A quick guide to

paying contributions

to personal pension schemes and defined contribution occupational pension schemes

June 2013
About this guide

This guide is for employers paying contributions to their work-based personal pension scheme, or defined contribution occupational pension scheme.

It does not cover the employer duties, including automatic enrolment, contained in the Pensions Act 2008. You can find information on those on our website at www.thepensionsregulator.gov.uk/automatic-enrolment.

Information on payments to defined benefit pension schemes can be found in the regulator’s Code of practice no 3: Funding defined benefits at www.thepensionsregulator.gov.uk/doc-library/codes.

Introduction

You have an important responsibility for paying the correct level of contributions into your pension scheme on time. To do this you need to:

• set up your scheme correctly so you know what contributions you and your workers have to pay and when they must be paid by
• know how to calculate, deduct and pay contributions to your pension scheme, and
• understand what records and payment information you must keep.
1. Setting up the scheme – what has to be paid and by when

When you set up your scheme you will have agreed with the pension scheme provider or scheme trustees:

- how much you will pay to your scheme on behalf of your worker
- how much you will deduct from your worker’s pay as pension contributions, and
- the dates by which you must pay contributions to your scheme (the ‘due dates’).

This information will be contained in the policy documentation or rules of the scheme and will be confirmed in payment or contribution schedules provided by or agreed with your scheme provider or trustees. Contributions are usually expressed as either a fixed sum or as a percentage of earnings. If contributions are expressed as a percentage of earnings, your provider/trustees may need you to confirm salaries with them from time to time and you will need to be able to readily provide this information.

If the contributions are going to be expressed as a percentage of pay, you need to decide what elements of a worker’s pay are pensionable, ie are used to calculate pension contributions. As an example you may have decided that only a worker’s basic pay is pensionable and that no pension contributions are deducted from bonus or overtime payments. You should let the scheme know what you decide.

If you are deducting contributions from your worker’s pay you must pay these to your scheme no later than the 22nd day (19th day for cheque payment) of the month following the month in which you deducted them.

Of course you may have arranged an earlier date with your scheme provider or trustees. You may pay your own contributions to the scheme on any date you have agreed with the scheme provider or trustees, but in practice it makes it easier if you pay them on the same date as your worker contributions.

It is vital that you understand what has to be paid and by when in order that you can pay the correct level of contributions to your scheme on time. You should contact your scheme provider or trustees if you are unsure.

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1 This is a statutory deadline. There are special rules for the first deduction of contributions on automatic enrolment under the Pensions Act 2008.
2. Calculating, deducting and paying contributions

When you understand how much has to be paid to the scheme, you will need to calculate the correct level of contributions. Sometimes this will be a fixed amount each time but the contribution may be based on a percentage of earnings. If your system is automated, your payroll system or provider will need to be able to carry out the contribution calculation for you and deduct the correct amount from your worker’s pay. Check your payroll software or speak to your payroll provider if you are unsure. Remember that you will need to be able to tell payroll what rate of contribution is due and also what earnings to use for the calculation of contributions.

You must pay contributions to your scheme by the due dates set out in the documentation provided by the scheme provider or trustees. Electronic payment is recommended as it helps reduce the risk of error and delay but your scheme will advise on its preferred method of payment.

Your scheme provider or trustees will monitor that you pay the correct contribution to them on time and may report you to the regulator if you do not. They will also tell the members of the scheme that you have not paid on time or in full.

The regulator may fine you if you do not pay the correct contributions on time. We may apply a fixed penalty of £400 and if you still do not pay we can apply an escalating penalty which accrues daily.

In the case of fraudulent evasion of the duty to pay across to the scheme contributions which have been deducted from earnings, a person is guilty of an offence and may be fined or subject to a custodial sentence.

We may fine you if you do not pay the correct contributions on time.
3. Keeping payment information and records

You must keep records and paperwork regarding the payment of contributions to your scheme. This will help you ensure that the correct contributions are paid and it will provide evidence that the payment has been made should a dispute arise. In most cases you must keep information for six years, including:

- the gross earnings of your workers, and
- the contributions due to be paid by you and your workers and, if different, the amounts you and your worker actually paid to the scheme.

It is important that you keep information on pay contributions and membership up-to-date and inform your scheme provider or trustees of any changes. This should include any changes to an individual member’s earnings or contribution entitlement, or if you have members leaving and joining the scheme. Incorrect or out of date information is the major cause of payment failure and disputes between the employer and scheme provider or trustees.

This information is often referred to as ‘payment information’. It is the information that trustees or a provider need to meet their duties, such as their duty to monitor contributions and report material payment failures to the regulator. You should provide payment information to your scheme provider or trustees as part of the normal day-to-day administration arrangements between you and the scheme. You should agree a process for this when you set up the scheme. This may include giving updated earnings information at the same time as you pay contributions across to the scheme.

Your scheme provider or trustees will use this information to monitor the contributions you pay to the scheme and may request additional payment information from you. You must provide this information to the scheme within a ‘reasonable period’. The regulator considers this to be seven working days of the request. If you do not provide this information within this reasonable period you may be subject to a fine.

It is important that you keep records up-to-date.
A quick guide for employers on paying contributions

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