

The Money Purchase Scheme of The Cheviot Trust

Additional Information for Members of the COMP Section

Members of the Money Purchase Scheme who decided to use the Scheme to contract-out of part of the State Scheme before April 1999 are members of the Contracted Out Money Purchase Section. Before April 2002, these members contracted-out of the State Earnings Related Pension Scheme (SERPS). SERPS was replaced in April 2002 by a new scheme, the State Second Pension Scheme (S2P), and members who had already contracted out of SERPS are able to contract-out of S2P in a similar way. This note provides some further background on S2P.

Please note, the decision to contract-out of S2P is an investment decision. The general advice from the Scheme Actuary is that the terms offered by the Government for contracting-out are not attractive and that members should consider their decision very carefully. The Scheme does not allow new members to contract-out and only members who have specifically elected to remain contracted-out are able to do so.

State benefits

In addition to benefits provided by the Scheme, the State provides additional pension benefits. The current benefits provided by the State are the Basic State Pension and the State Second Pension (S2P). S2P was introduced by the Government on 6 April 2002 and replaced the State Earnings Related Pension Scheme (SERPS). The Basic State Pension is currently around £3,900 per year for a single person. It is paid regardless of your membership of the Scheme if you have paid sufficient National Insurance contributions.

From 6 April 2002, the Government replaced SERPS with S2P. The benefits from S2P depend on your earnings and are more generous than SERPS for some people, particularly the lower paid. The benefits, which are payable from your State Pension Age, depend on your earnings, your age and your National Insurance record. Your actual S2P benefit will be based on average earnings over your working life and will be reduced if you were over 16 on 6 April 2002 or have not paid full National Insurance contributions. You may also be entitled to some State benefit from SERPS. The Government expects to change S2P over the longer term to a flat rate benefit with no link to earnings.

Contracting-out

You can contract-out of S2P in a similar way to contracting-out of SERPS. By contracting-out of S2P you are giving up your right to part or all of your S2P, depending on your salary. In return contracting-out rebates are paid into the Scheme. If you are earning less than £25,600 (2003/04 tax year), you will still receive the difference between the old SERPS benefits and S2P from the State. Contracting-out is therefore partial not total in this case.

The rebates for the 2003/04 tax year are as follows.

- 1.6% of your earnings between the LEL and UEL from your own National Insurance contributions; plus
- 1.0% of your earnings between the LEL and the UEL, from your employer's National Insurance contributions; plus
- An amount based on your age, varying between 0% and 7.9% of your earnings between the LEL and UEL

Should you contract-out?

The total rebates from April 2002 are higher than the previous year at all ages. The Government has indicated that the increase is to reflect changes in the benefits given up, life expectancy, investment returns and expenses. However, it is generally thought that, taking all these changes into account, the increase is not generous and makes contracting-out less attractive for most members.

Any decision to remain contracted-out is an investment decision. You are giving up an earnings-related benefit in exchange for an increase in contributions to the Scheme. The level of investment performance you need to achieve in the Scheme to benefit financially from contracting-out does vary with age and at some ages the terms are more preferential. Whether or not to contract-out depends on a number of factors individual to you: age, sex, marital status, earnings and attitude to risk. The Cheviot Trust is not able to provide individual advice on this and you should seek independent financial advice.

Please remember that the benefits you receive from the Scheme as a result of contracting-out are not guaranteed. They may be more or less than your S2P benefits given up.

Other Options

You may contract-out of S2P by using a personal pension or stakeholder arrangement rather than through the Scheme. These are individual pension arrangements, which you would need to organise yourself. You should obtain independent financial advice if you are considering this route.

Further information

Contracting-out is a complex subject. If you need further information, you should contact an Independent Financial Adviser, as individual advice on whether to contract-out is not available from Cheviot Trust.

If you have chosen to contract-out of SERPS through the Scheme, you will be contracted-out of S2P unless you notify the Committee otherwise in writing.