



United Kingdom – an overview of employee benefits

<p>State and Mandatory Benefits</p>	<p>State pension age is 65 for men and 60 for women, but is being increased in stages to age 65 for women between 2010 and 2020. State pension age will then increase to age 66 in 2024, age 67 in 2034, and age 68 in 2044. The full state retirement benefit is a low flat-rate pension (£95.25 a week for a single person from April 2009) plus an earnings-related second state pension (S2P) providing an additional pension based on 40% of covered earnings for employees in the lowest earnings band reducing to 10% in the highest band. S2P is due to become flat rate over the period from 2010 to 2030. Employers can contract-out of S2P if they have a suitable company sponsored plan. An individual can contract-out of S2P with a suitable personal pension. It will not be possible to contract-out of defined contribution plans from 2015. The state also provides survivors' pensions, disability pensions and comprehensive medical care. From 2012, the government is planning to phase in a system of personal pension accounts which will be mandatory for employers who have no company pension scheme. Employees will contribute 4% of pay, employers 3% and the government 1%.</p>
<p>Typical New Private Plan</p>	<p>New plans typically provide retirement benefits on a defined contribution basis. Lump sum death benefits and survivors' pensions are also provided. Disability pensions and private medical insurance may be provided for higher-paid employees.</p>
<p>Typical Costs</p>	<p>For state benefits, employers pay 12.8% of covered earnings; employees pay 11% of earnings up to £43,888 plus 1% on the excess (increasing to 12% and 2% from April 2012). The contributions are reduced if employees are contracted-out of S2P through a company plan. Contributions to defined contribution plans are typically 5% of earnings by employees and 5% to 10% by employers. Contributions to defined benefit plans are typically 5% by employees and 15% to 20% by employers.</p>
<p>Tax Implications</p>	<p>Employer contributions are tax deductible to the employer and not taxable to the employee; employee contributions are tax deductible, with reduced tax relief for employees and employers on earnings over GBP 130,000 from December 2009. Tax relief is also subject to a maximum annual contribution of 100% of pay up to £245,000 (2009-10) and a maximum lifetime fund of £1,750,000. Pension funds are largely tax exempt. Pensions are taxed as income but 25% can usually be taken as tax-free cash sum.</p>
<p>Labour Law Issues</p>	<p>In company pension plans, employees have a right to a transfer payment after three months and to full vesting after two years. In personal pension plans, benefits vest immediately. Pensions in payment from defined benefit plans must increase in line with retail prices up to a maximum of 2.5% annually.</p>
<p>Pooling Potential</p>	<p>Insured benefits can be included in multinational pooling arrangements, but the scope for pooling may be limited as there are no tariff rates. Other advantages may apply for multinationals.</p>
<p>International Financial Reporting</p>	<p>For listed companies, International Financial Reporting Standards apply in both consolidated and separate company statements. For unlisted companies, International Financial Reporting Standards are permitted in both consolidated and separate company statements.</p>
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