

## About stakeholder pensions

### Introduction

The government wants people who can save for retirement to do so. Stakeholder pensions are designed for people without access to employer sponsored pension arrangements. They are secure, flexible and offer value for money. They will provide the opportunity for many more people to save for retirement in a way they can afford.

(please note that when we use the term 'provider' on these web pages, this is intended to encompass both trustees and stakeholder managers).

### Stakeholder pensions defined

The legal requirements for stakeholder pensions are included in the 'Welfare Reform and Pensions Act 1999' and 'The Stakeholder Pension Schemes Regulations 2000 - SI 1403'.

To qualify as a stakeholder pension, a pension scheme must satisfy a number of minimum conditions:

- it must be a defined contribution arrangement;
- management charges in each year must not amount to more than 1.5% of the total value of the fund and are taken from the fund;
- as well as the 1.5%, the law allows pension providers to recover costs and charges they have to pay for certain other things. For example, when they have to pay any stamp duty or other charges for buying and selling investments for the fund , or for particular circumstances such as the costs of sharing a pension when a couple divorce. These expenses are found in other pension schemes not just stakeholder pensions.
- any extra services and any extra charges not provided for by law must be optional. Extra services must be offered under a separate arrangement with clearly defined costs for the services being offered;
- the scheme must accept transfers in, and there must be no additional charge for transferring to a different stakeholder pension;
- the minimum contribution to a stakeholder pension cannot be set higher than £20 (schemes may set a lower minimum contribution if they wish). Contributions can be paid weekly, monthly (or at other intervals), or they can be a single one-off contribution;

- to look after the interests of their members, schemes must have either trustees or stakeholder managers;
- for trust-based schemes, a third of the trustees must be independent;
- schemes must appoint a scheme auditor or a reporting accountant to check the annual declaration made by the trustees or managers to ensure that the scheme complies with the charging regulations;
- schemes must have a statement of investment principles;
- schemes must have a default investment option which is subject to lifestyling (this means that during the years leading up to retirement a member's pension is gradually moved into less volatile investments, therefore providing greater security as they approach retirement).

## Who should take out a stakeholder pension?

Stakeholder pensions could be a good option for people who currently earn more than around £10,000 a year. However, they are available to almost everybody, including people in employment, fixed contract workers, the self-employed and people who are not actually working but can afford to make contributions. It's also possible to contribute to someone else's stakeholder pension - for instance someone can make contributions to their non-working partner's stakeholder scheme on their behalf.

## How much can be invested in a stakeholder pension?

There is no limit to the amount that can be invested in a stakeholder pension scheme. However, tax relief can only be obtained on contributions up to the level of a person's salary (subject to an annual limit of £215,000 for the tax year 2006/07). It is possible to contribute up to £3,600 per year (including tax relief) into a stakeholder pension scheme even if a person is not earning.

A member of an occupational pension scheme may also contribute to a stakeholder pension scheme.

## Trust schemes and non-trust schemes

Stakeholder pension schemes can be set up under a trust (where a body of trustees is responsible for managing the scheme) or can be set up by deed poll. Where the scheme is set up by deed poll, the manager of the scheme (the "stakeholder manager") may enter into contracts with each member of the scheme or a person acting on their behalf. The stakeholder manager could be an insurance company, bank, building society and must be authorised by the Financial Services Authority (FSA) to carry out stakeholder business.

## The register of stakeholder pensions

Stakeholder schemes must be registered with the Pensions Regulator. The register of stakeholder pension schemes is available on this website.

The Pensions Regulator is responsible for enforcing the conditions that define a stakeholder pension and allow it to be registered.

The Pensions Regulator can fine trustees and providers for falling short of the conditions. In extreme cases it can withdraw stakeholder registration and order the winding-up of the scheme.

## Financial Services Authority (FSA)

The FSA will regulate the marketing and promotion of all schemes including any occupational pension schemes that are set up as stakeholder pension schemes.

### **Financial advice on stakeholder pensions**

Any extra charges for provision of advice on stakeholder pensions must be entirely optional. Any charge levied for advice over and above the 1.5% stakeholder charges limit must not be deducted from pension contributions and should be entirely separate from the scheme charging structure.

Financial advisers must keep to the rules laid down by the Financial Services Authority (FSA) and must state which organisation regulates their work.

The Pensions Regulator and the FSA will liaise closely, to ensure that stakeholder schemes are run according to the rules.

## Tax and national insurance

### **Tax relief**

Normally there will be tax relief on any payments into a stakeholder pension. HM Revenue and Customs will send the amount direct to the trustees or stakeholder pension scheme manager. To find out more about stakeholder pensions and tax, please see leaflet PSO2 Personal pensions (including stakeholder pensions) - a guide to tax.

People who pay income tax at the higher rate (40%) will be able to claim back the tax difference from HM Revenue and Customs at the end of the tax year through self assessment.

### **Contracting out**

If an individual contracts out of the State Second Pension (used to be called SERPS) using a stakeholder pension plan, a rebate of National Insurance contributions is paid into their stakeholder plan.

## Regular information for members

Once someone has joined a stakeholder pension scheme, the trustees or stakeholder manager must provide them with regular information. This information will include an annual statement detailing how much has been paid in and how the individual's fund is progressing. It may include a forecast of the likely pension on retirement.

## Stakeholder pensions in the workplace

### **Employers and stakeholder pensions**

Employers who are not exempt must designate and offer access to a stakeholder pension scheme. If any employees join the designated scheme, the employer must offer a payroll deduction facility to those who want it.

The Pensions Regulator are responsible for regulating the requirement for employers to give access to stakeholder schemes.

Employers must pay employee contributions to schemes within a specified timescale, and the Pensions Regulator will be responsible for dealing with any reports of late payment of contributions by employers.

If a stakeholder manager or trustee does not receive the expected amount from the employer on the date it is due, they have a statutory duty to report the matter to the Pensions Regulator.

The Pensions Regulator will monitor reports of late payments and will take appropriate action against the employer where necessary.

## Monitoring by scheme managers or trustees

Stakeholder managers or trustees will be required to monitor that payments made by the employer or deducted from employees' pay are for the correct amount and are paid in on time. Employers will need to maintain payment records and inform the trustees or stakeholder manager of any changes. Any late payments, non-receipt of payments, or reduced payments by the employer that are not explained must be reported to the Pensions Regulator. The Pensions Regulator will then consider taking action.

## Penalties

Employers may incur a civil penalty from the Pensions Regulator if they fail to:

- prepare a record of the payment arrangements;
- keep the record up to date;

- send the record to the trustees or stakeholder manager;
- inform the trustees or stakeholder manager of any amendments/changes;
- make correct payments by the due date.

The maximum fine possible is £50,000 for a company or £5,000 for an individual.

Where there is fraudulent intent, the penalty may be criminal.

The Pensions Regulator is less interested in punishing people than in getting things done correctly. Inadvertent mistakes are unlikely to be punished if they are put right promptly.