

*These notes refer to the Pensions Act (Northern Ireland)  
2015 (c.5) which received Royal Assent on 23 June 2015*

# Pensions Act (Northern Ireland) 2015

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## EXPLANATORY NOTES

### COMMENTARY ON SECTIONS

#### **Part 1 – State Pension**

*Section 24: Abolition of contracting-out for salary related schemes etc*

*Schedule 13: Abolition of contracting-out for salary related schemes*

*Schedule 14: Power to amend schemes to reflect abolition of contracting-out*

Since 1961 sponsoring employers of salary-related occupational pension schemes have been allowed to contract their employees out of the additional pension on the condition that they would provide an occupational pension meeting certain statutory requirements (these have changed over the years).

In return for the employer providing a pension meeting the statutory minimum, both the employer and employee pay reduced rates of National Insurance (employer contributions are currently reduced by 3.4 per cent and employee contributions by 1.4 per cent).

In 1988 it became possible for employers to contract out their employees into a defined contribution occupational pension scheme, and for individuals to contract out into a personal pension scheme. However, the 2008 Act abolished these options from 6th April 2012.

Introduction of the new state pension will abolish the additional pension for those reaching pensionable age after the start date. Section 24 and Schedules 13 and 14 make provision for the ending of the option for sponsoring employers of salary-related occupational pension schemes to contract their employees out of the additional pension. This option will end on the start date of the new state pension.

As well as removing redundant provisions, the amendments to the Pension Schemes Act and other pensions legislation in Section 24 and Schedules 13 and 14 are intended to serve two main purposes.

Firstly, to ensure that all contracted-out rights accrued by employees through salary related contracted-out schemes before the abolition of contracting-out are fully protected. To protect accrued rights, paragraph 13 of Schedule 13

inserts new section 8E into the Pension Schemes Act. Section 8E requires former salary-related contracted-out schemes to meet the requirements in the Pension Schemes Act in relation to Guaranteed Minimum Pensions (“GMPs”). Section 8E deems scheme rules to comply with all the requirements, overriding the rules if necessary. Paragraphs 16 and 38 of Schedule 13 amend sections 12 and 83 of the Pension Schemes Act (the revaluation requirements for GMPs for early leavers and the anti-franking rules) so that abolition of contracting-out does not trigger either of these requirements. This will ensure that someone who stays in a scheme at abolition will not be treated as having left simply because contracting-out has ended. Paragraph 17 of Schedule 13 amends section 13 of the Pension Schemes Act to reflect the end of the current retirement pension scheme so that inherited GMPs will be payable in the same circumstances as now.

Secondly, to enable sponsoring employers of contracted-out schemes to change the rules of their pension schemes (where they are prevented from doing so) to adjust members’ future pension accruals or pension contributions to take into account the loss of the employer’s rebated National Insurance contributions. Section 24(2) and Schedule 14 provide a power for sponsoring employers to amend their scheme rules to decrease scheme costs in order to offset the increase in National Insurance contributions - for example, by reducing scheme benefits for future accruals or increasing member contributions. Following the end of contracting-out, employers and members of contracted-out salary-related schemes will have an increase in National Insurance contributions. They will pay the same rate of National Insurance as other employers and employees. This power will be available for five years (Section 24(8)). The power cannot be used to change the rules of public service pension schemes or other types of scheme (which may be prescribed in regulations under Section 24(4)(b)) or in relation to protected persons.