



Department
for Work &
Pensions



HM Revenue
& Customs

New State Pension fact sheet

Employers: Ending contracting-out for Defined Benefit private sector pension schemes

The introduction of the new State Pension from 6 April 2016 will deliver a clearer State Pension for future pensioners.

Closure of the additional State Pension

The closure of the additional State Pension will bring an end to contracting-out. Employers affected by this will need to take action now to prepare for this change.

Which employers are impacted by the end of contracting-out?

The changes outlined in this fact sheet affect only those employers who sponsor an open contracted-out, defined benefit pension scheme, e.g. a salary-related scheme. There are around 2,500 such employers in the private sector. Employers sponsoring a defined benefit scheme that is not contracted-out and those who provide defined contribution workplace pensions (for example, under automatic enrolment) are not affected.

What this means for employers sponsoring contracted-out pension schemes from 6 April 2016

- Employers sponsoring contracted-out schemes and their employees who are scheme members receive a rebate on their National Insurance contributions (NICs). For employers this is a reduction of 3.4% and for employees 1.4% (on a proportion of earnings). Contracted-out employees build little or no additional State Pension.
- From April 2016, you and your employees will pay the standard rate (class 1) of NICs instead of the contracted-out rate. The current employer standard rate is 13.8% of all earnings above the secondary threshold for all employees, you will no longer get the 3.4% National Insurance rebate

Employers can plan for the changes by:

- Checking with your HR or payroll provider whether your pension scheme is contracted-out.

- Considering how the ending of contracting-out will affect your scheme and how your scheme might operate in the future. As a private sector employer, you have the option to make amendments to your scheme to offset the increase in employer NICs.
- Discussing with your pension Trustees or pensions adviser, any changes you would like to make. As with all changes you make to your scheme you must consult members. Unlike other changes to your scheme, the Pensions Act 2014 permits you to make limited changes to your scheme without trustee and member agreement. This is sometimes called the 'statutory override'. Your pensions adviser will be able to help you further.
- Asking your scheme administrator to register for the HMRC Scheme Reconciliation Service (available between April 2014 – March 2016) to ensure that HMRC and your scheme hold the same information for each employee. Sign up for the Reconciliation Service here: www.hmrc.gov.uk/nic/srsrequest.htm
- Making sure your SCON (Scheme Contracted-Out Number) is correct when completing your Full Payment Submission (FPS) through the Real Time Information (RTI) system. This will ensure that your scheme can be identified correctly when HMRC run the "closure scan" after 6 April 2016 to close all open periods of contracted-out employment on your employees' National Insurance accounts.
- Thinking about how to communicate the changes you need to make (e.g. NICs increases) and how to pass on information to your employees about what the ending of contracting-out means for them. This is likely to include reviewing your member booklets and other documentation
- The Department for Work and Pensions (DWP) has published an [employee fact sheet](#) to help you do this.

Where to go to find out more:

- **Pensions adviser / scheme trustees**

Speak to your pensions adviser or scheme Trustees to find out how your scheme is affected and to explore your options.

- **HMRC online bulletins:**

- Employer Bulletin – published six times a year to give employers the latest information on topics and issues that may affect them.
- Countdown Bulletin – quarterly bulletin for pension providers who are currently operating defined benefit contracted-out schemes, keeping them updated on what is happening in the lead up to the changes in April 2016.

- **GOV.UK website**

- Basic information on the new State Pension guide: www.gov.uk/new-state-pension
- More detailed information on the policy: www.gov.uk/government/policies/making-the-state-pension-simpler-and-fairer