



Employer Information Guide

The CARE Scheme
Defined Benefit and Defined Contribution



The Pensions Trust

Employer Information Guide



This document is aimed at organisations who are considering joining The CARE (Career Average Revalued Earnings) Scheme (the Scheme). It is also a useful reference point for existing employers in the Scheme.

This guide provides an introduction to the Scheme with an overview of the different benefit structures, the costs of membership and how the Scheme is administered.

Introduction

The Scheme is a centralised pension scheme tailored for employers within the charitable, voluntary and not-for-profit sectors who require a stable contribution rate but would still like to provide good retirement benefits for employees.

Overview of Scheme Benefits

The Scheme has two different open defined benefit (DB) structures and, from 1 April 2011, a defined contribution (DC) structure.

The two DB structures can be summarised as follows:

- A CARE 80ths structure which is contracted-out of the additional State Pension.
- A CARE 100ths structure which is contracted-in to the additional State Pension.

In the DB 80ths contracted-out structure, both you and your employees will pay lower National Insurance Contributions.

The DB 80ths structure is now closed to new employers. Organisations that wish to join the Scheme can only join the DB 100ths structure.

The DC structure is only available to existing employers that participate in the Scheme and, as such, is not available to employers considering joining the Scheme.

The DB and DC structures provide different benefit options for members, which are described in further detail later in this booklet. Some common features include:

- a pension at retirement;
- the option of a lump sum at retirement, with a lower pension; and
- a death benefit lump sum.

Full details of the Scheme benefits are provided later in this booklet, together with the employee and employer contribution rates that apply for all three structures of the Scheme.

The Trustee Company

The Pensions Trust is governed by a Trustee Company called 'Verity Trustees Limited'. There are currently 13 Directors of the Company (all non-executive) - six elected by members and six elected by employers and one co-opted by the elected Directors.

Investments are managed independently by external authorised fund managers. Investment performance is reviewed regularly by the Trust's Investment Committee.

Existing Pension Arrangements

It is possible for an organisation to join the Scheme even if it has an existing pension arrangement.

Transfers into either of the DB structures of the Scheme will not be accepted with effect from 1 April 2011. This measure is intended to protect the Scheme and many other private sector pension schemes have taken the same step. Any transfers 'in progress' at 1 April 2011 will be allowed to proceed, but strict time limits will be applied to the member decision making process.

Going forward it may be possible to transfer benefits into the DC structure that will be available from 1 April 2011, subject to certain conditions being met.

If any member is interested in a transfer they should contact our Administration Team on joining the Scheme.

Additional Voluntary Contributions (AVCs)

Members will be given the option of topping up their pension benefits through the Ethical or Flexible Retirement Plan. Full details will be available on joining the Scheme.



Cost of the Scheme

The employer pays the following contribution rates, depending on which structure is offered to employees:

- DB 80ths structure: 10.0% of members' earnings.
- DB 100ths structure: 8.5% of members' earnings.
- DC structure: a minimum of 8.5% of members' earnings; a higher contribution rate can be applied if desired.

The Trustee may need to adjust the contribution rates for the DB structures should the Trustee receive actuarial advice stating that the contribution rates need to change. This advice would ordinarily be provided as part of the Scheme's triennial valuation.

Members pay an age-related contribution rate, as follows:

- For the DB 80ths structure, this is calculated as a member's age at their date of joining the Scheme, divided by 10.
- For the DB 100ths and DC structures, this is calculated as a member's age at their date of joining the Scheme, divided by 10, minus 1.

To facilitate the prompt payment of contributions, The Pensions Trust has introduced a user-friendly online system, eBusiness. For any employer joining the Scheme from July 2009, use of eBusiness is a requirement of participation in the Scheme. In addition, any existing employer that switches to the DC structure (which is available from 1 April 2011) will be required to use eBusiness. Further information can be found on The Pensions Trust's website, under Document Library > General Literature > eBusiness Literature.

Example:

A member joining the DB 100ths structure of the Scheme, aged 35 would pay a contribution rate of 2.5%. This contribution rate starts at the age (in complete years) they are when they join the Scheme and then is increased annually as at 1 April (or any other date agreed by the employer), based on their age at this date.

The tables on page 4 show the gross cost as well as the actual cost taking into account tax relief and (for the DB 80ths structure) the rebate of National Insurance Contributions.

Example of CARE DB 80ths structure costs

Example of CARE Scheme Costs	Member	Employer
Annual salary	£20,000	
Contribution rate	3.5%	10%
Gross contribution per month	£58.33	£166.67
Less tax relief*	(£11.67)	Only if employer pays Corporation Tax
Less current NI rebate**	(£19.93)	(£46.08)
Actual cost per month	£26.73	£120.59

* This example is based on a basic tax payer, but tax relief is awarded at the employee's highest tax rate
** Subject to change

Example of CARE DB 100ths and DC structure costs

Example of CARE Scheme Costs	Member	Employer
Annual salary	£20,000	
Contribution rate	2.5%	8.5%
Gross contribution per month	£41.67	£141.67
Less tax relief*	(£8.33)	Only if employer pays Corporation Tax
Actual cost per month	£33.33	£141.67

* This example is based on a basic tax payer, but tax relief is awarded at the employee's highest tax rate
** Subject to change

Joining the Scheme

If you wish to participate in the Scheme or require any further information please contact the New Business Team on tel: **0845 123 6660** or email: **contact@thepensionstrust.org.uk**

Details of the Scheme

What age do employees have to be to join?

Any employee below age 65 may be admitted to the Scheme.

How much pension will members get?

In the DB structures, members will receive a pension payable for life calculated on either 1/80th or 1/100th of salary for each year in the Scheme. This will be increased every year in line with inflation (limited to 5% each year in respect of benefits that build up from 1 April 2011) up to the member's date of retirement.

In the DC structure, a member's pension will depend how much there is in his or her 'pension pot' when they decide to retire. The money paid in, the investment returns received and the charges taken out will affect the size of each member's pension pot. At retirement, members can take some of their pot as cash, but the rest must be used to buy an annuity (a pension) with an insurance company.

How the CARE DB 80ths pension builds up and is increased before retirement

Scheme Years April – March	Gross Earnings	Basic Pension 1/80th of Earnings	Prices Inflation April – March
Year 1	£6,000 × 1/80 (6 months only)	£75.00	n/a
Year 2	£12,000 × 1/80	£150.00	3.0%
Year 3	£12,400 × 1/80	£155.00	3.5%
Year 4	£12,800 × 1/80	£160.00	2.5%
Year 5	£13,440 × 1/80	£168.00	3.6%

Pension	End of Year 1	End of Year 2	End of Year 3	End of Year 4	End of Year 5	Total
Year 1	£75.00	× 1.03	× 1.035	× 1.025	× 1.036	=£84.90
+ Year 2		£150.00	× 1.035	× 1.025	× 1.036	=£164.86
		+ Year 3	£155.00	× 1.025	× 1.036	=£164.59
			+ Year 4	£160.00	× 1.036	=£165.76
				+ Year 5	(not revalued)	=£168.00
• Retirement after the end of Year 5 = Total Revalued Pension = TOTAL						£748.11
• Pension for Year 6 up to retirement date will be added						

How the CARE DB 100ths pension builds up and is increased before retirement

Scheme Years April – March	Gross Earnings	Basic Pension 1/100th of Earnings	Prices Inflation April – March
Year 1	£6,000 × 1/100 (6 months only)	£60.00	n/a
Year 2	£12,000 × 1/100	£120.00	3.0%
Year 3	£12,400 × 1/100	£124.00	3.5%
Year 4	£12,800 × 1/100	£128.00	2.5%
Year 5	£13,440 × 1/100	£134.00	3.6%

Pension	End of Year 1	End of Year 2	End of Year 3	End of Year 4	End of Year 5	Total
Year 1	£60.00	× 1.03	× 1.035	× 1.025	× 1.036	=£67.92
+ Year 2		£120.00	× 1.035	× 1.025	× 1.036	=£131.89
		+ Year 3	£124.00	× 1.025	× 1.036	=£131.68
			+ Year 4	£128.00	× 1.036	=£132.61
				+ Year 5	£134.40	=£134.40
<ul style="list-style-type: none"> Retirement after the end of Year 5 = Total Revalued Pension = TOTAL Pension for Year 6 up to retirement date will be added 						£598.50

Can I take a cash sum at retirement?

Yes, instead of taking a full pension members can choose to give up part of their pension and exchange it for a pension commencement lump sum. The pension would then be reduced. Members may take a lump sum of up to 25% of the value of their pension benefits.

What options does a member have at retirement?

- a full pension; or
- a lump sum plus a reduced pension.

When can a member take their pension?

Members can take their pension from age 55 unless they joined the Scheme before 6 April 2006 (in which case the minimum age remains age 50 although they will be required to leave employment). If a member takes their pension before age 65 the pension will be reduced according to how many years early they have retired.

Will the pension increase?

Yes, in the DB structures, the annual pension earned is increased before retirement in line with inflation (currently based on the Retail Prices Index). This is limited to a maximum of 5.0% each year for pension that is built up from 1 April 2011. Once the member retires, the pension will increase each year in line with inflation up to a maximum of 2.5%. Pension earned before 6 April 2005 will increase each year in line with inflation up to a maximum of 5.0%.

In the DC structure each member's pension pot rises and falls in line with investment performance before retirement. At retirement, each member can decide whether or not they want a pension that increases in payment. Some members may choose a pension that doesn't increase, but others may want a lower initial pension that will increase each year.

What if a member leaves?

In the DB structures the pension will be calculated at the date of leaving, taking into account the amount of pension accumulated each year. This can remain in the Scheme and will be increased by inflation (limited to 5% each year for pension built up from April 2011) up to the member's date of retirement.

In the DC structure, the pension pot built up at the member's date of leaving will continue to rise and fall in line with investment performance. This can remain in the Scheme up to the member's retirement.

Members can also choose to transfer their benefits to another pension arrangement, without incurring any penalty.

If the member leaves the Scheme with less than two years' pensionable service they can take a refund of their own contributions, less tax and, if they were in the 80ths DB structure, an amount to buy them back into the additional State Pension (known as the State Second Pension).

What death benefits are available?

DB structures

- If a member dies whilst still an active (contributing) member of the Scheme, a lump sum of three times their salary at the date of death plus a refund of their own contributions plus interest is payable. Plus, a survivor's pension of 50% is payable using the pension formula, taking into account pensionable service the member would have had at age 65 and the final earnings at the their date of death.
- If the member dies before retirement once they have left service, a refund of their own contributions plus interest is payable, plus a 50% survivor's pension based on the member's pension at date of leaving increased to the date of death.
- If the member dies within their first five years of retirement, a lump sum is payable, calculated as the balance of the unpaid pension for that five-year period. Also, a 50% survivor's pension is payable based on the pension prior to accepting any lump sum, increased to the date of death.

DC structure

If a member dies before his/her benefits have been paid out, his/her pension pot will be cashed in and paid as a lump sum to a nominated beneficiary. A lump sum of six times a member's pensionable earnings is payable in addition if he/she dies in pensionable service.

If a member dies after their pension has started, the benefits payable (if any) will depend on the type of pension purchased from their chosen provider when they retired.

Are there any other benefits?

- Yes, a member can make an application for ill-health early retirement at any age if they are unable to work again in any capacity. If approved by the Trustee, their DB pension can be payable immediately without reduction together with an enhancement of service to age 65. Members with DC benefit may be able to obtain enhanced annuities if they are in poor health.
- Members on paid maternity leave pay contributions on their maternity pay and the employer pays the balance of full contributions, up to 39 weeks.
- If a member has reached age 55 they have the option to take all or part of their benefits whilst remaining in your service. If they do elect to take all or part of their benefits they may still continue to contribute to the Scheme and earn further benefits.

Advantages of CARE

The main advantages are:

- Paying money into the Scheme reduces the amount of tax that the member pays. The part of earnings paid into the Scheme is deducted from salary before tax is calculated.
- Deferred members' DB benefits will continue to receive price inflation increases. Members will be able to provide security for their family. A pension and/or lump sum is normally payable on death.

- Members in the DB structures who have fluctuating salaries or who work part-time will not be penalised by any drop in salary close to leaving or retirement, as their pension is based on each individual year's earnings rather than their final pensionable earnings.
- Your contributions will be in safe hands. The Scheme is administered by The Pensions Trust, where it is overseen by democratically elected member-nominated and employer-nominated Directors of the Trustee Company and co-opted Directors.
- All administration is carried out by The Pensions Trust's experienced Customer Service Teams who are available to provide information and guidance on the Scheme.
- The Pensions Trust has its own investment portfolio. Participants in the Scheme benefit from the advantages of large scale investment.

Employer's Obligations

The employer has a duty under the Trust Deed to advise The Pensions Trust immediately should the employer go into liquidation, receivership or administration or become bankrupt. If any other event occurs relating to the employer which may be of material significance to the Trustee or its advisers, The Pensions Trust must be notified. The employer is also required, by law, to ensure all contributions are received by The Pensions Trust within the stipulated legal time limit **and** The Pensions Trust will not be responsible for any penalty imposed by the regulatory authorities for failure to do so.

The Scheme is a multi-employer pension scheme and is subject to the provisions of the Occupational Pension Schemes (Employer Debt) Regulations 2005. In the event of an employer ceasing to participate in the Scheme at a time when the Scheme has a deficit in the DB structures on the full buy-out basis, a debt on withdrawal will be due. The full buy-out basis is a prohibitively expensive way of funding pension benefits as it guarantees the pension payable for each member individually with no pooling of risk. For this reason, a very cautious, low return investment strategy is required.

Like almost all defined benefit schemes at the present time, the Scheme has a deficit on the full buy-out basis. At the last actuarial valuation the Scheme Actuary calculated the funding level on a full buy-out basis to be 66%. Whilst this is better than many defined benefit schemes in the UK it does mean that if a solvent employer withdraws from the Scheme there will be a debt due from that employer equal to its share of the deficit calculated on the full buy-out basis.

An employer will be deemed to have withdrawn if contributions are no longer being paid into the Scheme by, or on behalf of, any active members.

This booklet is intended to provide an explanation of the main benefits under the Scheme. If there is any conflict between the interpretation given in this booklet and the formal Trust Deed and Rules, the legal interpretation of the formal documents will prevail. Copies of the Trust Deed and Rules are available from The Pensions Trust and also online at www.thepensiontrust.org.uk

The Pensions Trust is not registered under the Financial Services and Markets Act to give financial advice. Any information that is provided to members or prospective members should, therefore, be taken to constitute information and not taken to constitute advice. When providing information to members or prospective members, The Pensions Trust takes care to provide an accurate service but the decision and choice remains the individual's for which The Pensions Trust cannot be responsible.

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