

Pensions News

Issue 3 December 2011

In Tynwald

In Parliament – The Pensions Act 2011

Abolition of contracting-out on a defined contribution basis

In Tynwald

Tynwald approved the Pension Schemes Legislation (Application) (No. 2) Order 2011 this month (see SD 0927/11). The Order applies to the Island the relevant provisions of four statutory instruments of Parliament, which make the remaining changes to IOM pensions legislation consequential on the abolition of contracting-out of the State additional pension scheme on a defined contribution basis for occupational and personal pension schemes and the abolition of “protected rights” from 6th April 2012.

In Parliament – The Pensions Act 2011

The Pensions Act 2011 received Royal Assent on 3rd November 2011. You can read about the Act on the UK Parliament website <http://services.parliament.uk/bills/2010-11/pensionshl.html>.

We intend to apply to the Island only certain provisions of the Act in the near future. Those provisions will –

- a) accelerate the existing timetable for increasing women's State pension age to 65 so that it is achieved by November 2018 (rather than by 2020) and to increase both men's and women's state pension age from 65 to 66 by October 2020;
- b) make changes to existing legislation consequent on the replacement of the UK Retail Prices Index (RPI) with the UK Consumer Prices Index (CPI) as the measure of inflation to be used by private pension schemes in indexing and revaluing benefits held in such schemes;



Department of Social Care

Rheynn Kiarail y Theay

- a) provide more flexibility as to the date when the additional State pension will be consolidated;
- b) clarify the definition of “money purchase benefits” in the Pension Schemes Act 1993.

The Act’s other measures – in particular, those found in Parts 2 and 5 (automatic enrolment and judicial pensions) – are not relevant in the Island and are therefore not being applied to the Island by this Order.

Abolition of contracting-out on a defined contribution basis

As mentioned above, legislation making the remaining changes to pensions legislation consequent on the abolition of contracting-out of the State additional pension scheme on a defined contribution basis the abolition of protected rights was approved by Tynwald earlier this month.

The trustees, employers and members of occupational and person schemes contracted-out on a defined contribution basis will now need to consider what (if any) action they need to take in the matter.

1. Scheme trustees

Trustees need to communicate the effect of the changes to members of the scheme by–

- explaining that the scheme has ceased to be contracted-out and the effect of that change on members’ entitlement to the State additional pension from the abolition date;
- providing a one-off statement to members of former contracted-out defined contribution schemes explaining the effect of the abolition of protected rights on the status of their accrued rights in the scheme within four months of the abolition date.

Trustees also need to review scheme rules to see if they need changing consequentially on the abolition of contracting-out on a defined contribution basis. Trustees should seek the prior approval of the Assessor of Income Tax and the IPA before making any changes to scheme rules if they are required to do so.

See the trustee factsheet attached for more.

2. Employers with contracted-out defined contribution occupational schemes

Employers will need to take the following into account –

- Employers will no longer be required to make the ‘minimum payment’ contributions into their contracted-out occupational pension scheme. Instead, both employer and employees will pay the standard rate National Insurance contributions instead of the reduced contracted-out rate.

- Employers should prepare to pay the correct National Insurance contributions after the abolition date.
- Employers will need to decide whether they need to make any changes to take account of the fact that National Insurance rebates will no longer be paid.
- Employers should discuss their options with advisors and any changes will also need to be discussed with appropriate parties: pension advisors, scheme trustees, members.
- Employers should start to think about how they will communicate the National Insurance contribution changes and any scheme changes to their employees.

See the Employers' factsheet attached for more.

3. Members

Members of occupational and personal pension schemes might want to make themselves aware of the effect on their State additional pension of the abolition of contracting-out on a defined contribution basis.

Members might also want to consider the different rates of National Insurance contributions they pay.

HMRC Countdown Bulletins

HMRC has now published five Countdown Bulletins on the abolition of contracting-out on a defined contribution basis. You can find the bulletins by following this link <http://www.hmrc.gov.uk/nic/countdown-bulletins.htm>

Contact us

We hope that you have found this information useful. If you have any comments or queries about any of it please contact Nick Gough email nick.gough@gov.im.