

# What you need to know about...

## STAKEHOLDER PENSIONS

**This leaflet is aimed at employers who need to be aware of the rules regarding company stakeholder pensions. Stakeholder pension schemes arrived with much fanfare in 2001, and many businesses rushed to meet the requirements at the time. However, it is important to note that these rules are still in operation, and many businesses set up since that date could be falling foul of the regulations.**

### **What are stakeholder pensions?**

Stakeholder pensions were introduced by the Government to offer an alternative low-cost personal pension scheme for employers and individuals.

Each scheme must meet a set of standards on cost and accessibility. For example, the maximum annual charge for a stakeholder scheme is 1.5% of the fund for the first 10 years, with 1% per year after that.

Each scheme should have no exit penalties for members who wish to transfer in and out of the scheme.

Payments start from £20 per month. There is much flexibility in that members can choose to stop and start contributions at any time, without penalties.

### **Why are stakeholder pensions important to employers?**

Every employer must set up a stakeholder pension scheme, unless they are exempt for some reason.

Pension schemes can be a good way to recruit, retain, and reward employees in a tax-efficient

manner.

### **Which businesses are required to set up a stakeholder pension scheme?**

#### **5 'relevant' employees**

As soon as you reach the threshold of 5 employees, you must start a scheme. This includes employees such as directors, and part-time workers

'Relevant' means that the employee should earn above the National Insurance lower earnings limit (currently £87 per week).

They should also have worked for you for 3 months or more.

The employees should not be prevented from setting up a scheme, for example if they live outside the UK.

#### **Exemptions**

You are exempted from setting up a Stakeholder scheme if you already contribute at least 3% of the worker's salary to another scheme where there are no exit penalties.

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You are also exempted if all relevant employees have access to an alternative occupational pension scheme within 1 year of starting employment.

### What are the minimum requirements?

As an employer you must:

- 1. Designate a scheme**  
This simply means to choose a scheme. You are not responsible for how well the scheme performs, so you can choose the scheme which best suits your needs;
- 2. Consult with employees**  
You need to announce your proposal, and invite your employees to provide their views on it;
- 3. Inform the employees about the scheme**  
You must formally announce the scheme;
- 4. Invite employees to join the scheme**
- 5. Allow deductions from payroll**  
You must allow the employee to make payments into the scheme directly from their wages;
- 6. Keep records of deductions**
- 7. Offer new relevant employees access to the scheme**

You will notice from the above, that it is not currently a requirement for you to pay into the scheme as the employer. However, under current proposals it is likely that this will become a requirement within the next 5 years.

The current proposals recommend that the employer puts in 4% of salary, the employee 3%, and the Government 1%.

### Things to think about

You will need to consider how you meet all your obligations as an employer. We can help you to set up a process so that you comply with the regulations, and also keep records should you be approached by the Government to prove you have a scheme in place.

The current maximum fine is £50,000 for non-compliance with the regulations.

You may also wish to consider whether you would like to contribute to the scheme. Research shows that a pension scheme is one of the top benefits that an employee looks for in an employer. Indeed, many companies use their pension scheme as an aid to retaining quality staff.

Any costs incurred in a pension scheme are fully allowable as expenses against corporation tax. This can make a new pension scheme a very tax-efficient pay rise.

Please contact us should you have any questions in this area.

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