

New State Pension factsheet – Employers: Ending contracting-out for Defined Benefit private sector pension schemes



Department
for Work &
Pensions

The introduction of the new State Pension from 6 April 2016 will deliver a clearer State Pension for future pensioners.

Closure of the additional State Pension

The closure of the additional State Pension has brought an end to contracting-out.

Which employers are impacted by the end of contracting-out?

The changes outlined in this fact sheet affect only those employers who sponsored an open contracted-out, defined benefit pension scheme, for example a salary-related scheme up until 5 April 2016. There are around 2,500 such employers in the private sector. Employers sponsoring a defined benefit scheme that is not contracted-out and those who provide defined contribution workplace pensions (for example, under automatic enrolment) are not affected.

What this means for employers who were sponsoring contracted-out pension schemes before 6 April 2016

- Employers who were sponsoring contracted-out schemes and their employees who are scheme members received a rebate on their National Insurance contributions (NICs). For employers this was a reduction of 3.4% and for employees 1.4% (on a proportion of earnings). Contracted-out employees were entitled to little or no additional State Pension.
- From 6 April 2016, you and your employees pay the standard rate (class 1) of NICs instead of the contracted-out rate. The current employer standard rate is 13.8% of all earnings above the secondary threshold for all employees, you no longer get the 3.4% National Insurance rebate.

Employers should:

- Check with their HR or payroll provider whether their pension scheme was contracted-out.
- Consider how the ending of contracting-out affects your scheme and how your scheme might operate now. As a private sector employer, you have the option to make amendments to your scheme to offset the increase in employer NICs.

- Discuss with your pension Trustees or pensions adviser, any changes you would like to make. As with all changes you make to your scheme you must consult members. Unlike other changes to your scheme, the Pensions Act 2014 permits you to make limited changes to your scheme without trustee and member agreement. This is sometimes called the ‘statutory override’. Your pensions adviser will be able to help you further.
- If you submit an Earlier Year Update (EYU) through the Real Time Information (RTI) system for a period before 6 April 2016 make sure your SCON (Scheme Contracted-Out Number) is correct. This will ensure that your scheme can be identified correctly when HMRC run the “closure scan” later in 2016 to close all open periods of contracted-out employment on your employees’ National Insurance accounts.
- If you have not already done so, think about how to communicate the changes you need to make (e.g. NICs increases) and how to pass on information to your employees about what the ending of contracting-out means for them. This is likely to include reviewing your member booklets and other documentation.
- The Department for Work and Pensions (DWP) has published an employee fact sheet to help you do this.

Where to go to find out more:

- **Pensions adviser / scheme trustees**
Speak to your pensions adviser or scheme Trustees to find out how your scheme is affected and to explore your options.
- **HMRC online bulletins:**
Employer Bulletin – published six times a year to give employers the latest information on topics and issues that may affect them.

Countdown Bulletin – bulletin for pension providers giving information following the ending of contracting-out in April 2016.
- **GOV.UK website**
Basic information on the new State Pension guide:
www.gov.uk/new-state-pension

More detailed information on the policy:
www.gov.uk/government/policies/state-pension-simplification



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