

UNITED KINGDOM – AN OVERVIEW OF EMPLOYEE BENEFITS

<p>State and Mandatory Benefits</p>	<p>State pension age is 65 for men and is being increased from 60 to 65 for women between 2010 and 2018. State pension age is then due to increase to age 66 in 2020 and age 67 in 2026. The full state pension is a flat-rate pension of GBP 102.15 a week (April 2011) plus an earnings-related second state pension (S2P) providing an additional pension based on 10% to 40% of covered earnings. The basic state pension can be increased to GBP 132.60 a week by means-testing. The government has proposed replacing the current system with a single tier state pension of GBP 140 a week. Currently, employers can contract-out of S2P if they have a company sponsored plan and an individual can contract-out of S2P with a personal pension. It will not be possible to contract-out of defined contribution plans from 2012 or from defined benefit plans if a single tier state pension is introduced. The state also provides survivors' pensions, disability pensions and comprehensive medical care. In 2012 a system of mandatory personal pension accounts (NEST) will be introduced for larger employers who do not have a company pension plan, although employees will be able to opt-out. By 2017, employees are due to contribute 4% of pay, employers 3% and the government 1%.</p>
<p>Typical New Pension Plan</p>	<p>New plans typically provide 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 13.8% of covered earnings (April 2011). Employees pay 12% of earnings up to GBP 42,484 (April 2011) plus 2% on the excess. The contributions are reduced if employees are contracted-out of S2P through a company plan. Contributions to defined contribution plans are typically 5% of pay by employees and 15% 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 employees. Employee contributions are tax deductible, with reduced tax relief for higher-paid employees. Tax relief is also subject to a maximum annual contribution of 100% of pay up to GBP 50,000 (April 2011) and to a maximum lifetime fund of GBP 1.5 million (April 2011). Pension funds are largely tax exempt. Pensions are taxed as income but 25% can usually be taken as tax-free cash.</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 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>EU/EEA rules apply. 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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