

PREMIER PENSIONS MANAGEMENT

TECHNICAL UPDATE: 05/09

Changes to State Second Pension (S2P)

Background

In the 2007 Budget, the Government stated that, with effect from 6 April 2009, the Upper Earnings Limit (UEL) would be harmonised with the threshold for higher rate income tax.

The UEL is currently set at £770 per week, and is one of the figures used to determine

- The calculation of Class 1 national insurance contributions
- The calculation of S2P benefits and contracted-out rebates

Changes from 6 April 2009

One of the Government's long-term objectives is to change S2P to a fixed additional pension by about 2030 and they are now making one of the necessary changes.

From 6 April 2009, a new upper limit will be introduced in place of the UEL. The new limit, to be known as the Upper Accrual Point (UAP), will be a fixed amount of £770 per week. This will not be increased in future years. The UAP will replace the UEL in the calculation of certain benefits.

- S2P benefits will be calculated by reference to the UAP which will be less than the UEL in future years. This means that S2P will be a fixed pension if earnings are over £770 pw.
- For the calculation of contracted-out benefits and rebates, the upper limit for calculating "band earnings" (currently earnings between LEL and UEL) will be the UAP rather than the UEL.
- Class 1 national insurance contributions will continue to be calculated by reference to the UEL. However, the UEL will be increased to £844 per week for the year 2009/10.

Scheme Documentation

Many schemes will not require any amendments to their scheme rules. Even if a scheme's contracting-out provision specifically refers to the UEL, the context will usually be such that no rule amendment is required.

Occasionally, a scheme's rules may include a specific reference to the UEL in the main benefit design. In these schemes, the UEL may have some impact on the scheme's benefits or contributions, which may require a rule amendment.

For example, a scheme which provides a pension of:

1/100th of earnings up to the UEL

1/60th of earnings in excess of the UEL

Payroll Implications

There may be significant payroll implications if your plan contracts out on a protected rights basis because the UEL will continue to be used for National Insurance Contributions whilst the UAP will be used to calculate contracted-out rebates. Hence you may need to record both values.

If you consider that your scheme may be affected, please contact Paul Couchman or your usual consultant.

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*This update includes general information and cannot be relied upon for individual schemes issues. You should contact your adviser or Paul Couchman at Premier Pensions Management Ltd, Capital Business Centre, Units 14 & 15, 22 Carlton Road, South Croydon, Surrey, CR2 0BS. DL: 020 8916 2129.
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