Department for Work & Pensions

Automatic enrolment: Guidance for employers on certifying defined benefit and hybrid pension schemes

April 2014

Contents

1. Background

1.1 Automatic enrolment: the employer duty

Employers have a duty to automatically enrol their eligible jobholders into an automatic enrolment scheme and to maintain active membership for those already enrolled.

Occupational pension schemes qualifying under the employer duty legislation have to meet certain standards set out in sections 16 and 17 of the Act. This includes meeting the relevant quality requirement. For a defined benefits scheme the quality requirement is satisfied if there is a contracting-out certificate in force in relation to the scheme and all relevant jobholders are in contracted-out employment. If not, the scheme must satisfy the test scheme standard in relation to relevant jobholders not in contracted-out employment (see 2.4 for more information). From April 2016, if the Pensions Bill 2013-14 is approved by Parliament, contracting-out will be abolished.

Employers should liaise with their scheme trustees or managers and their advisers to determine whether their current scheme satisfies the relevant requirements and if not, what changes will need to be made to comply with the automatic enrolment requirements.

Defined benefits and hybrid schemes providing average salary benefits (career average schemes), must, in addition, satisfy the separate requirement that they provide for the annual revaluation of accrued benefits by at least a minimum level.

The Pensions Regulator has published detailed guidance on employers' duties. Employers should familiarise themselves with the Regulator's beginner's guide to auto-enrolment in conjunction with this guidance. The Regulator's guide is a simplified form of the guidance on the employer duty. See attached link beginner's guide

2. Purpose of this guidance

2.1 Relevant legislation

Sections 16 and 21-24 of the Pensions Act 2008 ("the Act").

The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010 ("the Regulations").

The Employers' Duties (Implementation) Regulations 2010

The Hybrid Schemes Quality Requirements Rules 2012.

Northern Ireland has its own body of pensions law and references to Great Britain legislation are to be taken, where necessary, as including references to the corresponding Northern Ireland legislation. Annex G lists the corresponding references.

2.2 Who is this guidance for?

This guidance is for employers and their advisers. It applies where an employer wishes to use a defined benefit or defined benefit element of a hybrid pension scheme to meet its automatic enrolment requirements in respect of some or all of its workers. It explains the issues that employers must consider when determining whether their scheme satisfies the test scheme standard and enables them to find out whether an actuary is needed to make that determination. The guidance applies to both employers and actuaries (in circumstances where the employer could have made the determination, i.e. where no calculation, comparison or assessment usually carried out by an actuary is required).

All references to "the actuary" in this guidance should be taken as references to the scheme actuary unless the scheme in question is one that is not required to appoint a scheme actuary.

There is a glossary of some of the terms used in this guidance at Annex A.

2.3 What is the legal status of the guidance?

This is statutory guidance[1]. Employers who choose to use a defined benefits or hybrid pension scheme to meet their enrolment duties under the Act and who are determining whether the scheme satisfies the test scheme standard must follow this guidance. Actuaries acting on behalf of employers must also follow the guidance (but see 2.5 re the use of professional judgement).

[1] Other than the parts of this guidance which refer to the requirement under regulation 36 of the Regulations for career average pension schemes to provide for a minimum level of revaluation in-service. Those parts do not form part of the statutory guidance but are intended to help clarify the requirements under that regulation and suggest best practice so that employers can consider all of the relevant factors relating to whether a scheme may be used as a qualifying one under these reforms

Although DWP has done its best to ensure that this guidance is comprehensive it does not cover every circumstance so employers may wish to consider referring to other guidance such as the Pensions Regulator's Guidance relating to employers' automatic enrolment and related duties: [Regulator's employer guidance](). Ultimately it is the legislation which takes precedence and employers should also consider referring to the legislation itself (see 2.1 above).

The Pensions Regulator is responsible for helping employers to understand how to comply with the law. In this regard it will answer queries about the certification legislation and guidance that are regulatory in nature.

The DWP is responsible for answering questions relating to the policy intentions behind the legislation and statutory guidance on certification and for considering any requests for changes to the legislation or guidance to be made.

This guidance is correct as of April 2014. Please ensure that you have the most recent version, as the content may need to be updated over time because of changes to the law. The DWP will periodically review this guidance.

2.4 Scheme quality requirements

Where a defined benefits or defined benefits element of a hybrid scheme is being used as an automatic enrolment scheme then in order to meet the relevant quality requirement the scheme must have a contracting-out certificate or meet the test scheme standard in relation to all the relevant jobholders.

The legislation provides that defined benefit schemes meet the quality requirements in relation to jobholders who are in contracted-out employment. The contracting-out certificate is taken as evidence that the scheme satisfies the quality requirement provided that all relevant jobholders are in contracted-out employment. Where some of the jobholders are not in contracted-out employment (e.g. because they are over State Pension Age (SPA) and thus not paying National Insurance) it will be necessary for the scheme to satisfy the test scheme standard in respect of those jobholders.

When determining whether a contracted-out scheme satisfies the test scheme standard in relation to a jobholder who is not in contracted-out employment a simplified approach can be used. It will be sufficient to establish that the benefits to be provided for that jobholder and any other members of the scheme who are not in contracted-out employment are calculated in the same way as the benefits which would be provided for the other members of the scheme who are in contracted-out employment. This means that there must be no differences in normal retirement age, accrual rate, definition of pensionable pay, maximum service periods, methods of indexation and revaluation, etc.

If there is no difference in treatment between members who are in contracted-out employment and those who are not, then the scheme satisfies the test scheme standard. If there are any such differences, then the standard approach as set out in the rest of this guidance must be applied.

A career average scheme, whether contracted-out or not, must also provide for at least minimum level revaluation of benefits in-service to be a qualifying scheme (see Table 1 for the detail of the requirement). That additional requirement is separate from the process of determining whether a scheme has satisfied the test scheme standard.

Table 1 summarises the requirements for different types of defined benefit scheme. Employers may use more than one scheme to meet their employer duties provided all jobholders are included in one or other scheme.

Table 1: Summary of the requirements for different pension scheme types

Type of pension scheme	Quality requirement	Additional requirement
Contracted-out final salary pension scheme	The existence of a contracting-out certificate.	No additional requirement provided that all relevant jobholders are in contracted-out employment. See 2.4 above if some jobholders are not in contracted-out employment.
Non-contracted-out final salary pension scheme	Test scheme standard (See part 3 of this guidance).	No additional requirement.
Contracted-out career average pension scheme	The existence of a contracting-out certificate.	Scheme must also provide for - annual[2] revaluation, in service, of the accrued benefits at least in line with increases in the Retail Price Index (RPI) or Consumer Price Index (CPI) capped at 2.5%. Or the funding of the scheme must assume that accrued benefits will be revalued at or above the minimum level described above and the funding must be provided for in the scheme's statement of funding principles (or its equivalent). Or if the scheme is a new public service career average scheme, revaluation in service must be at least at the rate specified in an HM Treasury order (under section 9 of the Public Service Pensions Act 2013).. - If discretionary revaluation is relied upon, either partially or wholly, to meet the requirement above, it must be such that the expected revaluation in service is assumed to be at least as great as the minimum level set out above and documented in the statement of funding principles or similar document. If

[2] There is flexibility for schemes to take a reasonable and practical approach on the timing of revaluation. Schemes may use a year other than the immediately preceding one as the relevant reference year for the purposes of the comparison of the scheme's rate of revaluation with the minimum required. And a time lag before benefits accrued in each year of membership are revalued would fit with the Government's policy intentions provided it is reasonable. Once a member leaves service the revaluation requirement in deferment becomes relevant.

Type of pension scheme	Quality requirement	Additional requirement
		revaluation is partly or wholly discretionary we recommend that the employer obtains written confirmation from the actuary that the revaluation meets the necessary requirements.
Non-contracted-out career average pension scheme	Test scheme standard (See part 3 of this guidance).	Scheme must also provide for - revaluation, in-service as above

2.5 What is certification?

The process of determining whether a pension scheme satisfies the test scheme standard is commonly referred to as “certification”. If a scheme satisfies the test scheme standard in section 22 of the Act it will, as a result, satisfy the quality requirement in section 21. This means that the scheme can be used as a qualifying scheme provided that, if the scheme is a career average scheme, it also meets the additional and separate requirement that benefits in-service are revalued at least at the minimum level (see Table 1. above).

The actuary will be required to undertake the certification where there are actuarial calculations, comparisons or assessments needed and the employer can also delegate the certification of the scheme to the actuary even where such actuarial considerations may not be needed. In the latter circumstances the actuary may use their professional judgement as to whether or not simplified calculations or a full test of equivalence would be more appropriate.

As the employer you remain responsible for the automatic enrolment duty. If a scheme does not meet the relevant quality requirement you must either make the changes necessary to the scheme so that it does meet the requirement or use an alternative scheme in order to fulfil your duties.

You can use a number of different types of pension scheme to meet your automatic enrolment duties. These include:

- a money purchase scheme;
- a final salary scheme (contracted-out or non-contracted-out);
- a career average scheme (contracted-out or non-contracted-out);
- a final salary lump sum scheme;
- an average salary lump sum scheme; or
- a hybrid scheme.

This guidance covers defined benefits schemes and the defined benefits elements of hybrid schemes. If you wish to use one of these sorts of scheme to comply with your automatic enrolment duties and it is not contracted-out, you must determine or ask the actuary to determine whether the scheme, or the defined benefits element of the hybrid scheme, satisfies the test scheme standard.

Guidance on the certification of money purchase pension schemes and the money purchase element of hybrid schemes is provided separately at: Money purchase certification guidance.

2.6 Who can certify

Unless the scheme meets the conditions set out below in 2.7, the determination of whether a scheme satisfies the test scheme standard must be undertaken by the actuary.

In addition, if your scheme includes some form of **risk sharing** when a pension comes into payment, such as the application of **longevity factors** in relation to future accruals, you cannot certify and must consult your actuary who will determine whether the scheme satisfies the test scheme standard.

In a **multi-employer scheme**, each participating employer must ensure that the jobholders that s/he employs are enrolled into a qualifying pension scheme and that the tests are met in respect of the jobholders that s/he employs.

2.7 Conditions for certification by the employer

Employers can determine whether their scheme meets the test scheme standard (for detail on how this is done see 3.1 and 3.2) where actuarial calculations, comparisons or assessments are not required such as in circumstances where:

- the scheme's normal pension age (the age at which an unreduced pension would be payable as of right):
    a) is the same as the appropriate age[3] in the test scheme, or;
    b) is lower than the appropriate age in the test scheme but the employer does not wish the lower pension age to be taken into account when determining whether the scheme satisfies the test scheme standard:

And either

- the pensions provided by the scheme are the same or better, in every respect than the pensions that would be provided by the test scheme, e.g. the service limit must be no less than 40 years and the earnings on which the pensions are calculated must be averaged over no more than the last three tax years or
- the earnings on which the pension is calculated are not the same as qualifying earnings but the annual benefit accrual (i.e. the combination of the accrual rate and the earnings definition) is at least as much as in the Simplified Test Standard – see 3.2.

[3] The 'appropriate age' is 65 or, for a member whose pensionable age (the age from which entitlement to State Pension Age begins) is higher than that, the age at which the member attains pensionable age.

2.8 Key features of the test scheme

The key features of the test scheme for a defined benefits scheme and the defined benefits element of a hybrid scheme that provide for a pension are:

- pensions are payable for life;
- pensions are payable from the 'appropriate' age[4];
- pensions accrue at 1/120th of final qualifying earnings, per year;
- pensions accrue for every year of pensionable service, up to a maximum of 40 years;
- when a person leaves the scheme before normal pension age their pension rights in the scheme are increased by at least the minimum rate required by law;
- pensions in payment are increased by at least the minimum rate required by law.

The test scheme standard must be satisfied only at the level of the scheme as a whole and not separately at the level of each benefit scale or section but see 3.2 on how to determine whether this is the case or whether you will need to ask your actuary to carry out a full test of equivalence.

Annex B provides details of the test scheme for schemes that provide for a lump sum on retirement.

[4] The 'appropriate age' is 65 or, for a member whose pensionable age (the age from which entitlement to State Pension Age begins) is higher than that, the age at which the member attains pensionable age.

3. Certifying that the scheme meets the test scheme standard

3.1 Initial examination of a defined benefits pension scheme

You can undertake an initial examination of the key features of your scheme and compare them with those of the test scheme, to see whether you -

- can certify without detailed investigation or analysis of the scheme membership, i.e. because all of the main elements of the scheme's benefits are at least as good as the test scheme; or
- can certify using the simplified test scheme standard; or
- cannot certify yourself and need to refer the scheme to the actuary.

Or you can decide to delegate the certification to the actuary even in the circumstances above where you may be able to certify yourself.

When determining whether a scheme satisfies the test scheme standard an employer must not have regard to the following:

- pension credit benefits;
- death benefits;
- discretionary benefits;
- survivors' benefits;
- money purchase benefits;
- benefits in respect of anyone who is not a 'jobholder';
- benefits in respect of any jobholder whose annual rate of accrual has been reduced below 1/120ths at their request; or
- benefits in respect of any jobholder who has opted out.

The last two items in the list above will not apply in respect of the first time that a scheme is tested; jobholders must be automatically enrolled into qualifying scheme membership before they are able to opt out or opt for lower rates of benefit accrual.

Table 2 below and the accompanying checklists at Annex F will also help in deciding what action is needed if, following the initial examination, it is not immediately clear that the scheme satisfies the test scheme standard.

Special rules apply to lump sum schemes whether final salary lump sum schemes or average salary lump sum schemes. These are described in Annex B.

Table 2: Determining whether you can certify without further detailed investigation

Type of scheme	Key features of your scheme to be checked
Final Salary or Career average Pension Scheme	**Is the accrual rate 1/120th or better?** The accrual rate is the rate at which the scheme's benefits accrue - this is normally expressed as a fraction or in some cases a percentage. The accrual rate is usually contained in the scheme handbook or rules. **Is the scheme's normal pension age equal to or lower than the pension age in the Test Scheme (the 'appropriate' age) or lower?** The scheme's normal pension age is the earliest age at which a scheme member is entitled to an unreduced pension as of right and is usually contained in the scheme handbook or rules. **Is the scheme's definition of pensionable pay the same as or better than qualifying earnings?** The scheme's definition of pensionable pay is the earnings on which pensions are calculated. **Is final pensionable pay averaged over no more than the last 3 tax years?** **Is the limit on the number of years pensionable service not less than 40 years?** **If on initial examination you can answer yes to all of these questions then you can certify (see template certificate in Annex E) without further investigation.** Otherwise, see checklists at Annex F for next action.

The checklists at Annex F will help you check the key features of your scheme.

3.2 Simplified test scheme standard

Where further investigation is required, employers may (where the conditions listed in 2.7 are satisfied) still be able to certify by using the simplified test scheme standard. This test requires a comparison between the scheme's definition of pensionable pay on which the pensions or benefits are calculated and final qualifying earnings (qualifying earnings averaged over the last three tax years preceding the effective date). The tables below can be used as a simplified way of checking that the scheme satisfies the test scheme standard based on its accrual rate and the ratio of the scheme's definition of pensionable pay to final qualifying earnings.

Where your scheme has more than one benefit scale or section, i.e. where pensions are calculated by different methods for different members, then the simplified test described here applies as if the references to 'scheme' were to 'scale'. If the test is passed for each scale then the scheme will satisfy the test scheme standard as a whole. If, however, one or more scale fails to pass the simplified test then your actuary will need to carry out a full test of equivalence to determine whether or not the scheme satisfies the test scheme standard as a whole.

3.3 The effective date

Any scheme that you intend to use in respect of your automatic enrolment duties will need to be qualifying from the date on which those duties begin. You will therefore need to carry out any calculations necessary in order to determine whether your scheme satisfies the test scheme standard ahead of that date. You may however complete a certificate within a month of that date with retrospective application.

When certifying using the simplified test scheme standard, you will need a "snapshot" of membership data for the certification tests at a particular point of time. The date at which this data relates is known as the "effective date". The effective date will be a date prior to when the tests are actually done.

For example: if your staging date is 1 October 2016, you must carry out the certification process before this date so that a certificate is in place to confirm that you have a qualifying scheme when your duties begin. You might carry out the certification tests on 16 June 2016, using a snapshot of data taken on 31 May 2016. The effective date in this example would be 31 May 2016.

3.4 Making the comparison

You will need to undertake two tests:

- one based on an aggregate across the scheme; and
- the other for each individual jobholder.

Details of these tests are provided in section 3.8. However full calculations may not be necessary for each and all employees if the employer can be certain that the tests would be met if they were undertaken, allowing for any differences between the scheme tested and the simplified test standard.

3.5 Which jobholders are included in the test

Certifying that a scheme satisfies the test scheme standard involves a comparison of the benefits to be provided under the scheme for relevant members with those that would be provided for them under a test scheme. Relevant members are all those jobholders who are active members of the pension scheme at the date of the determination and in relation to whom the test scheme standard will apply.

The following must not be included in the initial test based on the position at the effective date: individuals who are not jobholders and jobholders for whom automatic enrolment has been deferred over the transitional period. In subsequent tests after they have first been automatically enrolled into qualifying scheme membership the following must also not be included: jobholders who have opted out or who have voluntarily asked to be able to accrue benefits at a rate which is below that required to satisfy the test scheme standard.

Whether or not benefits in respect of any individual must be included in the test is a separate matter to whether or not that individual must be automatically enrolled or re-enrolled into a qualifying scheme. These enrolment duties will stand in relation to all jobholders.

Once the scheme has been certified as satisfying the test scheme standard then both existing employees who are not yet eligible to join the scheme who subsequently become eligible and future new employees who join the scheme will be treated as covered by the certificate, i.e. the scheme will also be considered to be qualifying in relation to them subject to the need (see 3.11 below) to keep the scheme under regular review to ensure it continues to meet the test scheme standard.

3.6 Data required for the comparison

To undertake the test you will need:

- details of the relevant jobholders who are enrolled into the scheme;
- pay data that will enable you to undertake the aggregate calculation described below;
- the final pensionable pay on which the scheme pension would have accrued at the effective date; and
- the average qualifying earnings in the three tax years prior to the effective date[5].

You will also need the scheme pension accrual rate which is generally expressed as a fraction or percentage of pensionable pay.

The pay data required to enable you to undertake the comparison between your scheme and the test scheme are set out in Table 3.

3.7 Newly established schemes

Where, on the effective date, the scheme has not been established but is in the process of being established, for the purposes of carrying out the simplified test the employer may use estimated membership information, i.e. any information about the jobholders who the employer expects to join the scheme when it is established which the employer considers is necessary for the purposes of the test.

[5] Employers may as an alternative use qualifying earnings in the last tax year unless those earnings were significantly abnormal. If 12 month's data is not available then employers may make reasonable estimates based on the data that is to hand. And where three years of qualifying earnings do not exist, i.e. prior to 2012, employers may assume the first qualifying earnings band applied to years pre-2012

Table 3: Pay data for comparison between your scheme and test scheme

Scheme type	Your scheme	The test scheme
Final salary	Final **pensionable pay** as per the definition in your scheme rules.	Final **qualifying earnings**, which are the average qualifying earnings in the three tax years prior to the effective date.[6]
Career average schemes	**Pensionable pay**, as per the definition in your scheme rules. For testing purposes, use average pensionable pay in the three years prior to the effective date.	Final **qualifying earnings**, which are the average qualifying earnings in the three tax years prior to the effective date.[7]

3.8 The tests

You will need to undertake two tests:

- one based on an aggregate across the scheme; and
- the other for each individual jobholder.[8]

Aggregate calculation

When conducting the employer test assume, for the purpose of the test, that the relevant jobholders left pensionable service in the scheme on the effective date and then calculate:

- **the total final pensionable pay at the effective date,** i.e. aggregate the final pensionable pay for all the relevant jobholders in the scheme. For career average schemes final pensionable pay is defined for testing purposes as the average pensionable pay in the three years prior to the effective date; and
- **the total final qualifying earnings**, i.e. aggregate the final qualifying earnings for all the relevant jobholders in the scheme, where final qualifying earnings is the average qualifying earnings in the three tax years prior to the effective date[9].

Calculate the percentage of total final pensionable pay to total final qualifying earnings and check this percentage against Table 4 by looking up the scheme's accrual rate in column A. To satisfy the test the total final pensionable earnings divided by total qualifying earnings must be equal to or exceed the percentage in column B.

[6] See footnote 5 on page 15
[7] See footnote 5 on page 15
[8] But see para 3.4 above: Full calculations may not be necessary for each and all employees if the employer can be certain that the tests would be met if they were undertaken, allowing for any differences between the scheme being tested and the simplified test scheme standard.
[9] See footnote 5 on page 15

The individual calculation

The ratio for each member individually must also be calculated. No more than 10% of relevant jobholders can have a ratio less than the percentage taken from column B of Table 4. If this test is failed for more than 10% of relevant jobholders, you cannot certify the scheme as having satisfied the test scheme standard in which case see below for further guidance. **A detailed checklist for this employer test accompanies this guidance at Annex F.**

Table 4: Ratios for final salary and career average schemes

Column A: The scheme accrual rate	Column B: The minimum required ratio of final pensionable pay to final qualifying earnings
1/40th	33.3%
1/50th	41.7%
1/60th	50.0%
1/70th	58.3%
1/80th	66.7%
1/90th	75.0%
1/100th	83.3%
1/110th	91.7%
1/120th	100.0%

The formula to determine the minimum required percentage is:

$$\frac{\frac{1}{120}}{\text{Scheme Accrual Rate}} \times 100$$

For example, if the Scheme Accrual Rate is 1/60 then the required ratio (of pensionable pay to qualifying earnings) would be calculated as:

$$\left(\frac{\left(\frac{1}{120}\right)}{\left(\frac{1}{60}\right)}\right) \times 100 = 50\%$$

It is possible to use this formula with other accrual rates, i.e. a lower accrual rate than 1/120th could be used if offset by a better definition of pay.

3.9 Scheme does not satisfy simplified test scheme standard

If you have applied the test and your scheme does not satisfy the simplified test scheme standard, you must either:

- refer the scheme to the actuary for a full test of equivalence if you intend to use the scheme to meet the requirements for automatic enrolment, and if necessary, make improvements to the scheme based on the advice of the actuary and in consultation with the trustees and re-test the scheme; or
- designate another scheme that qualifies.

3.10 Format of the certificate

There is a template certificate in Annex E. Employers (or actuaries acting on their behalf) can develop their own certificates, but any alternative format must include at least the information set out in the template.

3.11 Reviewing the certificate

Employers are responsible for ensuring that their scheme(s) satisfies the relevant quality requirement when they are first subject to the automatic enrolment and related duties. They must also ensure that they continue to provide a qualifying scheme thereafter. There is no requirement routinely to re-certify scheme(s), i.e. certificates do not expire after a certain set period of time. But in order to comply with their duties an employer should keep their scheme's ability to satisfy the test scheme standard under review. This remains the case even where they have delegated the certification of the scheme to the actuary following this guidance. However, where the actuary is required by legislation to certify then the responsibility to review lies with them.

As a minimum we recommend that the scheme should be reviewed every three years. The purpose of the review is to check whether the scheme continues to satisfy the test scheme standard.

Significant changes should prompt an earlier review. A significant change could be a change to:

- the benefit structure such as the introduction of new pay elements;
- scheme pension age;
- the definition of pensionable pay;
- scheme membership;
- the ratio of pensionable pay to qualifying earnings, for example due to a freeze on pensionable pay while non-pensionable items are not frozen; and/or
- the legislation or guidance on the requirements for meeting the test scheme standard.

Annex A: Terms used in the guidance

"Accrual rate" -	The rate at which, under the scheme rules, rights to the pension, or lump sum used to secure a pension, accrue over time by reference to periods of pensionable service.
“The Act” -	Pensions Act 2008
“Appropriate Age”	The ‘appropriate age’ is the pension age in a test scheme. It is 65 or, for a member whose pensionable age (the age from which entitlement to State Pension Age begins) is higher than that, the age at which the member will attain pensionable age.
"Effective date" -	The date of the pay data used for determining whether the scheme meets the test scheme standard.
“Eligible jobholder” -	A worker aged at least 22 and under State Pension Age who is working or ordinarily works in Great Britain, with earnings in excess of the automatic enrolment earnings trigger in section 3 of the Act (as amended- the trigger is £10,000 in the tax year 2013/14). See also “Qualifying Earnings”.
“Final qualifying earnings” -	The average qualifying earnings in the three tax years preceding the end of pensionable service.
“Jobholder” -	A worker, who at the effective date, is aged at least 16 and under 75, who is working or ordinarily works in Great Britain with earnings in excess of the lower threshold of the qualifying earnings band set out in section 13 of the Act (as amended).
“Normal pension age” -	The earliest age at which a jobholder may be entitled to the payment of an unreduced pension.
“Pensionable pay”	Earnings by reference to which pension benefits are determined according to scheme rules.
“Qualifying earnings”-	Earnings within the band set out in section 13 of the Act. It is this band of earnings on which pension contributions will be calculated for money purchase schemes and which is also used when assessing the benefits that would be provided from the test scheme. This is subject to periodic review and has now been uprated to £5,772 to £41,865 with £10,000 as the automatic enrolment trigger for the year 2014/15. For years

	prior to 2012 when the initial earnings band[10] was confirmed employers should use that band.
"Qualifying scheme" -	A pension scheme which meets the government's new standards. A qualifying scheme can be used to satisfy an employer's enrolment duties because it satisfies at least the minimum quality requirements in the Act in relation to a jobholder.
"Quality requirement" -	The criteria which a scheme must meet in order to be a qualifying scheme, (see Annexes B, C and D).
"The Regulations" -	References to 'regulations' are to The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010 unless otherwise stated.
"Relevant members" -	All jobholders not in contracted-out employment in relation to whom the test scheme standard will apply, i.e. those who are active members at the date of the determination.
"Staging" -	All employers need to enrol their workers into a workplace pension. When you have to do it depends on the size of the organisation. Very large employers have done this first, in late 2012 and early 2013. Other employers are following some time after this over several years. The smallest employers (those with fewer than 50 workers) will be last. This is referred to as 'staging'. The Pensions Regulator has published a tool which enables you to find out what your staging date is. See: Staging. The Regulator will write to you with your exact date nearer the time.
"Test scheme" -	A scheme whose terms are defined in the Act used as a benchmark against which an actual scheme is compared to determine whether it satisfies the test scheme standard.
"Test scheme standard" –	The benchmark of scheme quality for defined benefits schemes (and the defined benefits element of hybrid schemes) with members not in contracted-out employment.
"Transitional period" -	The period over which employers offering members defined benefits in a defined benefits or hybrid scheme are able to defer automatic enrolment.

[10] In 2012/13 the earnings band was £5,564 to £42,475

Annex B: Lump sum schemes

Lump sum schemes are schemes under which, the member's benefit is typically an entitlement to a capital sum at retirement, rather than a defined pension. After taking any tax-free lump sum, the remaining sum of money is then used to secure a pension from the scheme or to purchase an annuity from a third party provider.

Where the scheme specifies the factors used to convert the lump sum to a scheme pension in the scheme rules, i.e. where the scheme provides a lump sum and guaranteed annuity terms, the scheme will probably be a career average or final salary *pension* scheme rather than a lump sum scheme.

Final salary lump sum schemes

These are schemes under which the member's benefit is typically an entitlement to a capital sum at retirement linked to final salary. In these schemes the sum of money accrued is described as a percentage (or a fraction) of final pensionable pay for each year of pensionable service, e.g. 16% of final pay for each year of pensionable service.

The definition of "final salary" on which the sum is calculated will depend on the particular scheme's rules so check those rules for the definition used in your scheme.

Average salary lump sum schemes

These are schemes under which the member's benefit is typically an entitlement to a capital sum at retirement not linked to final salary. In these schemes a balance is accrued for each year of active pensionable service, normally a percentage of pensionable pay, and is revalued annually to retirement, e.g, accruals of 16% of qualifying earnings for each year of pensionable service plus annual increases of 2.5%. Revaluation (in service) can be provided on a discretionary basis, subject to certain conditions.

Lump sum test schemes

The key features of the test schemes[11] for an average salary lump sum scheme are:

EITHER

- Benefits are payable from the appropriate age[12] and
- an amount for the provision of a pension accrues annually up to a maximum of 40 years at the rate of **16%** of qualifying earnings, and
- the accrued amount is revalued
  - throughout the period of active membership at the minimum rate specified in regulation 36(4) of the Regulations, i.e. RPI or CPI up to 2.5% and
  - in deferment in accordance with statutory revaluation (by either the average salary or the final salary method)[13].

OR

- Benefits are payable from the appropriate age and
- an amount for the provision of a pension accrues annually up to a maximum of 40 years at the rate of **8%** of qualifying earnings, and
- the accrued amount is revalued
  - throughout the period of active membership at 3.5% a year in excess of the minimum rate specified in regulation 36(4) of the Regulations, i.e. CPI or RPI up to 2.5%, and
  - in deferment at **3.5%** a year in excess of statutory revaluation (by either the average salary or the final salary method)..

Key features of the test scheme for a final salary lump sum scheme

[11] Where the employer makes a choice as to which test scheme to compare their scheme with, only one test scheme can apply, i.e. features cannot be selected from both test schemes. Nor should different test schemes be used for different sections of a scheme.
[12] The 'appropriate age' is 65 or, for a member whose pensionable age (the age from which entitlement to State Pension Age begins) is higher than that, the age at which the member attains pensionable age.
[13] Under section 84 of the Pension Schemes Act 1993.

- benefits are payable from the appropriate age; and
- an amount for the provision of a pension accrues annually up to a maximum of 40 years at the rate of 16% of average qualifying earnings in the three tax years before the member leaves pensionable service; and
- lump sums are revalued in deferment in line with the statutory final salary method of revaluation.

Test scheme standard for lump sum schemes

There is a separate simplified test scheme standard for lump sum schemes from the standard for defined benefit pension schemes.

Initial examination of the scheme

You can undertake an initial examination of the key features of your scheme and compare them with those of the test schemes, to see whether you:

- can certify without detailed investigation or analysis of the scheme membership;
- can certify using the simplified test scheme standard; or
- cannot certify yourself and need to refer the scheme to the actuary.

Or can decide to delegate the certification to the actuary even in the circumstances above where you may be able to certify..

Table B1 below and the accompanying checklists at Annex F will also help in deciding what action is needed if, following the initial examination, it is not immediately clear that the scheme satisfies the test scheme standard.

Table B1: Determining whether you can certify without further detailed investigation

Type of scheme	Key features of your scheme to be checked
Average salary lump sum scheme – 8% accruals	**Is the annual accrual rate at least 8%?** The rate at which the sum of money accrues - this is normally expressed as a percentage of earnings and is usually contained in the scheme handbook or rules. **Is the definition of pensionable pay equal to or better than qualifying earnings?** **Does the scheme provide for increases at the same rate or better than the rate in the test scheme in service and in excess of statutory revaluation in deferment (see page 22 for details)?** Check the rule for revaluing the accrued sum of money each year. **Is the scheme's normal pension age the same as or lower than the appropriate age in the test scheme?** The scheme's normal pension age is the lowest age at which a scheme member is entitled to an unreduced lump sum as of right and is usually contained in the scheme handbook or rules. **Is the limit on the number of years of pensionable service not less than 40 years?** **If on initial examination you can answer yes to all of these questions then you can certify (see template certificate in Annex E) that the scheme satisfies the test scheme standard without further investigation.** Otherwise, see checklists at Annex F for next action.
Average salary lump sum schemes – 16% accruals or higher	**Is the annual accrual rate at least 16%?** **Is the definition of pensionable pay equal to or better than qualifying earnings?** **Does the scheme provide for increases at the same rate or better than the rate in the test scheme in service and in deferment (see page 22 for details)?** **Is the scheme's normal pension age the same as or lower than the appropriate age in the test scheme?** **Is the limit on the number of years of pensionable service not less than 40 years?** **If on initial examination you can answer yes to all of these**

Type of scheme	Key features of your scheme to be checked
	questions then you can certify (see template certificate in Annex E) that the scheme satisfies the test scheme standard without further investigation. Otherwise, see checklists at Annex F for next action.
Final salary lump sum schemes	**Is the annual accrual rate at least 16%?** **Is the definition of pensionable pay equal to or better than qualifying earnings?** **Is final pensionable pay the same as or better than qualifying earnings averaged over the last three tax years?** **Does the scheme provide for increases at the same rate or better than the rate in the test scheme, i.e. statutory revaluation in deferment (see page 23 for details)?** **Is the scheme's normal pension age the same as or lower than the appropriate age in the test scheme?** **Is the limit on the number of years of pensionable service not less than 40 years?** **If on initial examination you can answer yes to all of these questions then you can certify (see template certificate in Annex E) that the scheme satisfies the test scheme standard without further investigation.** Otherwise, see checklists at Annex F for next action.

Simplified test scheme standard

Where further investigation is required, employers may (where the conditions listed in 2.7 are satisfied) still be able to certify by using the simplified test scheme standard. This test requires a comparison between the scheme's definition of pensionable pay on which the pensions or benefits are calculated and final qualifying earnings averaged over the last three[14] tax years preceding the effective date[15]. The tables below (B3 and B4) can be used as a simplified way of checking that the scheme satisfies the test scheme standard based on its accrual rate and the ratio of the scheme's definition of pensionable pay to final qualifying earnings. As per 3.2 where your scheme has more than one benefit scale or section then the simplified test described in this annex applies as if the references to 'scheme' were to 'scale'. If the test is passed for each scale then the scheme will satisfy the test scheme standard as a whole. If, however, one or more scale fails to pass the

[14] Employers may as an alternative use qualifying earnings in the last tax year unless those earnings were significantly abnormal. If 12 month's data is not available then employers may make reasonable estimates based on the data that is to hand.
[15] See section 3.3 for the meaning of 'effective date'.

simplified test then your actuary will need to carry out a full test of equivalence to determine whether or not the scheme satisfies the test scheme standard as a whole.

Data required for the comparison

To undertake the test you will need:

- details of the relevant jobholders who are enrolled into the scheme under the terms and conditions of the employer duty;
- pay data that will enable you to undertake the aggregate calculation described below;
- the final pensionable pay on which the sum would have accrued at the effective date; and
- the average qualifying earnings in the three tax years prior to the effective date[16].

You will also need the scheme pension accrual rate which is generally expressed as a fraction or percentage of pensionable pay.

The pay data required to enable you to undertake the comparison between your scheme and the test scheme are set out in Table B2.

[16] See section 3.3 for the meaning of 'effective date'.

Table B2: Data required for comparison between your scheme and test scheme

Type of scheme	Your scheme	Test scheme
Final salary lump sum schemes	Final pensionable pay as per the definition in your scheme rules.	Final Qualifying Earnings, which are the average qualifying earnings in the three tax years prior to the effective date.
Average salary lump sum schemes	Average pensionable pay in the three years prior to the effective date.	Final Qualifying Earnings, which are the average qualifying earnings in the three tax years prior to the effective date.

Making the comparison

You will need to undertake two tests:

- one based on an aggregate across the scheme; and
- the other for each individual jobholder.

Details of these tests are provided below. However full calculations may not be necessary for each and all employees if you can be certain that the tests would be met if they were undertaken, allowing for any differences between your scheme tested and the simplified test standard.

Aggregate calculation

When conducting the employer test assume, for the purpose of the test, that the relevant jobholders left pensionable service in the scheme on the effective date and then calculate:

- **total final pensionable pay at the effective date**

  For final salary lump sum schemes aggregate the final pensionable pay for all the relevant jobholders in the scheme.

  For average salary lump sum schemes final pensionable pay is defined for testing purposes as the average pensionable pay in the three years prior to the effective date; and

- **total final qualifying earnings**, i.e. aggregate the final qualifying earnings for all the relevant jobholders in the scheme, where final qualifying earnings is the average qualifying earnings in the three tax years prior to the effective date.

Calculate the percentage of total final pensionable pay to total final qualifying earnings and check this percentage against Table B3 or Table B4, depending on the test being applied, by looking up the scheme's accrual rate in column A. To satisfy the test the total final pensionable earnings divided by total qualifying earnings must be equal to or exceed the percentage in column B.

The individual calculation

The ratio for each relevant jobholder individually must also be calculated. No more than 10% of relevant jobholders can have a ratio less than the percentage taken from column B of Table B3 or B4, depending on the test being applied. If this test is failed for more than 10% of relevant jobholders, you cannot certify the scheme as having satisfied the test scheme standard in which case see below for further guidance. **A detailed checklist for this employer test accompanies this guidance at Annex F.**

Table B3: Ratio for final salary lump sum schemes and average salary lump sum schemes using the 16% accruals test scheme

Column A	Column B
Accrual of the lump sum as a percentage of pensionable pay	Required ratio of pensionable pay used to calculate the accrual of lump sum to qualifying earnings over last three tax years
16.0%	100.0%
19.2%	83.3%
24.0%	66.7%
32.0%	50.0%

The formula to determine the minimum required percentage is:

$$\frac{16\%}{\text{Scheme Accrual Rate}} \times 100$$

Table B4: Ratios for average salary lump sum schemes using the 8% accruals test scheme

Column A	Column B
Accrual of the lump sum as a percentage of pensionable pay	Required ratio of pensionable pay used to calculate the accrual of lump sum to qualifying earnings over last three tax years
8.0%	100.0%
9.6%	83.3%
12.0%	66.7%
16.0%	50.0%

The formula to determine the minimum required percentage is:

$$\frac{8\%}{\text{Scheme Accrual Rate}} \times 100$$

It is possible to use these formulas with other accrual rates, i.e. lower accrual rates than 8% and 16% could be used if offset by a better definition of pay.

Scheme does not satisfy simplified test scheme standard

If you have applied the test and your scheme does not satisfy the simplified test scheme standard, see section 3.9 of this guidance.

Reviewing the certificate

See section 3.11 of this guidance regarding your responsibility for keeping your scheme's ability to satisfy the test scheme standard under review.

Annex C: Hybrid pension schemes

Hybrid schemes are defined, for the purposes of automatic enrolment only, as schemes that are neither wholly money purchase nor wholly defined benefits. They generally have elements of both types of benefits and depending on the type of scheme involved (see table C1) they may need to satisfy a combination of the defined benefits quality requirement **and** the money purchase quality requirement or they may only need to satisfy either of the requirements.

Employers can certify, using the relevant or alternative quality requirements (certification for money purchase schemes)[17], where hybrid schemes are required to satisfy the money purchase quality requirement, i.e.

- the money purchase part/section of sequential hybrids;
- money purchase schemes with a defined benefits underpin;
- money purchase schemes with ancillary defined benefits;
- combination hybrids with defined benefit top-up which is not being considered for the quality requirements in the test; and
- self annuitising hybrid schemes (money purchase schemes providing pensions directly from scheme funds).

However, for hybrid schemes that are required to satisfy the test scheme standard as well as the money purchase quality requirement, you will need to ask the actuary to certify the scheme if you cannot certify the element relating to the test scheme standard. In that case the actuary may rely on your certification of the money purchase quality requirement or alternatively you may authorise the actuary to certify both elements.

Table C1 sets out the different types of hybrid schemes, the quality test they must meet and the relevant legislation and guidance that applies.

[17] The alternative quality requirements for money purchase schemes and the money purchase element of certain hybrid are set out in separate guidance https://www.gov.uk/government/collections/automatic-enrolment-guidance-for-employers-and-actuaries
.

Table C1: How to determine whether your hybrid scheme qualifies:

Scheme	Test	Legislation/guidance
Hybrid schemes with a contracted-out defined benefits element	The reference scheme test certificate must cover all relevant members. And if the scheme's DB element is a career average scheme it will also need to satisfy the minimum level of revaluation of benefits in-service. (see table 1 on page 8 for detail)	Sections 20-24 and 28 of the Act. Rules 3 and 4-8 of the Hybrid Schemes Quality Requirements Rules 2012. And if career average regulation 36 of the Regulations. This guidance (part 3) and the guidance on certifying money purchase schemes
Non-contracted-out final salary and career average pension schemes holding ancillary money purchase benefits	The defined benefits quality requirement, i.e. the scheme satisfies the test scheme standard. And if career average it will also need to satisfy the minimum level of revaluation of benefits in-service. (see table 1 on page 8 for detail) Only the main benefits in a scheme, i.e. those mainly responsible for providing a pension to the member from retirement on age grounds should be considered in the quality requirement tests. Ancillary benefits must therefore be disregarded	Sections 21-24 of the Act. Part 3 of this guidance. And if career average regulation 36 of the Regulations.
Money purchase schemes with ancillary defined benefits	The money purchase quality requirement or the alternative requirement for money purchase schemes. As above, only the main benefits should be considered.	Guidance on the certification of money purchase schemes. Sections 20, 24 and 28 of the Act.

Scheme	Test	Legislation/guidance
Non-contracted-out sequential hybrid schemes	The defined benefits quality requirement applies to the defined benefits element, i.e. the scheme satisfies the test scheme standard **and** the money purchase quality requirement or the alternative requirement for money purchase schemes.	Part 3 of this guidance. The guidance on the certification of money purchase schemes Sections 20, 24 and 28 of the Act. Rule 5 of the Hybrid Schemes Quality Requirements Rules 2012
Non-contracted-out underpin schemes (which provide the better of a money purchase or defined benefits pension)	The defined benefits quality requirement, i.e. the scheme satisfies the test scheme standard **or** the money purchase quality requirement or the alternative requirement for money purchase schemes apply.	Part 3 of this guidance. Guidance on the certification of money purchase schemes. Sections 20-24 and 28 of the Act. Rule 4 of the Hybrid Schemes Quality Requirements Rules 2012.

Scheme	Test	Legislation/guidance
Non-contracted-out combination hybrid schemes (sometimes referred to as top-up schemes)	The requirements will depend on the nature of the scheme. **EITHER** the defined benefits quality requirement, i.e. the scheme satisfies the test scheme standard **and/or** the money purchase quality requirement / alternative requirement for money purchase schemes **OR** A combination of the above requirements modified and satisfied in aggregate	Part 3 this guidance. Guidance on the certification of money purchase schemes. Sections 20-24 and 28 of the Act. Possible modification of the quality requirements by regulation 43 of the Regulations. Rule 7 of the Hybrid Schemes Quality Requirements Rules 2012
Self-annuitising hybrid schemes (sometimes referred to as self-annuitising money purchase schemes);	The money purchase quality requirement or the alternative requirement for money purchase schemes applies.	Guidance on the certification of money purchase schemes. Sections 20, 24 and 28 of the Act. Rule 6 of the Hybrid Schemes Quality Requirements Rules 2012
Complex hybrid schemes (schemes with a combination of hybrid features, e.g. a sequential hybrid scheme with underpins on both sections)	The quality requirement will depend on the nature of the scheme. We recommend you refer the scheme to the actuary for certification.	Rule 8 of the Hybrid Schemes Quality Requirements Rules 2012 and the guidance for actuaries.

Annex D: Requirements for defined benefits and the defined benefits element of hybrid schemes

A qualifying defined benefits scheme with the main administration in the United Kingdom (UK) must:	• be UK tax registered • be an occupational pension scheme • meet the relevant quality requirements, i.e. the jobholder is in contracted-out employment or the test scheme standard is satisfied and, if the scheme is career average, revaluation at the minimum rate is provided for **If used for automatic enrolment, it must also –** • have rules that facilitate automatic enrolment, i.e. that do not: o require a jobholder to make a decision on any matter in relation to the scheme; nor o require a jobholder to provide information as a condition of scheme membership
A qualifying defined benefits scheme with its main administration outside of the UK but in an Europe Economic Area (EEA) member State must:	• be UK tax registered or a scheme regulated by a recognised institution in its home country and either be a qualifying overseas pension scheme or enable members to receive tax relief on their contributions • satisfy the same qualifying requirements as UK schemes **If used for automatic enrolment, it must also–** • have rules that facilitate automatic enrolment, i.e. that do not o require a jobholder to make a decision on any matter in relation to the scheme nor o require a jobholder to provide information; as a condition of membership; • require that some of the benefits available to a member provide for an income for life

A qualifying defined benefits scheme with its main administration outside of the UK and the EEA must:	• be UK tax registered, or; • a scheme which is regulated by a recognised institution in its home country and either be a qualifying overseas pension scheme or enable members to receive tax relief on their contributions; • not be used for automatic enrolment - only as a qualifying scheme for workers who are existing members at the time of the automatic enrolment duty • satisfy the same quality requirements as UK schemes.

Annex E: Template Certificate

Certificate given for the purposes of certifying that a defined benefit and/or hybrid scheme satisfies the test scheme standard

Name of scheme:

Pension Schemes Registry Number(s) (PSR):

Type of scheme select as appropriate)(for schemes with several sections, you can tick more than one):

☐ Career average or final salary pension

☐ Average salary lump sum

☐ Final salary lump sum

☐ Hybrid (please give details of the type of hybrid or benefit structure)

Name and Address of employer:

Effective Date:

Satisfaction of the test scheme standard

I certify that, in my opinion, the above scheme satisfies the test scheme standard in relation to the jobholders employed by [name of employer] who are relevant members of that scheme.

[If signed by the actuary in respect of a hybrid scheme where the employer is certifying the money purchase elements: I am placing reliance on the employer's certification of the money purchase elements of this hybrid scheme, a copy of which has been supplied to me.]

In determining whether this scheme meets the test scheme standard, I confirm that I have complied with the relevant statutory requirements and with the guidance for actuaries /or employers issued under those requirements by [the Secretary of State for Work and Pensions] [the Department for Social Development] which is for the time being in force.

Signature:

Position and qualification:

In what capacity signed: [Employer/Actuary because certification delegated/Actuary because full tests of equivalence required]

Name:

Date:

Annex F: Checklists

Step	Final Salary and Career Average pension schemes – employer actions	Action complete √
Step 1:	Is the scheme contracted-out and are all relevant jobholders in contracted-out employment? If so the scheme satisfies the quality requirement and you do not need to do anything further unless the scheme is a career average pension scheme in which case the annual in-service revaluation requirement must be satisfied. See Table 1 on page 8 for details. If not, go to step 2.	
Step 2:	Refer to parts 2.4 and 3 of the guidance and check whether you can determine whether the scheme satisfies the test scheme standard without further investigation or calculations. If so go to step 15. If not either refer to your actuary if the conditions listed in 2.7 are not satisfied or start at step 3.	
Step 3:	Determine the effective date of the calculations and comparisons; this is the same as the date of the pay data used for certifying the scheme. The effective date should be before the staging date. This date will differ across employers.	
Step 4:	Identify the relevant jobholders who are: • jobholders who are active members of the scheme and in employment that is not contracted-out of the State Second Pension Scheme. **These are to be included in the test.** Do not include in the test any of the individuals mentioned in the second paragraph of section 3.5 of this guidance.	
Step 5:	Obtain historical earnings data relating to the three years prior to the effective date[18] and identify the rate at which pensions accrue in the scheme. The accrual rate will be expressed as a percentage or fraction and will normally be found in the rules of the scheme or hand book. Where the rate of pension has changed at a specific point in time for all members, you should use the rate that applies on the effective date.	

[18] Employers may as an alternative use qualifying earnings in the last tax year unless those earnings were significantly abnormal. If 12 month's data is not available then employers may make reasonable estimates based on the data that is to hand.

Step	Final Salary and Career Average pension schemes – employer actions	Action complete √
Step 6:	Assume that the relevant jobholders identified in step 4 leave pensionable service at the effective date.	
	Aggregate test – steps 7 – 9	
Step 7:	Based on the earnings data collected for step 5 calculate the total final pensionable pay (use definition in scheme rules or handbook). This should be done collectively, for all the relevant jobholder members of the scheme. **Call this figure A**	
Step 8:	Based on the historical earnings data, calculate the total average final qualifying earnings on which the test scheme's pensions would accrue for the three tax years[19] preceding the effective date for all of the relevant jobholder members. **Call this figure B**	
Step 9:	Based on the calculation of the amounts in: • step 7 (final pensionable pay) – **figure A** and • step 8 (final qualifying earnings) – **figure B** Calculate A divided by B and multiplied by 100. **Call this percentage C.** Check that C is at least equal to the percentage in the right hand column of Table G1 below, according to the rate of pension accrual in the scheme.	
	Individual test – steps 10 – 13	
Step 10:	Using the same earnings data used in step 7, extract the final pensionable pay for each jobholder individually[20] on the assumption that they left service at the effective date**. Call this figure A**	
Step 11:	For each jobholder and using the same earnings data in step 8 calculate the average final qualifying earnings over the last three tax-years preceding the effective date. **Call this figure B**	

[19] Or for the last tax year as per footnote 19 on page 39

[20] Full calculations may not be necessary for each and all employees if the employer can be certain that the tests would be met if they were undertaken, allowing for any differences between the scheme tested and the simplified test scheme standard. This applies in respect of both the aggregate and individual tests

<table>
<tr><th>Step</th><th>Final Salary and Career Average pension schemes – employer actions</th><th>Action complete
√</th></tr>
<tr><td>Step 12:</td><td>Based on the calculation of the amounts in
step 10 (final pensionable pay) – figure A and
step 11 (final qualifying earnings) – figure B
For each individual Calculate A divided by B and multiplied by 100. Call this the percentage C.</td><td></td></tr>
<tr><td>Step 13:</td><td>For each relevant jobholder, compare C with the relevant percentage taken from the right-hand column on Table G1. Check that the proportion of the relevant jobholders for whom C is the lower percentage of the two is not more than 10%</td><td></td></tr>
<tr><td>Step 14:</td><td>Provided that the aggregate and individual tests are satisfied, you can certify that the scheme satisfies the test scheme standard and it can be used for automatic enrolment and related duties.

If the tests are <u>not</u> satisfied you must either
refer the scheme to the actuary for a full test of equivalence and if necessary, make improvements to the scheme based on the advice of the actuary and in consultation with the trustees and re-test the scheme; or
designate another scheme that qualifies.</td><td></td></tr>
<tr><td>Step 15:</td><td>Complete a certificate. There is a template in Annex E of this guidance.</td><td></td></tr>
<tr><td>Step 16:</td><td>Retain records of the calculations and supporting documentation for at least 6 years. You do not have to send any information to the Pensions Regulator but you may be asked to provide it on request.</td><td></td></tr>
<tr><td>Step 17:</td><td>Career average pension schemes must in addition to meeting the test scheme standard satisfy the requirement to revalue accrued benefits in-service at a minimum level in order to be used as a qualifying scheme. See Table 1 on page 8 for details</td><td></td></tr>
</table>

Table G1: steps 9 and 13 - checking accrual rates against the scheme's definition of pensionable pay

Minimum value needed for calculation C in Steps 9 and 13	Minimum value of the figure in Steps 7 divided by the figure in Step 8
1/40th	33.3%
1/50th	41.7%
1/60th	50.0%
1/70th	58.3%
1/80th	66.7%
1/90th	75.0%
1/100th	83.3%
1/110th	91.7%
1/120th	100.0%

A lower accrual rate than $1/120^{th}$ could be used if offset by a better definition of pay. See the formula below Table 4 on page 17.

Step	**Average salary lump sum schemes - employer actions**	Action complete √
Step 1:	Refer to Annex B and check whether you can certify without further investigation. If so go to step 14 and, if not, either refer to your actuary if the conditions listed in 2.7 are not satisfied or start at step 2.	
Step 2:	Determine the effective date of the calculations and comparisons; this is the same as the date of the pay data used for certifying the scheme. The effective date should be before the staging date. This date will differ across employers.	
Step 3:	Identify the relevant jobholders who are: • jobholders who are active members of the scheme and in employment that is not contracted-out of the State Second Pension Scheme. **These are to be included in the test.** Do not include in the test any of the individuals mentioned in the second paragraph of section 3.5 of this guidance.	
Step 4:	Obtain historical earnings data relating to the three years preceding the effective date and identify the rate at which the sum accrues in the scheme. The accrual rate will be expressed as a percentage or fraction and will normally be found in the rules of the scheme or hand book. Where the accrual rate varies for different periods of pensionable service, you should use the rate that applies on the effective date.	
Step 5:	Assume that the relevant jobholders identified in step 3 leave pensionable service at the effective date.	
	Aggregate test – Steps 6 – 8	
Step 6:	Based on the earnings data collected for step 4 calculate the average pensionable pay over the three years prior to the effective date. This should be done collectively, for all the relevant jobholder members of the scheme. **Call this figure A**	
Step 7:	Based on the historical earnings data, calculate the average qualifying earnings on which the test scheme's lump sum would accrue for the three tax years preceding the effective date for all of the relevant jobholder members. **Call this figure B**	
Step 8:	Based on calculation of the amounts in – • step 6 (pensionable pay) - **figure A**	

	• step 7 (final qualifying earnings) - **figure B** Calculate A divided by B and multiplied by 100. Call this percentage C. Check that C is at least equal to the percentage in the right hand column of Table G2 or Table G3 below, depending on the test being applied according to the rate of lump sum accrual in the scheme.	
	Individual test – steps 9 – 12	
Step 9:	Using the same earnings data used in step 6, extract the total average pensionable pay for each jobholder individually on the assumption that they left service at the effective date. **Call this figure A**	
Step 10:	For each member and using the same earnings data in step 7 calculate the total average final qualifying earnings over the last three tax-years preceding the effective date. **Call this figure B**	
Step 11:	For each individual calculate A divided by B multiplied by100 and call the percentage C.	
Step 12:	Check that for no more than 10% of the relevant jobholders, C is less than the percentage in the right hand column of Table G2 or Table G3 depending on the test being applied.	
Step 13:	Provided that the aggregate and individual tests are satisfied, you can certify that the scheme satisfies the test scheme standard and it can be used for automatic enrolment and related duties. But see step 16 if the scheme provides career average benefits.	
Step 14:	Complete a certificate. There is a template in Annex E of the guidance.	
Step 15:	Retain records of the calculations and supporting documentation for at least 6 years. You do not have to send any information to the Pensions Regulator but you may be asked to provide it on request.	
Step 16:	Lump sum schemes that provide career average benefits must in addition to meeting the test scheme standard satisfy the requirement to revalue accrued benefits in-service at a minimum level in order to be used as a qualifying scheme. See Table 1 on page 8 and the guidance on pages 22 and 23 for details.	

Table G2: For steps 8 and 12 - checking accrual rates against the scheme's definition of pensionable pay based on the 16% of qualifying earnings annual accruals test.

Accrual of the lump sum as a percentage of pensionable pay	Minimum value needed for calculation C in Steps 8 and 12
16.0%	100.0%
19.2%	83.3%
24.0%	66.7%
32.0%	50.0%

Table G3: For steps 8 and 12 - checking accrual rates against the scheme's definition of pensionable pay based on the 8% of qualifying earnings annual accruals test.

Accrual of the lump sum as a percentage of pensionable pay	Minimum value needed for calculation C in Steps 8 and 12
8.0%	100.0%
9.6%	83.3%
12.0%	66.7%
16.0%	50.0%

Lower accrual rates than 16% and 8% could be used if offset by a better definition of pay.

See formulae below Tables B3 and B4 on pages 28 and 29.

Step	Final salary lump sum schemes – employer actions	Action complete
Step 1:	Refer to Annex B of the guidance and check whether you can certify without further investigation. If so go to step 14 If not, either refer to your actuary if the conditions listed in 2.7 are not satisfied, or go to step 2	
Step 2:	Determine the effective date of the calculations and comparisons; this is the same as the date of the pay data used for certifying the scheme. The effective date should be before the staging date which will differ across employers.	
Step 3:	Identify the relevant jobholders who are: • jobholders who are active members of the scheme and in employment that is not contracted-out of the State Second Pension Scheme. **These are to be included in the test.** Do not include in the test any of the individuals mentioned in the second paragraph of section 3.5 of this guidance.	
Step 4:	Obtain historical earnings data relating to the three years preceding the effective date and Identify the rate at which the sum accrues in the scheme. The accrual rate will be expressed as a percentage or fraction and will normally be found in the rules of the scheme or hand book. Where the rate of pension accrual varies for different periods of pensionable service, you should use the rate that applies on the effective date.	
Step 5:	Assume that the relevant jobholders identified in step 4 leave pensionable service at the effective date.	
	Aggregate test – steps 6 – 8	
Step 6:	Based on the earnings data collected for step 4 calculate the total final pensionable pay prior to the effective date. This should be done collectively, for all the relevant jobholder members of the scheme. **Call this figure A.**	
Step 7:	Based on the historical earnings data, calculate the total average final qualifying earnings on which the test scheme's lump sum would accrue for the three tax years preceding the effective date for all of the relevant jobholder members. **Call this figure B.**	

Step	**Final salary lump sum schemes – employer actions**	Action complete
Step 8:	Based on the calculation of the amounts in: • step 6 (total final pensionable pay) – **figure A** • step 7 (total final qualifying earnings) – **figure B** Calculate A divided by B and multiplied by 100. Call this percentage C. Check that C is at least equal to the percentage in the right hand column of Table G5 below, according to the rate of lump sum accrual in the scheme.	
	Individual test – steps 9 – 12	
Step 9:	Using the same earnings data used in step 6, extract the total final pensionable pay for each jobholder individually on the assumption that they left service at the effective date. **Call this figure A.**	
Step 10:	For each member and using the same earnings data in step 7 calculate the average final qualifying earnings over the last three tax-years preceding the effective date. **Call this figure B.**	
Step 11:	For each individual calculate A divided by B multiplied by 100. **Call this the percentage C**.	
Step 12:	Check that for no more than 10% of the relevant jobholders, C is less than the percentage in the right hand column of Table G5.	
Step 13:	Provided that the aggregate and individual tests are satisfied, you can certify that the scheme satisfies the test scheme standard and it can be used for automatic enrolment and related duties.	
Step 14:	Complete a certificate. There is a template in Annex E of the guidance	
Step 15:	Retain records of the calculations and supporting documentation for at least 6 years. You do not have to send any information to the Pensions Regulator but you may be asked to provide it on request.	

Table G4: For steps 8 and 12 - checking accrual rates against the scheme's definition of pensionable pay

Accrual of the lump sum as a percentage of pensionable pay	Required ratio of pensionable pay used to calculate the accrual of lump sum to qualifying earnings over last three tax years
16.0%	100.0%
19.2%	83.3%
24.0%	66.7%
32.0%	50.0%

A lower accrual rate than 16% could be used if offset by a better definition of pay. See the formula below Table B3 on page 28.

Annex G: Corresponding Northern Ireland legislation

GB legislative reference	**NI legislative reference**
Pensions Act 2008 sections 2 and 3 section 13 sections 16 and 17 sections 20 to 24 section 28	Pensions (No. 2) Act (Northern Ireland) 2008 sections 2 and 3 section 13 sections 16 and 17 sections 20 to 24 section 28
The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010 regulation 36 regulation 38 regulation 43	The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations (Northern Ireland) 2010 regulation 36 regulation 38 regulation 43
The Hybrid Schemes Quality Requirements Rules 2012 rules 3 to 8	The Hybrid Schemes Quality Requirements Rules (Northern Ireland) 2012 rules 3 to 8

Annex H: Changes since July 2012

The following is a summary of the significant changes to the version of this guidance published in July 2012:

Part 2 – Purpose of this guidance

2.2, 2.3, 2.4 and 2.5 amended to provide clarification on who the guidance is for, its legal status and the scope of both the quality requirements and certification. Additional information also on how contracted-out schemes can, if necessary, meet the test scheme standard.

2.8 the ‘key features of the test scheme’ section has been amended so that the test scheme standard must be satisfied only at the level of the scheme as a whole and not separately at the level of each benefit scale.

Part 3 – Certifying that the scheme meets the test scheme standard

3.1 and 3.2 Further information provided on the circumstances in which an employer or actuary may be able to determine whether a scheme meets the test scheme standard and certify and which benefits must be disregarded.

3.3 Further information on the ‘effective date’ of the test.

3.5 Further information on which jobholders are included in the test calculations and which can be treated as covered by the certificate.

3.7 Information included on how newly established schemes may be treated to provide consistency with the guide for actuaries.

3.10 Information included on the format of the certificate to provide consistency with the guide for actuaries.

Annex A: Terms used in the guidance

New definitions added for “Appropriate age” and amendments made to that for “Qualifying earnings”, “Relevant members”, “Qualifying scheme” and “The test scheme standard”

Annex B: Lump sum schemes

Several amendments to correct and clarify issues relating to the testing of lump sum schemes and to flag up changes being made to the regulations on the test scheme standard at the time of the publication of this guidance.

Annex C: Hybrid pension schemes

Several amendments to clarify issues relating to the quality requirements for hybrid schemes and to make the guidance consistent with that for actuaries.

Annex E: Template Certificate

Confirmation that what is being certified is that the scheme satisfies the test scheme standard.

Minor changes to scheme ‘identifiers’, type of scheme being certified and capacity in which the certificate is being signed.

Annex F: Checklists

Several amendments to correct and clarify issues in the checklists and remove some duplication.

The following is a summary of the significant changes to the version of this guidance published in September 2013:

Part 2 – Purpose of this guidance

Table 1 on page 8 amended to reflect changes to the requirement for career average schemes to revalue accrued benefits in service at a minimum level, which took effect from 1 April 2014.

Part 3 – Certifying that the scheme meets the test scheme standard and Annex A - Terms used in the guidance

Changes made to reflect the amendments to the 'appropriate age' in the test scheme which took effect from 1 November 2013.

Annex B - Lump sum schemes

Page 22 – changes made to reflect the amendments to the test scheme standard for lump sum schemes which took effect from 1 November 2013.

ISBN: **978-1-78153-068-9**