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Stakeholder Pensions

Stakeholder pension schemes are low-cost pensions meant for people without existing private pension arrangements. They were originally targeted at people who earn more than £10,000 a year and who cannot join an occupational pension scheme. They have, however, turned out to have much broader appeal.

Unless employers are exempt (see below), they must arrange *access* to a stakeholder pension scheme (SPS) for those of their employees who earn more than the National Insurance (NI) lower earnings limit.

Main conditions for a stakeholder pension

A stakeholder pension is a particular type of personal pension which satisfies a number of minimum government standards, principally the following:

- The only charge permissible is a charge on the value of each member's funds, which must not exceed 1.5% a year for the first 10 years, and up to 1% thereafter
- Members of a SPS must be able to transfer in or out without any extra charge
- Each contribution can be as little as £20

Employer exemption

The conditions for exemption from providing stakeholder access are as follows:

- employing fewer than five people
- offering an *occupational pension scheme* (OPS) that all staff can join within a year of starting the employment
- offering access to a *personal pension scheme* which meets specified conditions

Employee Exemptions

Stakeholder access does not have to be provided for any employee who:

- has been in the employment for less than three consecutive months
- is a member of the OPS
- is barred from membership of the OPS if under 18 or within five years of the scheme's normal pension age
- could have joined the OPS but decided not to
- has earned below the lower NI limit for at least three consecutive months

Providing Access

In order to meet their responsibilities, employers who are not exempt must:

- choose a registered SPS from the register held by the Pensions Regulator. The register can be seen on their website at www.thepensionsregulator.gov.uk

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- consult and inform your employees accordingly
- make available arrangements to deduct contributions from the pay of those employees who choose to pay into the SPS
- send contributions to the SPS provider within given time limits and record these payments

Other points to remember

Employers can give general help and information about the benefits of saving for retirement but they must not advise their employees whether or not they should sign up for a stakeholder pension. The choice of the most suitable pension option is up to the individual (after taking appropriate independent advice if necessary).

Employers should be wary about simply ‘buying a product’. There are many related issues to be considered, and proper independent advice can avoid inadvertent breaches of the relevant rules.

For instance, where access to a SPS is to be provided, all the requisite details must be included in the conditions of employment. Payslips must clearly identify the deduction of contributions.