeholder scheme. This may be attractive due to the low cost charging structure, particularly if employees want to make additional contributions.

How We Can Help

This information sheet provides general information on the making of pension provision. Please refer to us for more detailed advice if you are interested in making provision for a pension.

If you are an employer, the employer obligations must be complied with. Please talk to us if you are unclear as to whether you are an exempted or non-exempted employer.

The government is reforming the taxation of pensions and plans to introduce a new regime effective from April 2006. Please talk to us if you would like any further information or advice on the new regime at this stage.

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