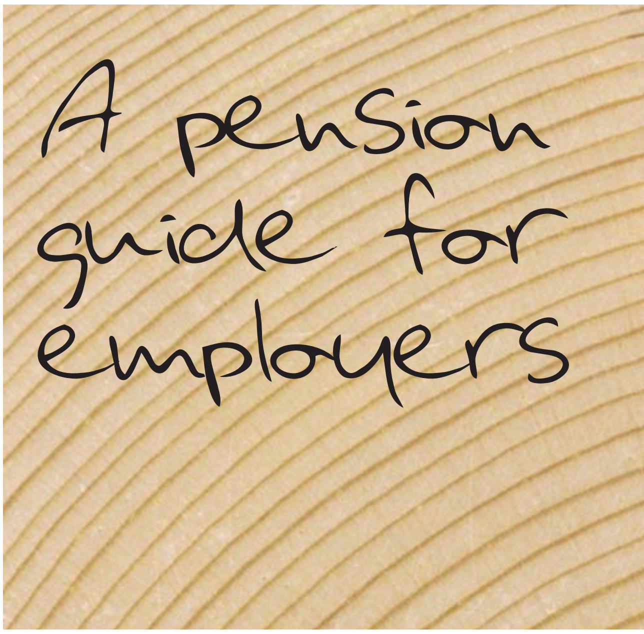
A pension guide for employers

Career Average Revalued Earnings

The Pensions Trust



A Pension Guide for Employers

The CARE (Career Average Revalued Earnings) 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. There are two benefit levels available in the Scheme, and it is your decision which one you choose to offer your employees. The options are CARE 80$^{\text{ths}}$ and CARE 100$^{\text{ths}}$:

CARE 80$^{\text{ths}}$

- Has an accrual rate of 1/80th of the member's earnings each year. It is contracted-out of the additional State Pension scheme, which means that both you and your employees will pay lower National Insurance contributions. The employee and employer contribution rates are explained later in this guide

CARE 100$^{\text{ths}}$

- Has an accrual rate of 1/100$^{\text{th}}$ of the member's earnings each year. It is not contracted-out, which means that members pay full rate National Insurance and accrue the additional State Pension (known as the State Second Pension) as normal. The employee and employer contribution rates are explained later in this guide

Both options provide a wide range of benefits for members including:

- Retirement pension with the option of a lump sum
- Ill-health early retirement
- Death benefit lump sum
- Survivor's pension on death

Full details of the Scheme benefits are discussed later in this booklet.

The Trustee Company

The Trustee company has 16 Directors and is responsible for all policy matters concerning CARE.

Investments are managed by independent external authorised fund managers.

Existing Pension Arrangements

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

The Scheme is able to receive transfers in (subject to confirmation) and in return, the member receives additional pension benefits. If any member is interested in a transfer they should contact our administration team on joining the Scheme.

Additional Voluntary Contributions

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

Cost of the Scheme

CARE 80ths

The employer pays a stable contribution rate of 10% of members' earnings. The Trustee may need to adjust the contributions but only in unusual and exceptional circumstances (the rate has remained at 10% since the Scheme commenced in 2001).

Members pay an age-related contribution rate, calculated as age at date of joining the Scheme divided by 10.

For example:

A member joining CARE 80ths aged 35 would pay a contribution rate of 3.5%. 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 table below shows the gross cost as well as the actual cost taking into account tax relief and the rebate of National Insurance (NI) Contributions.

Example Cost Table for CARE 80ths

	Member	Employer
Salary	£10,000	
Contribution rate	3.5%	10%
Gross Contribution per month	£29.17	£83.33
Less tax relief*	(£6.42)	Only if employer pays Corporation Tax
Less current NI rebate**	(£7.51)	(£16.42)
Actual cost per month	£15.24	£66.91

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

** subject to change

CARE 100ths

The employer pays a stable contribution rate of 8.5% of members' earnings. The Trustee may need to adjust the contributions but only in unusual and exceptional circumstances. Members pay an age-related contribution rate, calculated as age at date of joining the Scheme divided by 10, less 1%.

For example:

A member joining The CARE 100ths 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 table below shows the gross cost as well as the actual cost taking into account tax relief.

Joining the scheme

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

Example Cost Table for CARE 100ths

	Member	**Employer**
Salary	£10,000	
Contribution rate	2.5%	8.5%
Gross Contribution per month	£20.83	£70.83
Less tax relief*	(£4.58)	Only if employer pays Corporation Tax
Actual cost per month	£16.25	£70.83

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

Details of the Scheme

What age do I have to be to join?

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

How much pension will members get?

CARE 80ths

A pension payable for life calculated on 1/80th of salary for each year in the Scheme. This will be revalued every year in line with inflation up to the date the member takes their benefits.

Example:

- For a member aged 60
- Salary = £10,000.00 per annum
- 5 years to Scheme retirement age 65
- Inflation is assumed to be 3% every year up to retirement date

Pension for year one = 1/80th x £10,000.00 = £125.00 per annum

x (3% x 4* years) = £140.69 per annum at age 65

*only 4 years' increase as the last year is not revalued. The same process would be used for each year's pension earned up to the date the member takes their benefits.

CARE 100ths

A pension payable for life calculated on 1/100th of salary for each year in the Scheme. This will be revalued every year in line with inflation up to the date the member takes their benefits.

Example:

- For a member aged 60
- Salary = £10,000.00 per annum
- 5 years to Scheme retirement age 65
- Inflation is assumed to be 3% every year up to retirement date

Pension for year one = 1/100th x £10,000.00 = £100.00 per annum

x (3% x 4* years) = £112.55 per annum at age 65

*only 4 years' increase as the last year is not revalued. The same process would be used for each year's pension earned up to the date the member takes their benefits.

Are there any additional benefits?

Yes, investment return will be regularly monitored and should the Scheme build up a 'surplus', a profit share payment for each individual member will be made to the Flexible Retirement Plan.

Members will be able to choose from a range of investment options. Full details of these will be provided to members.

Is there a lump sum payable at retirement date?

Yes, instead of taking a full pension members can 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 including any benefits from the 'surplus' (if applicable).

What options does a member have at retirement?

- Full pension; or
- Lump sum plus a reduced pension

When can a member take their pension?

Members can take their pension from age 50 if they take it before 6 April 2010. From 6 April 2010 they must be aged 55 to receive their pension unless they joined the Scheme before 6 April 2006 (in which case the minimum age remains age 50). 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, before retirement the annual pension earned is increased in line with inflation. Once the member retires the pension will increase with inflation up to 2.5%. Pension earned in respect of service up to 5 April 2005 will increase with inflation up to 5%.

What if a member leaves?

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 CARE Scheme and will be revalued by inflation up to the member's date of retirement.

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

If the member leaves CARE 80ths with less than 2 years' pensionable service they can take a refund of their own contributions, less tax and an amount to buy them back into the additional State Pension.

If the member leaves CARE 100ths with less than 2 years' pensionable service they can take a refund of their own contributions, less tax.

What death benefits are available?

- If a member dies whilst still an active (contributing) member of the Scheme, a lump sum of 3 times their salary at the date of death plus a refund of their own contributions plus interest is payable and a refund of their surplus account (if applicable). Plus, a survivor's pension of 50% is payable using the pension formula, taking into account pensionable service as if the member had lived to age 65 and the final earnings at the date of death

- If the member dies before retirement once they have left service, a refund of their own contributions plus interest is payable and a refund of their surplus account, plus a 50% survivor's pension based on the member's pension at date of leaving revalued 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, revalued to the date of death

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 pension can be payable immediately without reduction together with an enhancement of service to age 65

- For women on paid maternity leave, members pay contributions on their maternity pay and the employer pays the balance of full contributions, normally up to 26 weeks

- If a member has reached age 50 (55 from 6 April 2010) 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 contribute to the Scheme and earn further benefits

What investment options does a member have for their surplus account?

On joining the scheme, members must choose an investment fund within the Trust's Flexible Retirement Plan (see details below) for their surplus account. Members will have the option of switching investments in the future.

The Flexible Retirement Plan

The Pensions Trust's Flexible Retirement Plan is a low-cost occupational money purchase pension scheme designed for the 21st Century. Scheme members will be able to choose where they would like any surplus to be paid, from a range of investment funds. Members will have the option of switching investments in the future.

Members may, if they wish, choose a lifestyling option whereby units are switched to less volatile investment funds as retirement draws near.

Further information on each of the investment funds and the lifestyling option can be found online at **www.thepensionstrust.org.uk**

Once in the website please use the navigation bar on the left-hand side of the screen, and access literature via either of the following links:

Our Products >Money Purchase>The Pensions Trust's Flexible Retirement Plan or Document Library>Scheme>Flexible Retirement Plan

The fund is converted into a pension at the time the CARE pension is taken by the member.

Note: Existing members may have chosen to invest any surplus in the Growth Plan arrangement under The Money Purchase Plan. This option will not be available to any new employers joining The Pensions Trust.

Advantages of CARE

The main advantages are:

- The Scheme is designed to provide a more stable contribution rate than previously seen in defined benefit schemes

- 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

- You can choose which option – CARE 80ths or CARE 100ths – is best for you and your employees

- If a surplus is generated, from investment over and above that which is needed to provide CARE benefits, this will be used to enhance members' retirement benefits through a separate account in the Flexible Retirement Plan. This will also be administered by The Pensions Trust

- Deferred members are treated the same as active members within the Scheme as any surplus credits will also be awarded to members after they leave the Scheme. Also a member's defined benefit will continue to receive price inflation increases. Members will be able to provide security for their family. A pension and lump sum may be payable on death

- Members 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. CARE is administered by The Pensions Trust, a 'not-for-profit' organisation. The scheme is overseen by democratically elected member-nominated and employer-nominated Directors of the Trustee company

- All administration is carried out by The Pensions Trust – experienced customer service teams 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 CARE Scheme is a multi-employer defined benefit scheme and is therefore 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 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 benefits schemes at the present time, the CARE 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 72%. Whilst, this is better than many defined benefit schemes in the UK it does mean that if a solvent employer withdraws from the CARE 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 CARE scheme by, or on behalf of, any active members and if the employer no longer has any employees who are eligible to join the CARE scheme.

This leaflet is intended to provide an explanation of the main benefits under the CARE Scheme. If there is any conflict between the interpretation given in this leaflet 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.

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 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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