

# PENSIONS IN 30 PODCASTS

## 01 Introduction to workplace pension provision in the UK

### Key points

- Pensions in the UK are provided in a number of different ways:
  - state pensions versus private pensions;
  - occupational versus personal pensions; and
  - trust-based versus contract-based.
- Employers provide pensions to fulfil legal obligations, because they are a tax-efficient benefit and to retain and attract employees.

### Main sources

- Pension Schemes Act 1993;
- Pensions Act 1995;
- Pensions Act 2004; and
- Finance Act 2004.

Pension provision in the UK has evolved over the past 100 years. This long period of organic development has created a complicated system with plenty of jargon and abbreviations.

This overview provides a basic framework for understanding pensions in the UK and sets the scene for the rest of this series of fact cards.

### State pensions

The UK's state pension previously consisted of two tiers of provision: the Basic State Pension and the Additional State Pension. In 2016, this was replaced by a Single-tier State Pension.

The state pension is a contributory system based on National Insurance contributions. In addition, universal old age benefits are provided through the safety net of Pension Credits.

### Private pensions

Private pensions include:

- Occupational pension schemes (including both private sector and public sector pension schemes); and
- Personal pension schemes.

Occupational pension schemes are set up by employers to provide retirement benefits for their employees. They are typically trust based arrangements.

Personal pension schemes are typically contract-based arrangements set up with an insurance provider or other financial services company.

### Type of pension benefits

There are two main types of pension benefits:

- Defined benefit (including final salary and career average or CARE) – members are promised a defined level of benefit. The cost risk of providing this lies with the employer.

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### More information

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

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- Defined contribution (money purchase) – members build up benefits based on contributions and the investment return on their savings. Under a defined contribution scheme, there is no guarantee as to the level of benefits that a member will receive. The cost risk therefore lies with the member.

There has also been a lot of policy debate about a shared risk pension scheme (also referred to as defined ambition). As yet, these ideas have not been realised.

### Trust or contract-based

Another division between types of pension arrangement is whether they are provided through a trust or under a contract.

### Trust-based schemes

Trustees hold pension scheme assets for the benefit of scheme beneficiaries. The terms of trust are set out in trust documents (often referred to as the trust deed and rules).

Trustees are under a duty to act in line with the trust documents and the law and in the interests of beneficiaries of the scheme.

Trust-based schemes are regulated by The Pensions Regulator

Contract-based schemes are individual arrangements set up by a contract between an insurance company (or another financial institution) and an individual.

Contract-based schemes are regulated by the Financial Conduct Authority.

### Why do employers provide pensions?

Pensions are an integral component of many employers' benefit packages. They are provided:

- to retain and attract staff;
- to fulfil a legal duty (e.g. automatic enrolment under workplace pension reform); and
- because they are a tax-efficient benefit for both employers and employees.

### Contract-based schemes

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