

The background of the entire page is a collage of overlapping, slightly crumpled white papers. Each paper has a large, bold, black question mark printed on it. The papers are arranged in a way that creates a sense of depth and movement. The lighting is dramatic, with a color gradient from deep blue at the top to bright yellow and orange at the bottom, creating a vibrant, almost ethereal atmosphere.

The Pensions
Regulator 

Pensions choice in the workplace – 2007

Frequently asked questions

What you need to know
about stakeholder pensions

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What are stakeholder pensions?

- Stakeholder pensions are low cost, affordable pensions aimed particularly at the people who do not have the right options available to save for their retirement.
- Stakeholder pensions have been available since April 2001.
- Stakeholder pensions could be a good option for those currently earning more than around £10,000 a year although they may also interest higher earners and non-earners.
- Stakeholder pensions have to meet a number of minimum standards to ensure they offer value for money, flexibility and security.
- Management charges by the stakeholder pension provider must be limited to no more than 1.5% per annum of the value of the member's fund and are taken from the member's fund. This must be reduced to 1% after 10 years.
- The law allows the pension provider to recover certain other costs incurred, for example stamp duty or other charges for buying and selling investments for the fund, or the cost of sharing a pension when a couple divorce. These expenses are found in other pension schemes, not just stakeholder pensions.

- No extra charges can be made if the member stops paying in, or wishes to transfer to another scheme.
- Any extra services, and any extra charges not allowed for by law, must be optional. Extra services must be offered under a separate contract with clearly defined charges.
- Schemes must provide information and explanatory material to potential members, but will not be required to offer individual financial advice within the 1.5% management charge. Schemes may provide individual advice within the charge limit if they wish, or charge a separate fee.
- Existing rebate rates for contracted-out money purchase schemes and appropriate personal pensions apply to stakeholder pensions as well.
- A stakeholder scheme can be established under a trust. A scheme may also be established where there is a contract between the manager of the scheme and its members. Stakeholder pension scheme managers must be authorised by the Financial Services Authority.

What should I do for my employees?

- Employers have to:
 - designate (formally choose) a stakeholder scheme;
 - provide employees with information about the scheme; and
 - make deductions from an employee’s salary for their pension contributions to the designated scheme if they want it.
- Employers are not required to comply from the first day of employment although they will be free to do so if they wish. The requirement becomes mandatory after an employee has been working for an employer for three months.
- Employees are not compelled to join stakeholder schemes.
- Employers are not compelled to contribute into stakeholder schemes on behalf of their employees. But of course, you may do so if you wish, within the relevant tax provisions.

Why do I have to do this?

- The Government wants to provide easier access to stakeholder pensions to make the process of finding and choosing a pension less daunting for many people.
- Employers can provide a straightforward way for employees to join and contribute to a stakeholder pension scheme.
- Pension provision is important. Many employers already make pension arrangements for staff through occupational pension schemes. It is reasonable to expect others to at least provide access to a good pension scheme.

What is the Pensions Regulator?

- The Pensions Regulator is one of the regulators for stakeholder pensions. The other is the Financial Services Authority (FSA). The FSA regulates the rules for marketing and the authorisation of stakeholder scheme managers.
- The Pensions Regulator is responsible for registering stakeholder pension schemes and regulating compliance with the registration requirements.
- We are also responsible for regulating the employer access requirement for stakeholder pensions.
- We also have the power to fine employers if contributions due to the scheme are not passed to the scheme provider by the legal due date.
- We hold the list of registered stakeholder pension scheme providers. The register is available at www.thepensionsregulator.gov.uk/stakeholderpensions.

Must I offer my employees a stakeholder pension, and if so, what law says I must?

- Employers must provide access to a stakeholder pension scheme unless they are exempt. Exemptions include:
 - employers with fewer than five employees;
 - employers who offer to contribute at least 3% of basic pay to their relevant employees' personal pension schemes which meet certain conditions; and
 - employers who do not have any 'relevant employees'.
- A 'relevant employee' is any employee:
 - who is not eligible to join the employer's occupational pension scheme within 12 months of starting work, except those aged under 18 or within five years of normal retirement age in the scheme;
 - who has worked for the employer for three months or more in a row;
 - who has continuously earned above the lower earnings limit (currently £84 per week) for the last three months;
 - who is not prevented by Inland Revenue restrictions from making contributions to a stakeholder pension scheme.
- The requirement for employers to provide access to a stakeholder scheme is included in the Welfare Reform and Pensions Act 1999 and the Stakeholder Pension Schemes Regulations 2000 (as amended).

Are there penalties for not making a stakeholder pension available?

- The basic requirements are to choose a registered stakeholder scheme, to put your employees in touch with the stakeholder scheme by providing them with information about that scheme, to allow payroll deductions for employees who contribute to that scheme and to maintain records of employee deductions and payments to the provider of the scheme.
- The Pensions Regulator regulates the employer access requirement. If we discover that an employer is not complying with the requirement we ensure that the employer is aware of the legal requirements and becomes compliant.
- The Pensions Regulator is unlikely to punish employers who have inadvertently failed to comply, as long as they put the matter right promptly. We are more likely to punish people who deliberately avoid their responsibility or who do not rectify the problem. We can fine employers up to £50,000.

I'm a small employer, do I have to do this?

- Employers with fewer than five employees are currently exempt from the mandatory requirement.
- Employers with fewer than five employees can still provide access if they wish, but it is voluntary.
- Employees who work for an employer with fewer than five staff (and who does not provide access) can always deal directly with a pension provider if they want a stakeholder pension.

The size of my workforce changes according to how well we are doing – sometimes I have more than five employees, other times fewer. Do I still have to bother?

- You have to designate a scheme within three months of becoming liable under the regulations to do so. Once you have designated a scheme you must allow anyone who commenced payroll deductions into that scheme to continue. Administratively you may find it easier to continue to designate a scheme for all employees even at times when you are not required to.

None of my employees are interested in joining a stakeholder pension scheme. So why should I designate one?

- As a minimum, you will need to be able to demonstrate that you have designated a stakeholder scheme and passed on details of the scheme to your employees. The requirement for payroll deductions is dependent on an employee requesting to make contributions in that way.
- Your employees' personal circumstances are always changing. By designating, you can prepare for a situation in the future in which an employee decides he or she wants to contribute to a stakeholder scheme.
- You may also take on new staff in the future. They may be interested in joining a pension scheme through the workplace, and have a statutory right to, unless you are exempt.
- Therefore, lack of interest from the employees does not excuse the employer from the requirements.

How do I designate a scheme?

- The designation process is simply an agreement between you and your chosen stakeholder pension scheme provider stating that employees can join the scheme if they wish to, and that you will make payroll deductions for payment to the scheme if required to do so by any relevant employee.
- Before designating a registered stakeholder scheme you must consult your employees. How you go about consulting your employees is for you to decide. You might already have a formal procedure established; or you might provide employees with details and ask for their views before making the final decision. You may wish to consider communicating to staff:
 - through a minuted meeting;
 - by letter;
 - via email;
 - through payslips; or
 - on a notice board.

Example wording for consultation is included in this pack or alternatively, can be found at www.thepensionsregulator.gov.uk/stakeholderPensions/informationPack/index.aspx.

- But it is for you to decide which stakeholder pension scheme to select. The only criterion is that you must ensure the scheme is registered with the Pensions Regulator and available to all your employees.
- Employees who are unhappy with the choice of scheme can choose their own stakeholder scheme, but you will not be obliged to make payroll deductions in respect of other schemes that are not your designated stakeholder pension scheme.

How do I choose between stakeholder pension schemes?

- Stakeholder pension schemes have to meet tough standards on charges and other conditions. To decide between them you might like to ask the following questions of the provider or the sales person:
 - what support will you give me to administer payroll deductions?
 - is your charge less than 1.5%?
 - will you provide full advice to members within the 1.5% charge?
 - is this specifically for people working in my industry?
 - how can my employees get information about the scheme?
 - is the scheme set up under trust or contract?
 - have you had experience in administering this sort of product before?
 - what commission are you getting in selling me this particular scheme?

How do I know if the scheme is a good one?

- All stakeholder schemes are registered with the Pensions Regulator and you should check our register before designating a scheme and then at reasonable intervals.
- You are not required to make any further judgement about the scheme. Employers will not be liable if the stakeholder scheme they designate does not perform as well as other stakeholder schemes.

What information do I need to give to my employees?

- The aim is that you should provide an employee with enough information to enable them to contact your designated scheme.
- This will essentially be the name and address of the scheme and perhaps a contact telephone number.
- This information needs to be conveyed to your workforce on an ongoing basis. Remember, your employees' circumstances may change, and new starters have a right to know what pension scheme you have in place.
- You can give more information to your employees than the scheme's contact details, if you wish. For example, in co-operation with the pension scheme, you may wish to pass on further information about the scheme, or let someone from the pension scheme visit the workplace. You may wish to communicate information to staff:
 - via information packs for new starters;
 - by letters/emails sent out every year; or
 - as a statement on monthly payslips.

An example notice and an example information letter are included in this pack or alternatively, can be found at www.thepensionsregulator.gov.uk/stakeholderPensions/informationPack/index.aspx.

- Information about the scheme may also be given to you by the provider. All new members of staff can be told about the scheme's arrangements on their first day at work at the same time as you tell them about the other terms and conditions of employment. As a minimum you must provide them with the name and address of the scheme.

Am I expected to give advice to employees?

- No, only to designate a scheme and provide employees with sufficient information to enable them to contact it.
- Some employers may want to offer their employees further help and guidance in interpreting information they have received about the designated schemes. There is some scope for them to do so within the Financial Services Authority's (FSA) existing rules. Employers could, for example, give factual information about their designated stakeholder pension scheme.

I don't want to be held accountable by my staff for the performance of my scheme

- Employers are only legally responsible for designating a stakeholder pension scheme and for ensuring that their employees are offered access to it. You are not required to try to judge the financial merits of one investment over another and you will not be held responsible for the performance of the scheme you designate in comparison with another.
- The requirement to consult with your employees about stakeholder pensions before you designate means that you will have been able to consider the views of your staff before making any decision on which scheme you choose.

What is involved in making payroll deductions? What will the clearing arrangements be?

- If an employee joins your designated scheme and asks you to make the deductions from their pay, then you should deduct and record the amount requested from that employee's pay and pass that contribution on to the designated scheme within a specified timescale. Further details about this can be found in our booklet, '*A quick guide for employers about contributions to personal pension and stakeholder pension schemes*', which is included in this pack or alternatively, can be found at www.thepensionsregulator.gov.uk/stakeholderPensions/informationPack/index.aspx.
- The Pensions Regulator can investigate failures by employers to pay over contributions deducted from pay to the stakeholder scheme on time. Paying the money to the stakeholder provider when you do the payroll should help you to avoid making late payments.
- The requirements to transfer funds for stakeholder pensions will differ little from current transaction clearing, through the commercial banks and BACS.

Do I really have to arrange payroll deductions?

- You only have to make deductions in relation to the designated scheme if the member wants this. There are reasons why the member may choose to pay direct through their own bank account, which you could point out to them:
 - they are in control and can see on their bank statement when the payment is made;
 - no-one else need know how much they are paying; or
 - they could choose their own stakeholder not just accept the one you designate.

How does this affect my end of year returns?

- It is unlikely to affect the end of year return (P14) other than the completion of the scheme contracting out number for stakeholder schemes where the employer contributes to the scheme

Should I deduct employees' contributions before or after tax and other deductions?

- After tax and national insurance
- The pension provider will then claim the tax relief on member contributions

If I decide to make a contribution, will this be a benefit in kind?

- Employer contributions are not treated as a benefit in kind (such payments would not be chargeable under Schedule E for Inland Revenue purposes).

What happens if I become liable to provide employer access?

- When an employer becomes liable they have three months in which to designate a scheme. For example this will apply when an employer takes on a fifth employee.

How to get in touch with us

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Please contact us if you have any questions about this leaflet or you would like more copies. We can produce it in Braille, in large print or on audiotape. We can also produce it in other languages.

You can also take a look at the information about stakeholder pensions on our website at **www.thepensionsregulator.gov.uk**.

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