

PENSIONS IN 30 PODCASTS

02 Contracting-out of the State Second Pension

Key points

- Prior to 6 April 2016, an occupational pension scheme could contract out of the Additional State Pension on a defined benefit (DB) basis.
- Prior to 6 April 2012, an occupational or a personal pension scheme could contract out of the Additional State Pension on a defined contribution (DC) basis.
- In a contracted-out scheme, the member and his employer paid a lower rate of National Insurance contributions. The member receives an amount of pension from their contracted-out scheme which is at least as good as the Additional State Pension given up.

Main sources

- Social Security Contributions and Benefits Act 1992 – current state pension
- Pension Schemes Act 1993 (Part III) – contracting-out
- Pensions Act 2014 (Part 1) – single-tier state pension (from 6 April 2016)

State pension

Prior to 6 April 2016, the UK's state pension consisted of two tiers: the Basic State Pension and the Additional State Pension. The Additional State Pension has changed over time. From 6 April 1978 to 5 April 2002, it was the State Earnings Related Pension Scheme (SERPS). From 6 April 2002 to 5 April 2016, it was known as the State Second Pension (S2P).

The UK's two-tier state pension was replaced with a single-tier state pension with effect from 6 April 2016. The aim of the reforms was to create a simpler system which provides people with a clearer idea of the state pension they will receive when they retire. It is hoped that this will encourage people to save for their retirement.

Contracting-out

A member of a contracted-out pension scheme did not contribute towards (or accrue) an Additional State Pension. The member and his employer paid a lower rate of National Insurance Contributions via a contracted-out rebate. The rationale for the rebate was that people would receive an amount of pension from their contracted-out scheme at least as good as the Additional State Pension given up.

On a defined benefit basis

Between 6 April 1978 and 5 April 1997, an occupational pension scheme could contract out of the Additional State Pension (SERPS) on a DB basis if the scheme provided a pension at least as good as a statutory minimum, known as the Guaranteed Minimum Pension (GMP).

In respect of contracted-out service between 6 April 1997 and 5 April 2016, a contracted-out DB scheme must meet the reference scheme test. This means that the benefits provided under the scheme must be broadly equivalent to, or better than, those in a statutory reference scheme.

More information

Find out more about our Pension team at [gowlingwlg.com/pensions-uk](https://www.gowlingwlg.com/pensions-uk).

You can listen to or download the other episodes and get additional material at [gowlingwlg.com/pensionpodcasts](https://www.gowlingwlg.com/pensionpodcasts).

You can also stay up to date with the latest pension developments at [gowlingwlg.com/en/united-kingdom/insights-resources](https://www.gowlingwlg.com/en/united-kingdom/insights-resources).



PENSIONS IN 30 PODCASTS

02 Contracting-out of the State Second Pension

On a defined contribution basis

Prior to 6 April 2012, an occupational pension scheme could contract out of the Additional State Pension on a DC basis. In return for foregoing rights to the Additional State Pension, members earned what are called "protected rights". These were rights to money purchase benefits and were accounted for separately within the scheme. Under the protected rights legislation, protected rights were subject to certain specific restrictions.

With effect from 6 April 2012, the protected rights legislation was repealed so the restrictions and conditions referred to above are no longer necessary. However, if the protected rights requirements were written into a scheme's rules they still apply. Trustees have been given a statutory power by resolution (exercisable until 6 April 2018) to modify their scheme rules to remove any protected rights provisions.

More information

Find out more about our Pension team at [gowlingwlg.com/pensions-uk](https://www.gowlingwlg.com/pensions-uk).

You can listen to or download the other episodes and get additional material at [gowlingwlg.com/pensionpodcasts](https://www.gowlingwlg.com/pensionpodcasts).

You can also stay up to date with the latest pension developments at [gowlingwlg.com/en/united-kingdom/insights-resources](https://www.gowlingwlg.com/en/united-kingdom/insights-resources).