

# Termination of Contracted-out Employment

Manual for:  
Money Purchase Pension Schemes and  
Money Purchase Parts of Mixed Benefits Schemes



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# Abbreviations

<b>AP</b>	Additional Pension
<b>APP</b>	Appropriate Personal Pension
<b>APPSHP</b>	Appropriate Personal Pension Stakeholder Pension
<b>ARR</b>	Age-Related Rebate
<b>ASCN</b>	Appropriate Scheme Number
<b>AVC</b>	Additional Voluntary Contributions
<b>BACS</b>	Bankers Automated Clearing Services
<b>CEP</b>	Contribution Equivalent Premium
<b>COCIS</b>	Contracted-out Contribution Information Service
<b>COD</b>	Contracted-out Deduction
<b>COMB</b>	Contracted-out Mixed Benefit
<b>COMP</b>	Contracted-out Money Purchase
<b>COMPSPH</b>	Contracted-out Money Purchase Stakeholder Pension
<b>COSR</b>	Contracted-out Salary Related
<b>DWP</b>	Department for Work and Pensions
<b>ECON</b>	Employer's Contracting-out Number
<b>ET</b>	Earnings Threshold
<b>FRY</b>	Final Relevant Year
<b>FSAVC</b>	Free Standing Additional Voluntary Contributions
<b>GB</b>	Great Britain
<b>GMP</b>	Guaranteed Minimum Pension
<b>HST</b>	High Speed Transmission
<b>LEL</b>	Lower Earnings Limit
<b>LRP</b>	Limited Revaluation Period
<b>MCs</b>	Minimum Contributions
<b>NICs</b>	National Insurance contributions
<b>NINO</b>	National Insurance number

<b>ICR</b>	Intelligent Character Recognition
<b>OPB</b>	Occupational Pensions Board
<b>OPRA</b>	Occupational Pensions Regulatory Authority
<b>PAYE</b>	Pay As You Earn
<b>PSA</b>	Pensions Scheme Act 1993
<b>RPA</b>	Responsible Paying Authority
<b>RPI</b>	Retail Price Index
<b>S148</b>	Section 148 of the Social Security Administration Act 1992
<b>SCON</b>	Scheme Contracted-out Number
<b>SERPS</b>	State Earnings Related Pension Scheme
<b>SMP</b>	Statutory Maternity Pay
<b>SPA</b>	State Pension Age
<b>UEL</b>	Upper Earnings Limit
<b>UK</b>	United Kingdom

# Glossary of terms

**Accrued rights** Also known as accrued benefits. Generally, the right to future benefits which a member of an occupational pension scheme has built up in respect of service up to a given point.

**Additional Pension (AP)** The Additional Pension (AP) is the earnings related part of the State Retirement Pension. It is also known as the State Earnings Related pension Scheme (SERPS) or State Second Pension as from 6 April 2002. It is based on earnings on which National Insurance contributions (NICs) have been paid since April 1978. Employees are automatically in the SERPS, or State Second Pension from 6 April 2002, unless they contract-out via an occupational scheme or an Appropriate Personal Pension (APP). Anyone who is, or has been, a member of a contracted-out scheme will have their AP reduced accordingly.

**Age-Related Rebate (ARR)** The Inland Revenue National Insurance Contributions Office makes payments into (APPs) Appropriate Personal Pension/(COMPs) Contracted-out Money Purchase for tax years from 1997/98 and (APPSHPs) Appropriate Personal Pension Stakeholder Pension/(COMPSHPs) Contracted-out Money Purchase Stakeholder Pension from 2001/02. They will increase with the age of the member and will reflect the different amounts of rebate needed at different ages to generate the same benefits as SERPS or State Second Pension from 6 April 2002.

**Annuity** A pension bought-out by a pension scheme from an insurance company, for either immediate or deferred payment.

**Appropriate Personal Pension (APP) scheme** A personal pension scheme which an individual may join as a means of contracting out of State Second Pension, previously known as SERPS. To obtain an appropriate scheme certificate from the Secretary of State for Department for Work and Pensions (DWP), the personal pensions scheme needs to satisfy certain conditions about the provision of protected rights.

**Appropriate Personal Pension Stakeholder Pension (APPSHP) scheme** Appropriate Personal Pension scheme which operates in the same basis as an APP scheme but with stakeholder status.

**Contracted-out Earnings** Those earnings which fall between the Lower Earnings Limit (LEL) and the Upper Earnings Limit (UEL).

**Contracted-out Mixed Benefit (COMB) scheme** An occupational pension scheme which holds both COMP and COSR rights. COSR rights may be GMPs for service before 6 April 1997 or post '97 COSR rights after that date.

**Contracted-out Money Purchase (COMP) scheme** A contracted-out occupational pension scheme where the employer pays minimum payments which, along with any other contributions from the employer and, or member, provide the member with a pension based on the value of his or her fund at retirement.

**Contracted-out Money Purchase Stakeholder Pension (COMPSHP) Scheme** A contracted-out occupational pension scheme which operates on the same basis as a COMP scheme but with stakeholder status.

**Contracted-out Rebate** Employers who operate contracted-out pension schemes pay NICs at a reduced (contracted-out) rate. The difference between the full not contracted-out rate and the reduced rate is known as 'contracted-out rebate'.

**Contracted-out Salary Related (COSR) scheme** A contracted-out occupational pension scheme which provides members with a pension related to their earnings.

**Contract-out** An arrangement under which members of a pension scheme which meets certain conditions, obtain rights in that scheme in place of their additional state pension entitlement. NICs for these employees are reduced or, in the case of an APP/APPSHP, partly repaid to the scheme.

**Employee and Employer Thresholds** The employer threshold was introduced in April 1999. It set the level of earnings which had to be exceeded before employer NICs became payable. The employee earnings threshold was introduced from April 2000 but set at a different level to the employer threshold. In April 2001 the employee and employer thresholds were set at the same level.

**Former spouse** A person who may acquire accrued pension rights under a pension share.

**Guaranteed Minimum Pension (GMP) rights** The minimum pension which a salary-related occupational scheme must pay a member in respect of contracted-out contributions paid between April 1978 and April 1997, as a condition of contracting-out. (Replaced by the Reference Scheme Test for contributions paid after April 1997.)

**Lower Earnings Limit (LEL)** The minimum amount set at the beginning of each tax year, which must be earned in a pay period to qualify for Basic Retirement Pension.

**Lump sum** The member can choose to have a lower pension and take a tax free lump sum when they retire. The maximum lump sum they can take is 25 per cent of their fund. Protected rights cannot be included in this calculation. But, in certain circumstances, the member can commute the protected rights in a lump sum.

If the member dies, a lump sum may also be paid to:

- the widow or widower
- a person specified by the member, or
- the member's estate.

**Minimum Payments** The minimum payments an employer must make to a COMP/COMPSPH or the COMP part of a COMB scheme are the difference between NICs at the not contracted-out rate, and the lower contracted-out rate. This also applies to married women and widows paying the contributions at the reduced rate. Payments must be made by the employer to the scheme within 14 days of the end of the income tax month in which liability for NICs arose on earnings on which minimum payments are due.

**NIC Rebate** Following the introduction of the earnings threshold, no NICs are payable on earnings between the LEL and the earnings threshold. However, a contracted-out rebate is still due on this band of earnings. See paragraph 2.17 for further details.

**Overseas arrangement** A scheme or arrangement other than an occupational pension scheme, which will provide benefits on termination of employment, or on death or retirement. It is not an APP scheme and is administered wholly or primarily outside the United Kingdom (UK).

**Overseas scheme** An occupational pension scheme established under irrevocable trust, or by such other means as the Commissioners of Inland Revenue may approve, and which is administered wholly or primarily outside of the UK as defined in Regulation 1 of the Occupational Pension Schemes (Contracting-out) Regulations 1996.

**Pension Sharing on Divorce** A term used where the courts agree or order that, on divorce or nullity, pension rights are to be shared.

**Post '97 COSR Rights** A member's rights derived from being a contracted-out member of a scheme contracted-out on a salary related basis, on or after 6 April 1997 and any post '97 COSR rights or post '97 protected rights which have been transferred to the scheme from a COSR scheme, COMP scheme, COMB scheme or APP scheme, but excluding any rights derived from additional voluntary contributions paid for the member, ie Section 9 (2B) rights as defined in Regulation 1 of the Occupational Pension Schemes (Contracting-out) Regulations 1996.

**Protected rights** Protected rights are the member's total rights to money purchase benefits under the scheme, unless the scheme rules make separate provision. If the scheme rules to separately provide,

then the following have to be included in the scheme rules as protected rights:

- minimum payments
- age-related payments including any made as a result of a transfer from a COMP scheme or the active COMP part of a COMB scheme
- incentive payments including any made as a result of a transfer from a COMP scheme
- protected rights transferred in from another COMP scheme or the active COMP part of a COMB scheme or from an APP scheme
- GMP or post '97 COSR rights transferred in from a COSR scheme or the active COSR part of a COMB scheme.

**Responsible Paying Authority (RPA)** An occupational pension scheme or other body, for example an insurance company, responsible for paying a GMP or protected rights.

**Safeguarded Rights** Rights as defined in Section 68(A) of the Pension Schemes Act 1993.

**Section 53 schemes** A scheme formerly certified under Services to Pensions Industry financial supervision arrangements.

**Section 148** The rate of revaluation set out in an order made under Section 148 of the Social Security Administration Act 1992.

**Stakeholder Pension Scheme** A pension scheme that has been registered under section 2 of the Welfare Reform Pension Act 1999 and satisfies the conditions in section 1 of that act.

**State Earnings Related Pension Scheme (SERPS)** A term used to describe the AP provision of the state pension scheme accrued up to 5 April 2002 - see 'Additional Pension'.

**State Pension Age (SPA)** The minimum prescribed age which a person must be before they can be paid a state Retirement Pension.

**State Second Pension** A term used to describe the AP provision of the state pension scheme accrued from 6 April 2002 see 'Additional Pension'.

**Transfer payment** A payment of GMP, post '97 COSR rights or protected rights made by a COSR, COMP/COMPSP, COMB or APP/APPSP scheme to either:

- another occupational pension scheme, or
- an APP/APPSP scheme.

**Transfer value** Value of the benefit to which a member is entitled on transferring to another occupational or personal pension scheme.

**Upper Earnings Limit (UEL)** NICs do not have to be paid by employees on earnings over a certain amount. This maximum amount is set at the beginning of each tax year and is about seven times the amount of the LEL. There is no UEL for employers.

# 1 Introduction to this manual and Inland Revenue National Insurance Contributions Office

## *About this manual*

- 1.1 This manual:
- is intended for employers and administrators of Contracted-out Money Purchase (COMP) occupational pension schemes or COMP parts of Contracted-out Mixed Benefit (COMB) pension schemes whose members are contracted-out of the additional state pension. From 6 April 2002 SERPS was reformed by State Second Pension.
  - incorporates the changes introduced by the Pensions Act 1995
  - contains guidance on what to do when an employee has left a COMP pension scheme, or the COMP part of a COMB scheme, and the period of contracted-out employment was:
    - entirely pre 6 April 1997
    - both pre and post 6 April 1997
    - entirely post 6 April 1997
  - contains information about the calculation and payment of age-related rebates.
- 1.2 This manual does not deal with procedures relating to:
- Contracted-out Salary Related (COSR) schemes or the COSR part of COMB schemes. Details of COSR procedures are covered in manual CA14, *Termination of Contracted-out Employment - Manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes*, or
  - Contracted-out Money Purchase Stakeholder Schemes. Details of COMPSHP procedures are covered in manual CA84 *Stakeholder Pensions Scheme Manual*.
  - occupational pension schemes which cease to contract-out. Details on the procedures when a scheme ceases to contract-out are covered in manual CA15, *Cessation of Contracted-out Pension Scheme Manual*.
- 1.3 This manual gives general guidance only, and should not be treated as a complete and authoritative statement of the law.

## *Responsibilities and contacts*

Inland Revenue – National Insurance Contributions Office

- 1.4 The Inland Revenue National Insurance Contributions Office
- has a Director who is responsible to the Director General of Operations in Inland Revenue
  - operates the National Insurance scheme, the second largest source of Government revenue after Income Tax, by:
    - ensuring compliance with the law relating to National Insurance
    - maintaining over 60 million contributors' National Insurance records

- providing an information and advisory service to the business community and members of the public
- providing National Insurance information to benefit paying Agencies
- administering the contracting-out arrangements.


#### Services to Pensions Industry

1.5 Services to Pensions Industry is part of the Inland Revenue National Insurance Contributions Office.

#### Services to Pensions Industry :

- considers elections from employers who wish to contract-out of the additional state pension, commonly known as SERPS or State Second Pension and issues contracting-out certificates if the election is accepted for COSR, COMP, COMB, and Appropriate Personal Pensions (APP) schemes
- issues revised certificates where elections to vary a contracted-out certificate are made for a COSR, COMP, COMB, and APP schemes
- allocates Employer's Contracting-out Numbers (ECONs) and Scheme Contracted-out Numbers (SCONs) for COSR, COMP, COMB, and Appropriate Scheme Contracted-out Numbers (ASCNs) for APP schemes
- supplies contracted-out employers or schemes who operate COSR, COMP, COMB, and APP schemes with:
  - an information pack when the contracting-out certificate is first issued, and
  - National Insurance contributions tables for contracted-out employers who operate all contracted-out schemes
- supervises COSR, COMP, COMB, and APP schemes to ensure:
  - their resources meet their contracted-out and safeguarded rights liabilities, and
  - they continue to satisfy the condition for contracting-out
- has the authority to cancel or vary contracting-out certificates for COSR, COMP, COMB, and APP schemes on behalf of the Commissioners of Inland Revenue
- approves and supervises a scheme's arrangements of COSR, COMP, and COMB schemes if they cease to contract-out
- has the power to withdraw or refuse approval of arrangements for COSR, COMP, and COMB schemes
- has the power to issue certificate of non-approval and directions to discharge liabilities for COSR, COMP, and COMB schemes
- registers, cancels and terminates contracted-out employment for all contracted-out scheme optants
- makes sure all necessary arrangements are made for individuals if any contracted-out schemes ceases to contract-out
- supplies forms mentioned in this guide, and
- deals with procedures for registration and payment of Age Related Rebates (ARRs) for COMP, COMPSP, COMB, APP and APPSP schemes.

1.6 Any enquiries about the procedures performed within Services to Pensions Industry should be forwarded to

 Inland Revenue  
National Insurance Contributions Office  
Services to Pensions Industry  
Benton Park View  
Newcastle upon Tyne  
NE98 1ZZ


All notifications should be sent to the address quoted on the appropriate form.

You can also visit Services to Pensions Industry website at [www.inlandrevenue.gov.uk/coeg](http://www.inlandrevenue.gov.uk/coeg)

Department for Work and Pensions (DWP)

1.7 DWP Headquarters deals with matters of policy relating to contracted-out schemes.

1.8 Send all enquiries in writing to

 Department for Work and Pensions  
Branch PP1  
The Adelphi  
1-11 John Adam Street  
London  
WC2N 6HT

Occupational Pensions Regulatory Authority (OPRA)

1.9 OPRA

- is an executive non departmental public body accountable to Parliament
- regulates occupational pensions and APPSHP schemes
- has the authority to investigate schemes and take action to uphold the law, and
- has the responsibility for running the Pensions Schemes Registry.


1.10 Send any enquiries to

 Occupational Pensions Regulatory Authority  
Invicta House  
Trafalgar Place  
Brighton  
East Sussex  
BN1 4BY

Or you can visit OPRA's website at [www.stakeholder.opra.gov.uk](http://www.stakeholder.opra.gov.uk)

## Further Information

- 1.11 For further copies, or if you need any further information about this manual please contact

 Inland Revenue  
National Insurance Contributions Office  
Services to Pensions Industry  
Room BP4001  
Benton Park View  
Newcastle upon Tyne  
NE98 1ZZ


 08459 150 150

Lines are open 8am to 5pm Monday to Friday.

- 1.12 If you need further information about pensions you can order copies of the following leaflets:

Leaflet	Title
PM1	A guide to your pension options
PM2	State pensions - Your guide
PM3	Occupational pensions - Your guide
PM4	Personal Pensions - Your guide
PM5	Pensions for the self-employed - Your guide
PM6	Pensions for women - Your guide
PM7	Contracted-out pensions - Your guide
PM8	Make the most of your personal pension
PP3	Personal Pensions for the self employed
PP4	A guide to the Financial Services Act for employers
PSO2	Personal Pension Schemes (including Stakeholder Pension Schemes) A guide for members of tax approved schemes

- 1.13 You can get these free leaflets by contacting

 Department for Work and Pensions  
FREEPOST BS5555/1  
Bristol  
BS991BL


 08457 313 233

A textphone number is available on 0845 604 0210

Lines are open 24 hours.

You can also order them online from the following website [www.dss.gov.uk](http://www.dss.gov.uk)


Leaflet PSO2 is only available from

 Inland Revenue  
(Savings, Pensions, Share Schemes)  
Yorke House  
PO Box 692  
Castle Meadow Road  
Nottingham  
NG2 1BG

 0115 974 1670

1.14 The information and instructions in this manual apply in Northern Ireland and the Isle of Man, with the exception of Stakeholder Pension Schemes, which are not available in the Isle of Man.

1.15 Employers with employees in contracted-out employment in the Isle of Man should contact

 DHSS  
Social Security Division  
Contributions Section  
Markwell House  
Market Street  
Douglas  
Isle of Man  
IM1 2RZ

 01624 685 685

Lines are open 9am to 5pm Monday to Friday.

Helplines

1.16 The following helplines are available for general queries:

Inland Revenue Services to Pensions Industry

1.17  08459 150 150

Lines are open 8am to 5pm Monday to Friday.

This helpline can answer your questions on contracted-out procedures.

1.18 Inland Revenue Pensions Technical Advice

 0115 974 1777

Lines are open 9am to 5pm Monday to Friday.

This helpline can answer your questions on tax rules for all pension arrangements.

1.19 Occupational Pensions Regulatory Authority (OPRA)

 01273 627 600

Lines are open 9am to 5pm Monday to Friday.

This helpline can deal with your questions on the regulation on Occupational Pension Stakeholder Pension scheme and provide details on the register of SHP schemes.

## *Enquiry services*

1.20 Inland Revenue National Insurance Contributions Office provides enquiry services for:

- checking members National Insurance numbers (NINOs) and dates of birth
- calculating protected rights Contracted-out Deductions (COD), and
- providing contracted-out contributions earnings information.

### **Check of members' NINOs and dates of birth**

1.21 NINOs and dates of birth of contracted-out scheme members can be checked against those held by the Inland Revenue National Insurance Contributions Office. This facility is normally free of charge.

1.22 Manual CA21 *Using the National Insurance Number/Date of Birth Checking Service Manual*, is available from Services to Pensions Industry. Enquiries can be made on paper schedules or magnetic media. To avoid delay, applications should be made:

- between November and April, or
- at intervals of at least three years.

1.23 Dates of birth held by Inland Revenue National Insurance Contributions Office are not always verified, so employers and schemes must ensure the dates of birth they hold are correct.

### **Contracted-out Deduction Enquiry Service**

1.24 A COMP scheme may use the Contracted-out Deduction Enquiry Service to obtain an up to date calculation of the deduction that will be made from a member's state Additional Pension (AP). This service can also be used if schemes wish to obtain a calculation at any time during pension sharing on divorce procedures. Chapter 12 provides full information relating to pension sharing on divorce and contracting-out procedures.

1.25 Requests must be made to Services to Pensions Industry on form CA1580, signed by a duly authorised person showing their official capacity, for example trustee of the scheme, or scheme administrator.

1.26 An individual who is, or has been, a member of a COMP scheme can request a protected rights COD calculation from Services to Pensions Industry. However, a more useful calculation, quoting Basic Retirement Pension, State Second Pension, State Earnings Related Pension, Graduated Retirement Pension and COD can be obtained from Benefits Agency Retirement Pension Forecast Advice Unit. Application form BR19 is available from Department for Work and Pensions (DWP) offices.

### **Contracted-out Contribution Information Service (COCIS)**

1.27 Employers and schemes can be provided with contracted-out contributions or earnings details by magnetic media submissions. For further information see manual CA20 *Using the Contracted-out Contributions/Earnings Information Service Manual*.

1.28 There is a charge made for this service. For further information, including details of the charges, contact



Inland Revenue  
National Insurance Contributions Office  
Services to Pensions Industry  
Room BP4002  
Benton Park View  
Newcastle upon Tyne  
NE98 1ZZ



08459 150 150

## *Tracing services*

1.29 The Benefit Agency rather than Services to Pensions Industry provide this service. It is available to help schemes contact a missing person with accrued rights to benefit. The communication must be sent, in a sealed envelope bearing the person's name and last known address to your nearest Benefit Agency office. If the person concerned can be identified the communication will be forwarded with a covering explanation. If not, the communication will be returned to the scheme. Bulk traces for National Insurance numbers can also be made.

1.30 The Inland Revenue National Insurance Contributions Office can perform bulk traces for NINOs. Enquiries about this service can be made by contacting:

 Inland Revenue  
National Insurance Contributions Office  
Section 1- 8 H3002  
Benton Park View  
Newcastle upon Tyne  
NE98 1ZZ

 08459 158 558


There is a charge made for these services.

1.31 If the member, widow, widower or nominated beneficiary(ies):

- can be found, the information will be forwarded with a covering explanation
- cannot be found, the information will be returned to the scheme.

Please note a charge is made for this service.

1.32 If a widow, widower or nominated beneficiary(ies) cannot be traced enquiries can be made to

 Principal Probate Registry  
Somerset House  
Strand  
London  
WC2 1LP

or the District Probate Office covering the address where the deceased lived. For a person living in Scotland enquiries should be made to

 The Commissary Office  
27 Chambers Street  
Edinburgh  
EH1 1LB

## *Comments on our service*

- 1.33 We welcome any comments you have on how to improve our service to all customers, including your future requirements and expectations. You can let the Customer Support Team know, by phone or by writing to



Inland Revenue  
National Insurance Contributions Office  
Services to Pensions Industry  
Room BP4102  
Benton Park View  
Newcastle upon Tyne  
NE98 1ZZ



084591 150 250

Fax 0191 225 0285

- 1.34 We would also like to hear from you if you think you have received particularly good service. If however you have a complaint we will do our best to settle your complaint quickly and to your satisfaction.

## *If you are unhappy with our service*

- 1.35 If you are unhappy with any aspect of the service you have received from the Inland Revenue National Insurance Contributions office, you should complain to the manager at the office you have been dealing with.

## *Data Protection*

- 1.36 The Inland Revenue is a Data Controller under the Data Protection Act. We hold information for the purposes specified in our notification made to the Data Protection Commissioner, and may use this information for any of them.
- 1.37 We may get information about you from others, or we may give information to them. If we do it will only be as the law permits, to check accuracy of information, prevent or detect crime, protect public funds.
- 1.38 We may check information we receive about you with what is already in our records. This can include information provided by you as well as by others such as other government departments and agencies and overseas tax authorities. We will not give information about you to anyone outside the Inland Revenue unless the law permits us to do so.

## *Decision Making and Appeals (DMA)*

- 1.39 Following the implementation of the Social Security Act 1998, procedures for Decision Making and Appeals must be followed. This means that when a formal decision is issued there is a right of appeal against that decision to an independent appeal tribunal. Further information is available in manual *CA14F Technical Guidance on Contracted-out Decision Making and Appeals*, which is available from Services to Pensions Industry. See paragraph 1.6.

## *Additional information/services*

1.40 Additional information about schemes in contracted-out employment can be found in:

<b>Manual</b>	<b>Title</b>
CA14	Termination of Contracted-out Employment - Manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes
CA14A	Termination of Contracted-out Employment - Manual for Money Purchase Pension Schemes and Money Purchase Parts of Mixed Benefit Schemes
CA14C	Contracted-out Guidance for Salary Related Pension Schemes and Salary Related Overseas Schemes
CA14D	Contracted-out Guidance for Money Purchase Pension Schemes and Money Purchase Overseas Schemes
CA14E	Contracted-out Guidance for Mixed Benefit Pension Schemes and Mixed Benefit Overseas Schemes
CA14F	Technical Guidance on Contracted-out Decision Making and Appeals
CA15	Cessation of Contracted-out Pension Scheme Manual
CA16	Appropriate Personal Pension Scheme Manual - Procedural Guidance
CA16A	Appropriate Personal Pension Scheme Manual - Guidance for Scheme Managers
CA17	Employees guide to minimum contributions
CA19	Using the Accrued GMP Liability Service
CA20	Using the Contracted-out Contributions/Earnings Information Service
CA21	Using the National Insurance Number/Date of Birth Checking Service
CA22	Submitting Contracted-out Data Transactions using Magnetic Media
CA39	Contracted-out contributions for employers with Contracted-out Salary Related Schemes
CA70	Magnetic Media Transmission of Data to Appropriate Personal Pension and Contracted-out Occupational Schemes
CA84	Stakeholder Pension Scheme Manual - Procedural Guidance
CA85	Cessation of Stakeholder Pension Scheme - Procedural Guidance
CWG2	Employers Further Guide to PAYE and NICs
IR76	Personal pension schemes Guidance notes (Including Stakeholder Pension Schemes)

## 2 Background to contracting-out

### *Pensions*

- 2.1 The state Retirement Pension, bereavement benefits and Incapacity Benefit are in two parts
- a basic flat-rate pension, and
  - an Additional Pension (AP) based on the employee's earnings, or for bereavement benefits the deceased spouses earnings, between the Lower and Upper Earnings Limits from 6 April 1978 for each year of their working life.
- 2.2 A widower claiming Retirement Pension may be entitled to AP based on his late wife's earnings between the Lower and Upper Earnings Limits from 6 April 1978 for each year of their working life.
- 2.3 Pension rights earned before award, and pensions in payment, are revised each year to ensure they are protected against inflation.
- 2.4 The Additional Pension is known as State Second Pension or the 'State Earnings Related Pension Scheme' (SERPS). From April 6 2002, SERPS was reformed by State Second Pension.

### *Contracting-out*

- 2.5 Occupational pension schemes which satisfy certain statutory requirements can contract-out of the additional state pension.
- since 6 April 1978, as a Contracted-out Salary Related (COSR) scheme which offers to pay a pension related to the level of the members earnings, see manual CA14 *Termination of Contracted-out Employment - Manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes*, or
  - since 6 April 1988, as a Contracted-out Money Purchase (COMP) scheme if:
    - the employer undertakes to make minimum payments to a pension scheme. These payments are equal to the contracted-out rebate the employer and employee receive on their respective National Insurance contributions (NICs)
    - members are provided with a pension based on the value of the amount of minimum payments made to the scheme, together with the investment return
  - **since 6 April 1997**, a scheme can be contracted-out on both bases at the same time. These schemes are known as Contracted-out Mixed Benefit (COMB) schemes and are broadly administered as if they were two separate schemes. This enables some members to be in a Contracted-out Salary Related Scheme (COSR) part and others in a COMP part of the same scheme.
  - existing COSR schemes and newly contracted-out schemes were able to become COMB schemes **from 6 April 1997 onwards**.
  - for further information, see manual CA14 *Termination of Contracted-out Employment - Manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes*.
  - an existing COMP scheme was not able to open a COSR part and become a COMB scheme **until 6 April 1998**.

- **from 6 April 1997**, under a second set of Regulations, a COSR scheme was able to switch to COMP scheme status while continuing to hold accrued Guaranteed Minimum Pension (GMP) liabilities within the scheme. This provision allowed those schemes contracted-out on a COSR basis that did not want to remain COSR schemes under the new rules to move smoothly to COMP scheme provision.
- **from 6 April 1997**, COSR schemes and COSR parts of COMB schemes have to meet a test of overall scheme quality for pensionable service after 6 April 1997.
- **from 6 April 2001**, as a Contracted-out Money Purchase Stakeholder Pension (COMPSP) scheme if:
  - the employer undertakes to make minimum payments to a pension scheme. These payments are equal to the contracted-out rebate the employer and employee receive on their respective NICs
  - members are provided with a pension based on the value of the amount of minimum payments made to the scheme, together with investment return. See manual CA84 *Stakeholder Pension Scheme manual - Procedural Guidance*.

## Termination procedures

2.6 The termination procedures to follow for

- the COMP part of the COMB scheme are detailed in this manual, see Chapters 7 and 8, and
- the COSR part of the COMB scheme are detailed in Chapter 11 of manual CA14 *Termination of Contracted-out Employment - Manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes*.

## National Insurance contributions

2.7 For contracted-out employees of COMP and COMP parts of COMB pension schemes and their employers, NICs are payable as follows:

- for tax years up to and including 1998/1999
  - on earnings **below the Lower Earnings Limit (LEL)**, NIC's are payable at the not contracted-out rate
  - on earnings **between the LEL and the Upper Earnings Limit (UEL)**, NIC's are payable at the contracted-out rate
- for the 1999/2000 tax year
  - on earnings at or **below the LEL**, NIC's are not payable by either the employee or employer
  - on earnings **between the LEL and the UEL**, NIC's are payable by the employee at the contracted-out rate
  - on earnings **between the LEL and the employers earnings threshold**, NIC's are not payable by the employer
  - on earnings **between the employer earnings threshold and the UEL**, NIC's are payable by the employer at the contracted-out rate
- for the 2000/2001 tax year
  - on earnings at or **below the LEL**, NIC's are not payable by either the employee or employer

- on earnings **between the LEL and the employees threshold**, NIC's are not payable by the employee
- on earnings **between the employee earnings threshold and the UEL**, NIC's are payable by the employee at the contracted-out rate
- on earnings **between the LEL and the employers earnings threshold**, NIC's are not payable by the employer
- on earnings **between the employer earnings threshold and the UEL**, NIC's are payable by the employer at the contracted-out rate
- for the 2001/2002 tax year
  - on earnings at or **below the LEL**, NIC's are not payable by either the employee or employer
  - on earnings **between the LEL and the earnings threshold**, NIC's are not payable by the employee or employer
  - on earnings **between the earnings threshold and the UEL**, NIC's are payable by the employee and employer at the contracted-out rate

**Note:** Following the introduction of the employer and employee earnings threshold, no NICs are payable on earnings between the LEL and the earnings thresholds, however a contracted-out rebate is still due on earnings between the LEL and the thresholds. This is referred to as the NIC rebate. The employee NICs due are reduced to reflect the NIC rebate that would have applied to the earnings above the LEL, up to and including the employee threshold. If the NIC rebate cannot be fully offset from the NICs payable, any excess sum is available for the employer to offset against his wider NICs liability. The employer makes a deduction from his overall NIC payments to reflect the NIC rebate that would have applied to the employer contributions due on earnings above the LEL, up to and including the employer threshold.

2.8 For married women and widows entitled to pay contributions at the reduced rate, the contribution reduction only applies to the employer's share.

2.9 Contributions on earnings above the UEL are

- payable at the not contracted-out rate by the employer
- not payable by the employee.

2.10 For employees who are over state retirement age, contributions are

- payable at the not contracted-out rate by employers
- **not** payable by the employee.

2.11 From 6 April 1997, members of a COMP scheme or members of the COMP part of a COMB scheme (members of a COMP part of a COMB scheme which was originally a COSR scheme and became a COMB from 6 April 1997):

- will receive an additional rebate on their NICs, which is based on their age
- the employer will deduct a flat-rate rebate of 2.6% from April 2002 (3.1% from April 1997 and 2.2% from April 1999), split as follows:
  - 1.6% for the employee and
  - 1.0% from April 2002 and (1.5% from April 1997 and 0.6% from April 1999) for the employer, and

- when the End of Year Summary is received and the relevant contributions or earnings details recorded on the employee's National Insurance account, a 'top-up' payment will be paid by Inland Revenue National Insurance Contributions Office direct to the pension scheme for credit to the individual member's accounts. See Chapter 3 for further details.

## Minimum payments

- 2.12 The minimum payments an employer must make to a COMP scheme or the COMP part of a COMB scheme, are the difference between NICs at the not contracted-out rate and the lower contracted-out rate and the NIC rebate given to both the employee and employer based on earnings between the LEL and the earnings threshold. This also applies to married women and widows paying contributions at the reduced rate.
- 2.13 Payments must be made by the employer to the scheme within 14 days of the end of the income tax month in which liability for NICs arose on the earnings on which minimum payments are due.

## Protected rights

- 2.14 The rights accrued by members of a COMP scheme and the COMP part of a COMB scheme are known as protected rights. These are the employee's total rights to money purchase benefits under the scheme, unless the scheme rules make separate provision.
- 2.15 The scheme rules must include the following as protected rights:
- minimum payments
  - age-related payments, including any made as a result of a transfer in from another COMP scheme or the COMP part of a COMB scheme or a COMP Stakeholder Pension (SHP) Scheme
  - incentive payments made to the scheme, including any made as a result of a transfer in from another COMP scheme or the COMP part of a COMB scheme
  - protected rights transferred in from another COMP scheme or the COMP part of a COMB scheme, a COMP Stakeholder Pension Scheme (COMPSHP) or from an Appropriate Personal Pension (APP) scheme or an APP Stakeholder Pension Scheme (APPSHP)
  - minimum contributions paid to the scheme following the transfer in of protected rights from an APP scheme or an APPSHP
  - GMP or post '97 COSR rights transferred to the scheme from a COSR scheme or the COSR part of a COMB scheme.
- 2.16 The pension scheme is responsible for providing the amount of protected rights to contracted-out members.

## Contracted-out Deduction (COD)

- 2.17 COMP schemes provide a pension based on
- the value of the amount of minimum payments paid, and
  - the investment return.
- 2.18 There is no GMP but state AP entitlement is reduced by an amount equal to the GMP that would have been earned if the employee had been in a COSR scheme or the COSR part of a COMB scheme. This amount is known as the protected rights Contracted-out Deduction (COD).
- 2.19 State AP entitlement is reduced by the COD for any period of contracted-out employment on or before 5 April 1997 or earlier. See Appendix 5.

2.20 CODs are calculated when:

- a member reaches State Pension Age (SPA), or
- a member leaves COMP employment before SPA, or
- a member dies leaving a widow or widower who qualifies for benefit, or
- a COMP scheme or the COMP part of a COMB scheme ceases to be contracted-out, see the CA15 *Cessation of Contracted-out Pension Scheme Manual*, or
- requested by schemes at any time during pension sharing on divorce procedures.

**The current SPA is 65 for men and 60 for women. From April 2010 the pension age for women will be gradually increased to bring it up to age 65, the same as for men, by April 2020.**

2.21 See Appendix 4 for guidance on how to calculate the COD.

### *Incentive payments - 6 April 1988 to 5 April 1993*

2.22 Occupational pension schemes which became contracted-out for the first time between 1 January 1986 and 5 April 1993 are eligible to receive incentive payments. Payments are based on contracted-out earnings between

- 6 April 1988 or the commencement of the scheme if later, and
- 5 April 1993.

2.23 The incentive is payable for each employee:

- who was in contracted-out employment in relation to a scheme that is eligible to receive incentive payments, and
- whose employment could not have been contracted-out with another scheme during the period 1 January 1986 and 5 April 1993, and
- who was not a married woman or widow paying NICs at the reduced rate.

2.24 Contact the scheme administrator for advice if you are uncertain whether a scheme, or any employees contracted-out in relation to it, qualify for the incentive payments because:

- one scheme merged with another and one or both schemes qualified before merging, or
- one scheme was cancelled in favour of another and one or both schemes qualified before the cancellation, or
- there has been a takeover or merger of a business resulting in a new scheme replacing a scheme which qualified.

2.25 Although the incentive is only payable on contracted-out earnings between 6 April 1988 and 5 April 1993, schemes had until 5 April 2001 to make any outstanding claims for incentive payments.

### *Widows' or widowers' entitlement*

2.26 The circumstances where widows' or widowers' benefits may be payable are outlined in Chapters 9 and 10.

## 3 Information about, and payment of, Age-Related Rebates by Inland Revenue National Insurance Contributions Office

### *What are Age Related Rebates?*

- 3.1 From 6 April 1997, members contracted-out of the additional state pension, via Contracted-out Money Purchase (COMP) or Contracted-out Money Purchase Stakeholder Pension (COMPSHP) schemes, including the money purchase part of a Contracted-out Mixed Benefit (COMB) scheme, will receive a rebate of their National Insurance Contributions (NICs) based on their age. These payments are called age related rebates (ARRs).

### *Administration of ARRs*

- 3.2 ARRs will be administered via a dual system operated between the employer and the Inland Revenue National Insurance Contributions Office. A flat-rate rebate of 2.6% from April 2002, will be deducted at source from NICs and any age-related payment will be paid directly to the member's scheme by the Inland Revenue National Insurance Contributions Office.
- 3.3 With the introduction of ARRs it was necessary to introduce new categories of NICs for members of COMP/COMPSHP schemes and the COMP part of a COMB scheme. This is to reflect the fact that the rebate levels are different for COMP/COMPSHP and Contracted-out Salary Related (COSR) and to enable COMP/COMPSHP earnings to be separately identified.
- 3.4 These new categories are as follows:

#### **Category**

<b>F</b>	contracted-out standard rate
<b>G</b>	contracted-out reduced rate
<b>H</b>	contracted-out standard rate - mariner
<b>K</b>	contracted-out reduced rate - mariner
<b>S</b>	contracted-out notional rate
<b>V</b>	contracted-out notional rate - mariner

Further information regarding these new categories can be found in manual CA43 *Contracted-out contributions and minimum payments for employers with money purchase schemes*.

- 3.5 Any age-related payment due over and above the flat-rate rebate deducted at source via NICs will be calculated on receipt of the End of Year Summary, P14. Age-related payments will also be made in respect of reduced rate optants.
- 3.6 For tax year 1997/98 onwards, the Scheme Contracted-out Number (SCON) should be entered on the P14 against the relevant earnings.

## *Calculation of age-related payments*

- 3.7 The age-related payment calculation is based on
- the employee's contracted-out earnings, for example those between the Lower and Upper Earnings Limits, and
  - the rebate level relevant to the member's age on the 5 April of the tax year immediately prior to the tax year being calculated. See contracted-out rebate levels at Appendix 3, Table 4.
- 3.8 If the date of birth field on the P14 has been completed, a comparison will be made with the date of birth held by the Inland Revenue National Insurance Contributions Office. This could result in enquiries being made with the individual, or ultimately the scheme. Any age-related payment will, in these circumstances, be suspended until the Inland Revenue National Insurance Contributions Office enquiries are complete.
- 3.9 If the date of birth field on the P14 has not been completed, the date of birth held by the Inland Revenue National Insurance Contributions Office will be used to calculate any age-related payment.
- 3.10 For tax years from 1997/98 onwards, both magnetic media and paper schedules will quote the date of birth that has been used in the calculation. See Appendix 6, Schedule 1 for an example of a Payment/Recovery schedule.
- 3.11 Example of ARR calculation.

### **Example A**

The calculation is in respect of the 1997/98 tax year. Member's date of birth is 29 December 1981, therefore the member is age 15 on 5 April 1997.

ARR appropriate to age 15 is 3.1% (see Appendix 3, Table 4)

Member's earnings between the Lower Earnings Limit (LEL) and Upper Earnings Limit (UEL) is £10 000.

Basic rebate deducted at source by the employer is 3.1%.

Therefore 'top-up' age-related payment to be paid by Inland Revenue National Insurance Contributions (3.1% - 3.1%) = **NIL**

### **Example B**

The calculation is in respect of the 1997/98 tax year. Member's date of birth is 29 December 1946, therefore the member is age 50 on 5 April 1997.

ARR appropriate to age 50 is 9% (see Appendix 3, Table 4)

Member's earnings between the LEL and UEL is £10 000.

Basic rebate deducted at source by the employer is 3.1%.

Therefore 'top-up' age-related payment to be paid by Inland Revenue National Insurance Contributions (9% - 3.1%) = **5.9%**

£10 000 x 5.9% = **£590**

## *Payments*

- 3.12 The Inland Revenue National Insurance Contributions Office process approximately 40 million P14 forms at the end of each tax year. The bulk of the processing takes place between May and October, when about 90% of the information submitted on forms P14 is recorded onto National Insurance accounts. Age-related payments will normally be made within one month of the earnings being recorded.
- 3.13 A single payment will be made by the Inland Revenue National Insurance Contributions Office via High Speed Transmission (HST) into the scheme's nominated Bank or Building Society account on the first working day of the month.
- 3.14 The amount paid is the age-related payment for all members of the scheme for whom earnings have been recorded during the previous month, minus any recoveries, see Appendix 6, Schedule 2 - Net Payments and Recoveries.
- 3.15 Where an amount is paid, the scheme will be provided with full details of individual member's payments on either
- a magnetic media schedule, or
  - a paper schedule.
- 3.16 Schemes should make sure the net amount of monies reflected on the magnetic media/paper schedules agrees with the amount of monies received via HST into the nominated Bank account.
- 3.17 The paper schedules are in Intelligent Character Recognition (ICR) font so that they can be machine read.
- 3.18 Further information about the magnetic media facility can be found in manual CA70, *Magnetic Media Transmission of Data to Appropriate Personal Pension, Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes*.
- 3.19 If the tax year is 1997/98 or later, age-related payments will not be made for the tax year in which the individual reaches State Pension Age (SPA), although payment will continue for the tax year of death, (provided it is not the tax year in which SPA is attained).
- 3.20 Appendix 7 sets out the rules regarding payments to COMP/COMPSPH schemes and the COMP part of a COMB scheme.

## *Overpayments and underpayments*

- 3.21 If, because of incorrect, late, or additional earnings or a change to the member's date of birth, Inland Revenue National Insurance Contributions Office have underpaid an age-related payment, the shortfall will normally be made up within one month of the revised or additional earnings or revised date of birth being recorded on the member's National Insurance account.
- 3.22 Similarly, if an overpayment has been made, this will normally be recovered in the same way.
- 3.23 If automatic recovery has not been possible because the amount of recovery exceeds the payment being made, or no payment has arisen, you will receive a bill, form CA1618, requesting the outstanding amount.
- 3.24 You can also make a request to receive form CA1618, instead of the automatic recovery facility.
- 3.25 Details of automatic reimbursements or recoveries will be recorded on the payment/recovery schedule.
- 3.26 In exceptional circumstances, payment/recovery action may be taken clerically.

## *Allocation of age-related payments*

- 3.27 Age-related payments made to schemes must be
- credited to the member's account, and
  - invested on behalf of the member within one month of the date of payment, and
  - used to provide money purchase benefits in the form of protected rights.
- 3.28 If schemes have difficulty allocating age-related payments, they should contact Services to Pensions Industry who may be able to provide additional information.

## *Fast track payments*

- 3.29 In April 1997, a fast track payments procedure was introduced to enable schemes to obtain early receipt of age-related payments in certain circumstances. This makes sure schemes receive all age-related payments before discharging the protected rights.
- 3.30 Early payment can be made if
- protected rights are to be transferred to a COSR scheme or the COSR part of a COMB scheme
  - protected rights are to be transferred to an overseas scheme arrangement
  - a pension is to be provided or purchased (including commutation)
  - a scheme ceases or winds up
  - pension sharing on divorce procedures are applicable.
- 3.31 Early payment can also be made when a member dies. Details of these procedures can be found in paragraph 10.9.

## **What to do**

- 3.32 If schemes require early receipt of the age-related payment for any of the situations set out at paragraph 3.30, they should take the following actions:

<b>Step</b>	<b>Action</b>
1	fill in form CA1902 showing the relevant earnings information
2	sign and date the form and send it to Services to Pensions Industry <b>before</b> the relevant notification is submitted
3	once the age-related payment is received, the appropriate notification showing how effect is to be given to the protected rights should be sent to Services to Pensions Industry

- 3.33 Any age-related payment will normally be made within one month of form CA1902 being successfully processed.

## 4 Introduction to termination of contracted-out employment

### *When is contracted-out employment treated as terminated?*

4.1 Contracted-out employment is treated as terminated if:

- the employee's contract of service has expired or terminated, or if there is no contract of service, or the service itself ends
- a woman who has a right to return to work following pregnancy under Section 39 of the Employment Protection (Consolidation) Act 1978 fails to exercise that right
- the contracting-out certificate to which the employee's contracted-out employment relates is cancelled or surrendered
- the contracting-out certificate to which the employee's contracted-out employment relates is varied to exclude the employment in question
- the employee remains with the same employer, but changes jobs and the new employment is not covered by the same contracting-out certificate as the previous employment
- the employee remains in employment but ceases to be a member of the contracted-out pension scheme to which the employment relates
- an employer dies or disposes of his/her business and the contracted-out employment cannot be treated as continuing under any new employer. See paragraph 4.8.

### *When is contracted-out employment not treated as terminated?*

4.2 Contracted-out employment is not treated as terminated if:

- the employee's contract of service or the service itself expires or terminates within six months:
  - the employee returns to employment with the same employer, or his/her successor, and the new employment is contracted-out by reference to the same scheme as the previous employment, or
  - the employee returns to employment with another employer and the new employment is contracted-out by reference to the same scheme as the previous employment, and
  - the employee's protected rights relating to the employment have been retained within the scheme.

4.3 If contracted-out employment is treated as not having been terminated in these circumstances, the interval between the employments does not count toward any calculation of the total period of linked contracted-out employment.

4.4 If the contracting-out certificate relating to the employment has been cancelled or surrendered, the contracted-out employment is not treated as terminated if:

- within six months, the employee becomes a member of another contracted-out scheme to which his/her employment relates with the same employer, and
- the following condition is satisfied for the period of terminated employment:
  - the employee's protected rights relating to the employment are transferred to the scheme.

- 4.5 If the contracting-out certificate relating to the employment has been varied to exclude the employment in question, contracted-out employment is not treated as terminated if:
- within six months:
    - the employee's employment again comes within the description of employment to which the contracting-out certificate relates, or
    - the employee becomes a member of another contracted-out scheme to which his/her employment relates with the same employer, and
  - the following condition is satisfied for the period of terminated employment:
    - the employee's protected rights relating to the employment are transferred to the scheme.
- 4.6 If the employee has changed jobs and the new employment is no longer covered by the same contracting-out certificate as the previous employment, contracted-out employment is not treated as terminated if
- within six months:
    - the employee's employment again comes within the description of employment(s) to which the contracting-out certificate relates, or
    - the employee becomes a member of another contracted-out scheme to which his/her employment relates with the same employer, and
  - the following condition is satisfied for the period of terminated employment:
    - the employee's protected rights relating to the employment are transferred to the scheme.
- 4.7 If the employee has ceased to be a member of the scheme to which his/her employment relates, contracted-out employment is not treated as terminated if
- within six months:
    - the employee becomes a member of another contracted-out scheme to which his/her employment relates with the same employer, and
    - the following condition is satisfied for the period of terminated employment:
      - the employee's protected rights relating to the employment are transferred to the scheme.

*Circumstances where there is a change of employer, but the employee's contracted-out employment is treated as not having terminated*

- 4.8 If an employer dies, or otherwise ceases to be the employer in relation to an employee's contracted-out employment, and the business is taken over by a new employer, the employee's contracted-out employment under the old employer will not be treated as terminated. However, the following conditions must be satisfied:
- the employee's service after change of employer continues to qualify him/her for protected rights under the same contracted-out scheme as that of the old employer, and
  - the new employer accepts all the responsibilities of the former employer for any contributions to the scheme, and
  - the new employer notifies Services to Pensions Industry of the change within one month of it taking place and provides Services to Pensions Industry with any information they might reasonably require.

- 4.9 If an employee's contracted-out employment is to be treated as continuing after a change in employer, the contracting-out certificate issued to the old employer will be treated as issued to the new employer and varied by Services to Pensions Industry as necessary.

### *Special cases*

#### **Women with a right to return to work after pregnancy or confinement**

- 4.10 All expectant mothers have a statutory right to return to work after a period of general maternity leave under the provisions of Section 33 of the Employment Protection (Consolidation) Act 1978 (hereafter, the 1978 Act). Some women, however, have a statutory right under Section 39 of the 1978 Act to extend their absence beyond the period allowed for general maternity leave, but keep the right to return to work.
- 4.11 A woman has the right to extend her absence from work if
- at the beginning of the eleventh week before the expected week of childbirth, she has been continuously employed by her employer for a period of not less than two years.
- 4.12 A woman wishing to exercise her right to return to work under Section 39 of the 1978 Act can
- return to work for her employer, or his/her successor, at any time during the period starting at the end of her general maternity leave period and ending twenty-nine weeks after the beginning of the week in which childbirth occurs, providing she has given her employer appropriate notice of her intentions.
- 4.13 A woman's previous period of contracted-out employment must be treated as not having been terminated if
- her contracted-out employment has been treated as terminated because her service terminated due to extended maternity leave, and
  - she subsequently exercises her right under Section 39 of the 1978 Act to return to work.
- 4.14 If contracted-out employment is treated as not having been terminated in these circumstances, the interval between the employments does not count toward any calculation of the total period of linked contracted-out employment.

#### **Employees in two or more contracted-out employments when one contract of service, or the service itself, expires or is terminated**

- 4.15 Contracted-out employment will only be treated as terminated if
- all of the employee's contracted-out employments are treated as terminated, because the contract, or service, has either expired or terminated
  - a contract of service, or the service itself, expires or terminates and the employee to which it relates is employed concurrently in two or more employments operated by the same employer, and
  - both or all employments are contracted-out with reference to the same scheme.

## Employee goes abroad

- 4.16 Contracted-out employment within Great Britain (GB) will be treated as not having terminated if:
- an employee in contracted-out employment ceases to be liable for Class 1 National Insurance contributions (NICs) for that employment only because they are employed outside of GB, and
  - all service in employment outside GB continues to qualify the employee for benefits under the same scheme as their previous employment within GB.

## Internal moves within a Contracted-out Mixed Benefit (COMB) scheme

- 4.17 If an employee's employment is contracted-out with reference to a COMB scheme, any internal moves from one part to the other will not be treated as a termination of contracted-out employment.

### *Contribution liability when an employee's contracted-out employment terminates*

## Employee leaves employment

- 4.18 When a member of a Contracted-out Money Purchase (COMP) scheme leaves contracted-out employment, the NICs due on any regular payments made after the last day of service are as follows:
- up to six weeks after the date of termination - contracted-out rate
  - more than six weeks after the date of termination - the not contracted-out rate.
- 4.19 If an employee leaves employment and receives a payment after regular payment has ended (for example arrears of pay from a backdated pay increase, holiday pay for a holiday not taken, a one off payment, for example a bonus), contributions are payable
- up to six weeks after the date of termination - contracted-out rate
  - more than six weeks after the date of termination - the not contracted-out rate.

Use the relevant weekly contribution table current at the time of payment.

- 4.20 Payments made no more than six weeks after the termination date must be taken into account and any related contracted-out earnings should be recorded separately on the termination notice sent to Services to Pensions Industry. The date of termination shown on the notice should be the employee's last day of service. See paragraph 5.9.
- 4.21 If the termination notice for the employee has already been sent to Services to Pensions Industry when payment is made
- **do not** notify the additional contracted-out earnings to Services to Pensions Industry
  - **do not** send a supplementary termination notice.

## Employee does not leave employment

- 4.22 If an employee stops contracting-out but remains in the same job, liability for contributions at the not contracted-out rate begins with the first payment of earnings made after the termination of contracting-out, even if they have been earned before that date.

## What happens after termination?

4.23 After termination (see paragraph 4.1), protected rights can be dealt with in several ways. The relevant paragraph of this manual and the form to notify Services to Pensions Industry are given below:

Circumstances	Para	Form
<b>Date of leaving on or before 5 April 1997</b>		
Retained in the scheme	6.3	CA1589
Protected rights transferred to:		
<ul style="list-style-type: none"> <li>another COMP/COMPSHP scheme or the active COMP part of a COMB scheme or a COMPSHP scheme</li> </ul>	6.10	CA1590
<ul style="list-style-type: none"> <li>an Appropriate Personal Pension (APP) scheme or an Appropriate Personal Pension Stakeholder Pension (APPSHP) scheme</li> </ul>	6.19	CA1591
<ul style="list-style-type: none"> <li>a Contracted-out Salary Related (COSR) scheme or the active COSR part of a COMB scheme</li> </ul>	6.28	CA1592
<ul style="list-style-type: none"> <li>an Overseas scheme</li> </ul>	6.45	CA1895
<b>Date of leaving on or after 6 April 1997</b>		
Retained in the scheme	6.3	CA1589
Protected rights transferred to:		
<ul style="list-style-type: none"> <li>another COMP scheme or the COMP part of a COMB scheme or a COMPSHP scheme</li> </ul>	6.10	CA1892
<ul style="list-style-type: none"> <li>an APP scheme or an APPSHP scheme</li> </ul>	6.19	CA1892
<ul style="list-style-type: none"> <li>a COSR scheme or the active COSR part of a COMB scheme</li> </ul>	6.28	CA1892
<ul style="list-style-type: none"> <li>an Overseas scheme</li> </ul>	6.45	CA1895
<b>For all dates of leaving</b>		
Change of Responsible Paying Authority to:		
<ul style="list-style-type: none"> <li>another COMP scheme or the active COMP part of a COMB scheme or a COMPSHP scheme</li> </ul>	6.10	CA1893 - if form CA1589 has already been sent  CA1894 - if form CA1589 has not already been sent
<ul style="list-style-type: none"> <li>an APP scheme or an APPSHP Scheme</li> </ul>	6.19	as above
<ul style="list-style-type: none"> <li>a COSR scheme or the active COSR part of a COMB scheme</li> </ul>	6.28	as above

See Appendix 1 for the full range of forms that can be obtained from Services to Pensions Industry.

- 4.24 A notification must also be sent to Services to Pensions Industry when the protected rights at age 60 or later or after death, are used to
- purchase an annuity from an insurance company
  - provide a pension
  - pay a lump sum

For further information see Chapters 9 and 10.

### *What happens to any further age-related payments following termination?*

- 4.25 Whether any outstanding age-related payments will be made if a member terminates their scheme membership depends on how the protected rights have been used. See Appendix 7, which outlines the payment rules.

## **5** Information about notifying termination of contracted-out employment

### *Notifying Services to Pensions Industry*

- 5.1 **Notification must be sent to Services to Pensions Industry within the time limits specified, see paragraph 5.5, when an employee leaves contracted-out employment and the date of leaving is before the start of the tax year in which State Pension Age (SPA) is reached. If a termination is not notified, enquiries are sent to the employer.**
- 5.2 Notifications may be sent on magnetic tape or flexible disk if you
- have computer equipment which is Inland Revenue National Insurance Contributions Office compatible, and
  - can submit a minimum of 100 transactions at regular intervals, normally monthly. If you wish to submit notifications more frequently, this will be considered on request.

*Manual CA22 Submitting Contracted-out Data Transactions Using Magnetic Media Manual*, is available from Services to Pensions Industry. Replies can be sent on paper, magnetic tape or flexible disk.

### **Responsibility for notification**

- 5.3 The responsibility for notification of termination of contracted-out employment may be delegated to one body, for example to a scheme or insurance company. However, most termination forms require entries by both the employer and the scheme.

## *When is a notification of termination of contracted-out employment not required?*

- 5.4 Notification of termination of contracted-out employment is not required if
- the employee dies. However, see Chapter 10 for further details
  - it takes place in the tax year in which the employee reaches SPA or later
  - an employee's employment is contracted-out with reference to a Contracted-out Mixed Benefit (COMB) scheme and there is an internal move from one part of the scheme to the other.

## *Time limits for notifications*

- 5.5 Notifications must be submitted within certain time limits. This will depend on the type of notification to be sent, please see Chapters 6, 7, 8, 9 and 10.

## **Extension of the time limit for notifications**

### **What to do**

- 5.6 A longer period may be approved if the notification could not reasonably have been given within the time limits. An application for an extension of the time limits must be made to Services to Pensions Industry as follows:

<b>Step</b>	<b>Action</b>
1	fill in form CA1585
2	sign and date the form and send it to Services to Pensions Industry no later than six months after the date of termination

## *Guidelines for completion of notifications*

- 5.7 Use the forms listed in Appendix 1 to notify Services to Pensions Industry. Instructions for completion are included on each form. Please also bear in mind the following guidelines:

<b>Area</b>	<b>Guidance</b>
<b>Forms</b>	<p>fill in forms in <i>CAPITAL LETTERS</i> and complete all relevant boxes</p> <p>If a change to the method of preservation is made after termination has been notified, send a revised notice of termination explaining the circumstances and boldly noted '<b>Change of Preservation</b>'</p> <p>Revised notices of termination must be boldly noted '<b>Revised</b>'.</p> <p>The legal declaration on the notice of termination must be signed.</p> <p>Show a contact point and full address for correspondence.</p> <p>Always quote the employee's name and National Insurance number (NINO). If the NINO is not known</p> <ul style="list-style-type: none"><li>• complete a separate notification</li><li>• give full name, date of birth and any previous surname.</li></ul> <p>If you wish to check the employee's NINO or date of birth, see paragraph 1.16</p>

Area	Guidance
<b>Date</b>	<p>The commencement date of contracted-out employment cannot be earlier than</p> <ul style="list-style-type: none"> <li>• 6 April 1978</li> <li>• the employee's 16th birthday</li> <li>• the effective date of the contracted-out certificate.</li> </ul> <p>If accrued rights have been transferred in from another scheme, the commencement date is the commencement date of the earlier contracted-out employment.</p> <p>The termination date is the date on which contracted-out employment actually ceased or no later than the end of the tax year before SPA, if earlier.</p>
<b>ECON</b>	<p>Make sure that the Employer's Contracting-out Number (ECON), including the correct suffix letter, is correctly completed.</p> <p>The ECON must be the same as on the end-of-year summary submitted in respect of the employee. This will enable the protected rights Contracted-out Deduction (COD) to be accurately calculated.</p>
<b>SCON</b>	<p>Make sure that the Scheme Contracted-out Number (SCON), including the correct suffix letter, is correctly completed to identify the scheme or other paying authority responsible for the protected rights at SPA or widowhood.</p> <p>The SCON must be the same as that on the end of year summary submitted in respect of the employee.</p>
<b>Earnings</b>	<p>Employee's contracted-out earnings are the earnings between the Lower Earnings Limit (LEL) and Upper Earnings Limit (UEL). Only show the number of pounds, for example £1053. Do not show zeros or trailing pence.</p> <p>If a married woman or widow paying reduced rate contributions starts paying contributions at the full contracted-out rate in either the tax year of termination or the previous tax year, show the total amount of Contracted-out earnings for example, those between the LEL and the UEL.</p> <p><b>Earnings information is always required for periods of contracted-out employment:</b></p> <ul style="list-style-type: none"> <li>• which terminate on or before 5 April 1997</li> <li>• for which a Contributions Equivalent Premium (CEP) is to be paid, including any period which ends post 5 April 1997.</li> </ul>
5.8	<p>If the employee has been employed concurrently in two or more contracted-out employments with the same employer but in different pension schemes and earnings are aggregated</p> <ul style="list-style-type: none"> <li>• strike through the appropriate earnings boxes with a bold line</li> <li>• attach a note to the notice of termination explaining the situation. See paragraph 5.18.</li> </ul>
5.9	<p>If termination of contracted-out employment occurs in one tax year but contracted-out contributions for that employment are paid in the next tax year, and the date of termination is on or before 5 April 1997, the contracted-out earnings on which they are based must be shown separately on the next line of the notice of termination. For example, if the date of leaving is 5 April 1997, the contributions will have been deducted in the 1997/1998 tax year.</p>

5.10 If in either the tax year of termination or the previous tax year:

- the deferred payment arrangements have operated, enter the notional contracted-out earnings recorded by the employer for those tax years. See paragraph 5.28
- form CA1593 has been completed to show movement between employers using the same scheme, add together the contracted-out earnings for the first and second employments and enter the total amount. See paragraph 5.31
- the employee moved from one payroll to another but remained in the same scheme and continued to pay contributions under the same ECON:
  - add together the contracted-out earnings paid under the first and second payrolls, and
  - enter the total amount
- no contributions were paid, for example because of sickness, or because wages due in that tax year are paid in the preceding tax year, enter 'O'. Do not leave the box(es) blank
- the employee transferred from one contracted-out scheme to another under a different ECON, enter the contracted-out earnings for the later employment only.

Earnings details referred to above, only need to be shown for tax years up to and including the 1996/97 tax year.

### *Notifying termination if employee goes abroad*

5.11 An earner's service in contracted-out employment, can be treated as continuing whilst they are employed outside Great Britain.

5.12 This can happen if

- the earner ceases to be liable for Class 1 contributions because they are employed outside Great Britain **provided that**
- the employment outside Great Britain continues to qualify for benefits under the scheme because of that employment.

### **What to do**

5.13 The scheme should notify Services to Pensions Industry:

<b>Step</b>	<b>Action</b>
1	fill in form CA1579
2	sign and date the form and send it to Services to Pensions Industry

5.14 If the conditions in paragraphs 5.11 and 5.12 do not apply, contracted-out employment is treated as terminated and normal notification procedures should be followed.

### *Notifying termination if employee is in concurrent contracted-out employments*

5.15 If an employee is in more than one contracted-out employment concurrently, the action to notify the termination of one of the employments, if appropriate (see paragraph 4.1) and the information required by Services to Pensions Industry to assess any pre 1997 protected rights COD amount depends on the circumstances.

- 5.16 The CWG2 *The Employers Further Guide to PAYE and NICs*, gives detailed guidance on assessing contracted-out earnings for concurrent employment. These procedures do not apply if the employee is a married woman or widow paying reduced rate contributions.

### Same employer, same scheme

- 5.17 If the termination has not occurred, see paragraph 4.15, earnings should be aggregated. If it is not possible to aggregate earnings, see paragraph 5.25.

### Same employer, different schemes

- 5.18 If possible, aggregate earnings and keep separate records showing the contracted-out earnings for each employment.
- 5.19 When employment ends, Services to Pensions Industry ask for annual details of such contracted-out earnings. Records must be kept for three years after the employments end.
- 5.20 If one of the employments ends, attach a note to the notice of termination explaining that earnings have been aggregated under the same ECON and that more than one scheme is involved. If this is not done, the pre 1997 protected rights COD may be assessed on the aggregated amount.
- 5.21 If it is not possible to aggregate earnings, see paragraph 5.25.

### Different employers, same scheme

- 5.22 If both employments use the same ECON, a notice of termination is not required, see paragraph 4.15, until employment under the scheme ends. If the employments use different ECONs, a notice of termination must be sent if one of the employments ends, but see paragraph 5.31.

### Different employers, different schemes

- 5.23 The employments are treated separately and the employee's contracted-out earnings in each employment are recorded under their respective ECONs, unless deferred contributions payments arrangements apply. See paragraph 5.25.
- 5.24 If employment terminates, the normal notification rules apply and any pre 1997 protected rights COD will be assessed normally.

### *Deferred payment of contributions*

- 5.25 An employee may apply for contribution liability in some employment(s) to be deferred if they:
- are concurrently employed in two or more contracted-out employments whose earnings are not aggregated, and
  - expect to pay contributions on earnings at or above the Upper Earnings Limit.
- 5.26 An authority not to deduct employee's contributions, form CA2700, is sent to the employer, by



Inland Revenue National Insurance Contributions Office  
Deferment Group  
Benton Park View  
Newcastle upon Tyne  
NE98 1ZZ

- 5.27 Employers who have been sent form CA2700
- must keep records of the employee's contracted-out contributions that would have been payable, and
  - are requested to keep a record of the:
    - total employee's contributions which would have been due
    - earnings on which the employee's total contributions would have been payable
    - earnings on which employee's contributions at the contracted-out rate would have been payable.
- 5.28 Employers will be asked by Deferment Group to provide details of notional amounts after the end of each tax year. Records must be kept for at least three years after employment ends.
- 5.29 Any pre 1997 protected rights due when the employment terminates is assessed on the notional contracted-out earnings.
- 5.30 If contributions are paid separately in concurrent employments they may exceed the annual maximum. The employee is refunded any contributions paid in excess of the maximum, but Inland Revenue National Insurance Contributions Office keep a record of the total contracted-out earnings paid in each employment. Any pre 1997 protected rights COD is calculated using the contracted-out earnings paid before refund.

## *Change of ECON*

### **What to do**

- 5.31 If an ECON is no longer being used, the termination must be notified (see paragraph 4.1), **unless** an:
- employer with their own ECON joins a group of employers with a common ECON contributing to the same scheme and COEG arrange for them to take the common ECON. The employments recorded under the original ECON are linked to the common ECON. See paragraphs 4.4 to 4.5
  - employee moves from an employer with one ECON to another with a different ECON, but remains a member of the same contracted-out scheme and the new ECON is known within the time limits for notification. See paragraphs 4.4 to 4.5. In this situation, the scheme should:

Step	Action
1	fill in form CA1593
2	sign and date the form and send it to Services to Pensions Industry. It can be sent within one month before the expected date of the move, but no later than six months after that date

- 5.32 Notify Services to Pensions Industry on a formal notice of termination, if:
- an employee moves from an employer with one ECON but remains a member of the same contracted-out scheme, and
  - the scheme cannot establish within the time limits for notification that the employee has moved to another employer within the group.

## What to do

- | 5.33 | Step | Action  |
|------|------|---|
|      | 1    | fill in form CA1589   |
|      | 2    | sign and date the form and send it to Services to Pensions Industry no later than six months after the move |
- 5.34 If it is later established that the previous contracted-out employment is to be treated as not terminated, see paragraph 4.2, notify Services to Pensions Industry on form CA1593, see paragraph 5.31. Services to Pensions Industry will amend their records and cancel the notice of termination.
- 5.35 If an employee moves from one employer to another within a group of employers and does not remain a member of the same scheme, a formal notice of termination is always required to secure the pre 1997 protected rights COD and to allow Services to Pension Industry to successfully monitor the post 1997 scheme rights. However, see paragraph 5.4.
- 5.36 Consult Services to Pensions Industry in any case of doubt or difficulty.

## *Holding companies*

- 5.37 An employer covered by a holding company contracting-out certificate may also have their own certificate. An employer who also uses their own ECON must accept responsibility for notifying terminations.
- 5.38 If the holding company scheme notifies terminations for all members of the scheme, they must use the ECON under which the NICs have been paid.

## *Maternity leave*

- 5.39 A woman has the right to return to work following pregnancy, under the provisions of the Employment Protection (Consolidation) Act 1978.
- 5.40 If she exercises that right and returns to contracted-out employment with her original employer or successor, contracted-out employment is not treated as having terminated. See paragraphs 4.10 to 4.15.
- 5.41 If she decides not to exercise the right and resigns before the commencement of maternity leave, the termination or non-termination of contracted-out employment, plus any subsequent action if she decides to return to work, will be determined by reference to the conditions outlined in paragraphs 4.1 and 4.2.
- 5.42 If she does not return to work, contracted-out employment is treated as having terminated on the date the contract of service ended (determined by her employer) following the period of maternity leave. See paragraph 4.1.
- 5.43 The time limit for notification of termination begins on the date employment ceases.
- 5.44 If an employee returns to work, after having said that she did not intend to do so
- any notice of termination must be cancelled
  - the employer must notify Services to Pensions Industry who will cancel the notification.
- 5.45 Whether she intends to return to work or not, NICs are payable for any payment, including Statutory Maternity Pay (SMP), made during the period of maternity leave.

- 5.46 If contracted-out employment is not treated as terminated, contributions continue to be payable at the contracted-out rate.
- 5.47 If contracted-out employment is treated as terminated and payment is made:
- no more than six weeks after the termination date, contributions are payable at the contracted-out rate
  - more than six weeks after the termination date, contributions are payable at the not contracted-out rate.
- 5.48 If the date of termination of contracted-out employment is on or before 5 April 1997, the contracted-out earnings paid during the period of maternity leave must be included on any notice of termination.
- 5.49 SMP is explained in leaflet CA29, *Employers Manual on Statutory Maternity Pay*.

### *Change in method of preservation*

- 5.50 If the method of preservation is to be changed after notifying the termination, a note must be attached to the new notice of termination explaining the circumstances.
- 5.51 The notice must be noted 'Change of Preservation'.

### *Change of Responsible Paying Authority (RPA) for protected rights*

- 5.52 If, following notification to Services to Pensions Industry that protected rights have been retained, there is any change in responsibility for the protected rights, Services to Pensions Industry must be notified, see paragraph 6.9 et seq.
- 5.53 If a group of employees is involved, Services to Pensions Industry must be consulted before the change, as the information required depends on the extent of the change.

### *Married women and widows paying reduced-rate contributions*

- 5.54 Notices of termination are not required for married women and widows who have paid reduced rate NICs.
- 5.55 Take action as in paragraph 5.56 if a married woman or widow with reduced liability:
- changes her status and starts paying NICs at the contracted-out rate, and
  - later leaves contracted-out employment in circumstances which require a notice of termination.
- 5.56 Any notice submitted under the circumstances shown above should show the period of contracted-out employment as starting:
- on the date on which she first entered the contracted-out employment, and
  - not the date on which she started to pay contributions at the contracted-out (category D) rate.
- 5.57 A married woman paying reduced-rate contributions is entitled to age-related payments based on her contracted-out earnings from 6 April 1997.
- 5.58 Any incentive for the period 1 January 1986 to 5 April 1993 is not payable for a married woman or widow paying reduced rate contributions, see paragraph 2.29.

## 6 Retaining and transferring a member's protected rights

### *What are protected rights?*

- 6.1 Protected rights are a member's total rights to money purchase benefits under the scheme, unless the scheme rules make separate provision, see paragraph 2.20.
- 6.2 Protected rights, both those accrued prior to or after 6 April 1997, may be
- retained within the scheme
  - transferred to:
    - another Contracted-out Money Purchase (COMP) scheme or a Contracted-out Money Purchase Stakeholder Pension Scheme (COMPSHP)
    - an Appropriate Personal Pension (APP) scheme or a Appropriate Personal Pension Stakeholder Pension Scheme (APPSHP)
    - a Contracted-out Salary Related (COSR) scheme
    - the active COSR or active COMP part of a Contracted-out Mixed Benefit (COMB) scheme, or
    - a not contracted-out scheme in some other circumstances.

### *Protected rights retained in the scheme*

- 6.3 When an employee's COMP/COMPSHP employment ends and the date of leaving is before the start of the tax year in which State Pension Age (SPA) is reached and the protected rights are to be retained in the scheme, the scheme must notify Services to Pensions Industry.

### Notification to use

#### What to do

6.4	Step	Action
	1	fill in form CA1589
	2	sign and date the form and send it to Services to Pensions Industry within one month before the expected date of termination but no later than six months after the date of termination

### Age-related payments following termination

- 6.5 Any age-related payment which falls due, based on contracted-out earnings relevant to this period of employment will be paid to the scheme.

### *Employee's rights to a transfer value*

- 6.6 Any employees who left pensionable service on or after **1 January 1986** have the right to request a transfer value if:
- contracted-out employment terminated more than one year before the scheme's normal pension age or if later, six months after leaving pensionable service to which the scheme applies, and
  - there are accrued benefits under the scheme.

- 6.7 From 6 April 1997 trustees must pay a transfer value, on request, **for people who left the scheme before 1986** unless the scheme has fully protected their rights against inflation. If the latter is the case, payment of a transfer value will be at the trustee's discretion.
- 6.8 The transfer value is the cash equivalent of the employee's rights built up in the scheme.

### *What schemes can protected rights be transferred to?*

- 6.9 Protected rights built up in a COMP/COMPSHP scheme or a Section 53 (formerly contracted-out) Money Purchase scheme may be transferred to:
- another COMP scheme or a COMPSHP Scheme:
    - a Section 53 (formerly contracted-out) Money Purchase scheme and the member applied for the transfer before 6 April 1997 or after 6 April 2002. See paragraph 6.10 et seq, or
  - an APP scheme or an APPSHP Scheme. See paragraph 6.19 et seq, or
  - a COSR scheme:
    - a Section 53 (formerly contracted-out) Salary Related scheme and the member applied for the transfer before 6 April 1997 or after 6 April 2002. See paragraph 6.28 et seq, or
  - the active COMP or active COSR part of a COMB scheme, or
  - an overseas occupational pension scheme other than one which is or was contracted-out and is still under the financial supervision of Services to Pensions Industry. See paragraph 6.45 et seq, or
  - an overseas occupational pension scheme, which is or was contracted-out and is still under the financial supervision of Services to Pensions Industry. See paragraph 6.54 et seq, or
  - an overseas arrangement. See paragraph 6.45 et seq, or
  - different destinations if they are split, provided each one of the above alternatives. See paragraph 6.56.

### *Transfer to another COMP/COMPSHP scheme or the active COMP part of a COMB scheme or a Section 53 (formerly contracted-out) Money Purchase scheme or a COMPSHP Scheme*

- 6.10 A transfer payment for protected rights may be made to another COMP scheme or the active COMP part of a COMB scheme or a Section 53 (formerly contracted-out) Money Purchase scheme or a COMPSHP Scheme, if:
- the employee consents in writing, and
    - is employed by an employer who is a contributor to the receiving scheme, or
    - has previously been a member of the receiving scheme, or
    - is not in contracted-out employment and the employer is, or for a Section 53 (formerly contracted-out) Money Purchase scheme is or was, a contributor to the receiving scheme and the member applied for the transfer before 6 April 1997 or after 6 April 2002, and
  - the receiving scheme uses the transfer payment to provide money purchase benefits under the receiving scheme for or in respect of the member, and
  - the transfer payment is at least equal to the value of the protected rights to which effect has been given.

- 6.11 When the protected rights are transferred, the scheme must notify Services to Pensions Industry. See paragraph 6.13 et seq.
- 6.12 There is no need to tell Services to Pensions Industry if an employee moves within six months from one COMP/COMPSPH scheme to another operating under the same Employer's Contracting-out Number (ECON), **if the rights accrued in the original scheme are also transferred**. If there was entitlement to incentive payments, for one or both of the schemes, see paragraph 2.28. Services to Pensions Industry must always be notified in writing at the time the employee changes schemes. If the rights are held in the original scheme then that scheme must submit a termination notification.

## Notification to use if the employee is in contracted-out employment under the receiving scheme

### What to do

- 6.13 If the employee is taking up contracted-out employment under the receiving scheme notify Services to Pensions Industry:

Step	Action
1	fill in form: <ul style="list-style-type: none"> <li>• CA1590, if the date of leaving is on or before 5 April 1997, or</li> <li>• CA1892, if the date of leaving is on or after 6 April 1997</li> </ul>
2	sign and date the forms and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

### Statements

- 6.14 A statement of transfer of protected rights liability, form CA1882, will be issued to any receiving scheme that gets incentive and/or age-related payment information on a paper schedule. If the receiving scheme gets payment information via magnetic media then confirmation of any incoming transfers will be included in this information. For further details see manual CA70, *Magnetic Media Transmission of Data to Appropriate Personal Pension, Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes*.

### Age-related payments following the transfer

- 6.15 Any age-related payment which falls due, based on the contracted-out earnings relevant to the period of employment being transferred will be paid to the receiving COMP/COMPSPH scheme.

## Notification to use if the employee is not in contracted-out employment under the receiving scheme

### What to do

- 6.16 If the employee is **not** taking up contracted-out employment under the receiving scheme notify Services to Pensions Industry:

Step	Action
1	fill in form: <ul style="list-style-type: none"> <li>• CA1893, if a form CA1589 has already been sent, or</li> <li>• CA1894, if a form CA1589 has <b>not</b> already been sent</li> </ul>
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

## Statements

- 6.17 A statement of transfer of protected rights liability, form CA1882, will be issued to any receiving scheme that gets incentive and/or age-related payment information on a paper schedule. If the receiving scheme gets payment information via magnetic media then confirmation of any incoming transfers will be included in this information. For further details see manual CA70, *Magnetic Media Transmission of Data to Appropriate Personal Pension, Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes*.

## Age-related payments following the transfer

- 6.18 Any age-related payment which falls due, based on the contracted-out earnings relevant to the period of employment being transferred will be paid to the receiving COMP/COMPSPH scheme.

## *Transfer to an APP/APPSHP scheme*

- 6.19 A transfer payment for money purchase benefits in the form of protected rights may be made to an APP/APPSHP scheme, if the
- employee consents in writing, and
  - receiving scheme uses the transfer payment to provide money purchase benefits in the form of protected rights, and
  - transfer payment is at least equal to the value of the protected rights to which effect is being given.
- 6.20 The scheme must notify Services to Pensions Industry when the protected rights are transferred.

## Notification to use where the employee is currently contributing to the APP /APPSHP scheme

### What to do

- 6.21 If the employee is currently contributing to the APP/APPSHP scheme notify Services to Pensions Industry

Step	Action
1	fill in form: <ul style="list-style-type: none"><li>• CA1591, if the date of leaving is on or before 5 April 1997, or</li><li>• CA1892, if the date of leaving is on or after 6 April 1997</li></ul>
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

## Statements

- 6.22 A statement of transfer of protected rights liability, form CA1882, will be issued to any receiving scheme that gets minimum contributions (MCs) payment information on a paper schedule. If the receiving scheme gets MCs payment information via magnetic media then confirmation of any incoming transfers will be included in this information. For further details see manual CA70, *Magnetic Media Transmission of Data to Appropriate Personal Pension, Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes*.

## Age-related payments following the transfer

- 6.23 Any age-related payment which falls due based on contracted-out earnings relevant to the period of employment being transferred will be paid to the receiving APP/APPSHP scheme.

## Notification to use if the employee is not currently contributing to the APP/APPSHP scheme

### What to do

- 6.24 If the employee is **not** currently contributing to the APP/APPSHP scheme notify Services to Pensions Industry

Step	Action
1	fill in form: <ul style="list-style-type: none"><li>• CA1893, if a form CA1589 has already been sent, or</li><li>• CA1894, if a form CA1589 has <b>not</b> already been sent</li></ul>
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

## Statements

- 6.25 A statement of transfer of protected rights liability, form CA1882, will be issued to any receiving scheme that gets MCs payment information on a paper schedule. If the receiving scheme gets MCs payment information via magnetic media then confirmation of any incoming transfers will be included in this information. For further details see manual CA70, *Magnetic Media Transmission of Data to Appropriate Personal Pension, Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes*.

## Age-related payments following the transfer

- 6.26 Any age-related payment which falls due based on contracted-out earnings relevant to the period of employment being transferred will be paid to the receiving APP/APPSHP scheme.

## Freestanding Additional Voluntary Contributions scheme

- 6.27 Protected rights cannot be transferred from a COMP/COMPSP scheme to a Freestanding Additional Voluntary Contributions (FSAVC) scheme.

## *Transfer to a COSR scheme or the active COSR part of a COMB scheme or a Section 53 (formerly contracted-out) Salary Related scheme*

- 6.28 A transfer payment for protected rights may be made to a COSR scheme or the active COSR part of a COMB scheme or a Section 53 (formerly contracted-out) Salary Related scheme if:
- the employee consents in writing, and
    - is employed by an employer who is a contributor to the receiving scheme, or
    - has previously been a member of the receiving scheme, or
    - is not in contracted-out employment and the employer is, or for a Section 53 (formerly contracted-out) Salary Related scheme is or was, a contributor to the receiving scheme and the member applied for the transfer before the 6 April 1997 or after 6 April 2002, and

- pre 6 April 1997 protected rights are being transferred. The scheme accepting the transfer must provide for GMPs to be provided equal to those that would have been provided under the rules of the receiving scheme for the period represented by the protected rights being transferred as if those rights had been in the receiving scheme throughout and not subject to transfer
  - pensions to be payable at the same rates at which the GMP would have been payable if there had been no transfer, and
  - the conditions of payment relating to its own GMPs to apply equally to such pensions and commutation
- post 6 April 1997 protected rights have been transferred. The transfer payment is applied to provide rights for the employee, which had they accrued in the receiving scheme would mirror those for employees who:
  - are in employment which is contracted-out in relation to the receiving scheme, or
  - have been in contracted-out employment with the receiving scheme
- the transfer payment is equal to the cash equivalent of the protected rights to which effect has been given.

6.29 When the protected rights are transferred the scheme must notify Services to Pensions Industry, see paragraph 6.31 et seq.

6.30 There is no need to tell Services to Pensions Industry if an employee moves within six months from a COMP scheme to a COSR scheme operating under the same ECON **if the rights accrued under the original scheme are also transferred**. If there was entitlement to incentive payments, in respect of one or both of the schemes, see paragraph 2.22. Services to Pensions Industry must always be notified in writing at the time the employee changes schemes. If the rights are held in the original scheme then that scheme must submit a notice of termination.

## Notification to use if the employee is in contracted-out employment under the receiving scheme

### What to do

6.31 If the employee is taking up contracted-out employment under the receiving scheme notify Services to Pensions Industry

Step	Action
1	fill in form: <ul style="list-style-type: none"> <li>• CA1592, if the date of leaving is on or before 5 April 1997, or</li> <li>• CA1892, if the date of leaving is on or after 6 April 1997</li> </ul>
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

6.32 If a transfer to a COSR scheme takes place and the period of employment is entirely before 6 April 1997 and the scheme uses limited rate revaluation, the COSR scheme must pay the LRP.

## Statements

6.33 A GMP statement form CA1625 will be issued to the receiving scheme. The amount quoted does not take account of any pension rights shared on divorce.

6.34 If there is no GMP liability, a statement of transfer of contracted-out pension liability form CA1899 will be issued to the receiving scheme.

## Age-related payments following the transfer

- 6.35 If a transfer of the member's protected rights, to a COSR scheme, is to take place, the Inland Revenue National Insurance Contributions Office will be able to make an early payment allowing schemes to use all the protected rights to calculate the transfer value. See paragraph 3.29 et seq.
- 6.36 If a scheme wishes to receive an early payment before completing the transfer, they should advise Services to Pensions Industry of the details of the relevant contracted-out earnings, using form CA1902. See paragraph 3.32.
- 6.37 Any age-related payment based on contracted-out earnings relevant to the period of employment being transferred which fall due after the transfer is recorded, will be **offered** to the receiving COSR scheme.
- 6.38 Although payments will be offered to the receiving scheme, the transferring scheme must make the member aware of the fact that these payments may not be accepted.

## Notification to use if the employee is not in contracted-out employment under the receiving scheme

### What to do

- 6.39 If the employee is **not** taking up contracted-out employment under the receiving scheme notify Services to Pensions Industry:

Step	Action
1	fill in form: <ul style="list-style-type: none"><li>• CA1893, if a form CA1589 has already been sent, or</li><li>• CA1894, if a form CA1589 has <b>not</b> already been sent</li></ul>
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

## Statements

- 6.40 A GMP statement form CA1625 will be issued to the receiving scheme. If there is no GMP liability, a statement of transfer of contracted-out pension liability, form CA1899, will be issued to the receiving scheme.

## Age-related payments following the transfer

- 6.41 When a transfer of the member's protected rights, to a COSR scheme, is to take place, the Inland Revenue National Insurance Contributions Office will be able to make an early payment allowing schemes to use all the protected rights to calculate the transfer value, see paragraph 3.29 et seq.
- 6.42 If a scheme wishes to receive an early payment before completing the transfer they should advise Services to Pensions Industry of the details of the relevant contracted-out earnings using form CA1902, see paragraph 3.32.
- 6.43 Any age-related payment based on contracted-out earnings relevant to the period of employment being transferred which fall due after the transfer is recorded will be **offered** to the receiving COSR scheme.
- 6.44 Although payments will be offered to the receiving scheme, the transferring scheme must make the member aware of the fact that these payments may not be accepted.

## *Transfer to an overseas occupational pension scheme or overseas arrangement other than one which is or was contracted-out and is still under the financial supervision of Services to Pensions Industry*

- 6.45 From 6 April 1997 a transfer of protected rights to an overseas occupational pension scheme will no longer be approved by the Occupational Pensions Board (OPB).
- 6.46 The responsibility for operating overseas transfer arrangements will lie with the exporting scheme.
- 6.47 A transfer payment may be made to an overseas occupational or from 6 April 2002 an overseas arrangement scheme if the:
- employee consents in writing, and
  - transfer payment is at least equal to the cash equivalent of the protected rights to which effect has been given, and
  - trustees of the transferring scheme have taken reasonable steps to satisfy themselves that the employee:
    - has emigrated on a permanent basis, and
    - is in employment related to the receiving scheme, if the receiving scheme is an occupational pension scheme, and
  - employee has acknowledged in writing that the scheme or arrangement to which the transfer payment is to be made may not be regulated by United Kingdom (UK) law. Consequently there may be no obligation under that law on the receiving scheme or arrangement or its trustees to provide any particular value or arrangement or benefit in return for the transfer payment, and
  - trustees of the transferring scheme or arrangement have taken reasonable steps to satisfy themselves that the employee has received a statement from the receiving scheme showing:
    - the benefits to be awarded for the transfer payment, and
    - any conditions on which these could be forfeited or withheld.

## Notification to use

### What to do

- 6.48 If an employee's protected rights are transferred to an overseas scheme or arrangement notify Services to Pensions Industry:

Step	Action
1	fill in form CA1895
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

## Statements

- 6.49 No statements will be issued.

## Age-related payments following the transfer

- 6.50 When a transfer of the member's protected rights, to an overseas scheme, or arrangement is to take place, Inland Revenue National Insurance Contributions Office will be able to make an early payment allowing schemes to use all the protected rights to calculate the transfer value, see paragraph 3.29 et seq.
- 6.51 If a scheme wishes to receive an early payment before completing the transfer they should advise Services to Pensions Industry of the details of the relevant contracted-out earnings using form CA1902, see paragraph 3.32.
- 6.52 Any age-related payment based on contracted-out earnings relevant to the period being transferred which fall due after the transfer is recorded, will be **offered** to the importing overseas scheme or arrangement .
- 6.53 Although payments will be offered to the importing scheme, the transferring scheme must make the member aware of the fact that these payments may not be accepted.

### *Transfer to an overseas occupational pension scheme or overseas arrangement which is or was contracted-out and is still under the financial supervision of Services to Pensions Industry*

- 6.54 A transfer to an overseas scheme which is a contracted-out scheme, or Section 53 (formerly contracted-out) money purchase scheme, and the member applied for the transfer before 6 April 1997, may take place in the same way as transfers to UK based schemes.
- 6.55 The procedures for notifying Services to Pensions Industry of the transfer depend on the type of scheme to which the rights are transferred. See paragraph 6.9.

### *Splitting the protected rights*

- 6.56 When an employee leaves a COMP or the active COMP part of a COMB scheme voluntarily without leaving employment and exercises the right to a transfer value (see paragraph 6.6), the scheme may restrict any transfer to those rights built up after 5 April 1988. There may be pre 6 April 1988 protected rights, if GMP rights have been transferred in.
- 6.57 If there are pre 6 April 1988 protected rights:
- the pre 6 April 1988 rights will normally be retained within the scheme, and
  - the post 5 April 1988 rights will be transferred.
- 6.58 When the employment ends, if the employee:
- does not wish to transfer the earlier protected rights retained in the scheme, no additional action is required
  - wishes to transfer the earlier protected rights retained in the scheme, the relevant notification must be forwarded to Services to Pensions Industry, showing the full period of contracted-out employment.
- 6.59 From 6 April 1997, termination of contracted-out employment rights accrued 5 April 1997 or earlier may be split from those accrued from 6 April 1997 or later, but must be transferred in different directions.
- 6.60 From 6 April 1997 a transfer into a COMB scheme with two active parts can be split between the COMP and COSR parts of the scheme.

## What to do

- 6.61 When the transfer of protected rights is restricted to those rights built up after 5 April 1988 the scheme must notify Services to Pensions Industry

Step	Action
1	Fill in form CA1583, showing the full period of contracted-out employment
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

- 6.62 Write and tell Services to Pensions Industry of the details if:

- the pension rights accrued on or before 5 April 1997 and the pension rights accrued on or after 6 April 1997 are split and transferred to different schemes
- the transfer of the pension rights accrued on or before 5 April 1997 or earlier are also restricted to the rights built up after 5 April 1988.

Services to Pensions Industry will then advise the transferring scheme of the correct action to take.

## 7 Contracted-out Mixed Benefit (COMB) schemes

### *Background*

- 7.1 In order for a scheme to have been contracted-out before 6 April 1997, it must have done so either as a Contracted-out Salary Related (COSR) or Contracted-out Money Purchase (COMP) scheme.
- 7.2 A scheme could not be contracted-out by both routes simultaneously, nor could a COSR scheme become a COMP scheme (or vice versa) unless it had:
- first ceased to contract out and discharged its liability to pay either:
    - Guaranteed Minimum Pensions (GMPs), or
    - protected rights, and
  - then re-elected to contract-out on the other basis.

### *Schemes operating an active COMP and COSR part*

- 7.3 Under the Occupational Pension Schemes (Mixed Benefit Contracted-out Schemes) Regulations 1996, a COSR scheme can, as from 6 April 1997 open a COMP part and be contracted-out on both a salary related and money purchase basis at the same time.
- 7.4 This provision is available to COMP schemes who wish to open a COSR part as from 6 April 1998. This enables some members to be in the salary related part and others in the money purchase part of the same scheme.
- 7.5 Transfers between the two parts of the scheme are allowed and subject to scheme rules, a member may be able to transfer within the scheme at any time. COMB schemes may also be able to transfer rights built up in one part of the scheme to the other part, provided the member's individual consent is obtained.

- 7.6 It is also possible for the scheme to make one part of the COMB scheme inactive. Details of the procedures to be followed to make one of the parts of the COMB scheme inactive are provided in manual CA14E, *Contracting-out Guidance for Mixed Benefit Pension Schemes and Mixed Benefit Overseas Schemes*.
- 7.7 Details of the procedures to be followed in respect of the supervision of the inactive part are provided in manual CA15, *Cessation of Contracted-out Pension Scheme Manual*.
- 7.8 This Chapter of the manual provides guidance on COMB schemes, ie schemes which are contracted-out on both a salary related and money purchase basis at the same time, and sets out the procedures to be followed when a member leaves the COMP part.
- 7.9 Details of the procedures required when a member leaves the COSR part are provided in manual CA14, *Termination of Contracted-out Employment - Manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes*.
- 7.10 Guidance for those COSR schemes that switch to COMP provision from 6 April 1997 is provided in Chapter 8.

### *Notifications of termination of employment within a COMB scheme*

- 7.11 Services to Pensions Industry must be notified whenever membership of the COMB scheme terminates before the start of the tax year in which state pension age (SPA) is reached. See paragraph 4.1.
- 7.12 Membership of the COMB scheme is treated as terminated when the member leaves the COMB scheme overall. Membership of the COMB scheme is not treated as terminated when the member leaves the COMP part to join the COSR part.
- 7.13 If either COMP rights only or COMP and COSR rights have accrued in the COMB scheme, they may be:
- retained in the scheme. See paragraphs 7.41 to 7.45
  - transferred to another COMB, COMP/COMPSPH, COSR, or Appropriate Personal Pension (APP)/Appropriate Personal Stakeholder Pension (APPSHP) scheme. See paragraphs 7.60 to 7.91
  - transferred to an overseas occupational pension scheme or overseas arrangement in limited circumstances. See paragraphs 6.45 to 6.55.
- 7.14 If the accrued COSR and COMP rights are to be split, see paragraph 7.55 and paragraphs 6.56 to 6.62.

### **Notifications to use**

- 7.15 The notifications to use are those relevant to the part of the scheme at the date of leaving, that is if the member was in the COMP part upon leaving the COMB scheme, the appropriate COMP notification should be forwarded to Services to Pensions Industry. The notifications to use are listed at Chapter 4.

### **Responsibility for notification**

- 7.16 The responsibility for notification of termination of contracted-out employment may be delegated to one body, for example to a scheme or insurance company, although most termination forms require entries by both the employer and the scheme.

### **Time limits for notifications**

- 7.17 The time limit for notifications is detailed in paragraph 5.5. An extension of those limits may be approved on application to Services to Pensions Industry, as explained in paragraph 5.6.

## *Internal transfers between parts of a COMB scheme*

7.18 Depending on scheme rules, the following **internal** transfer options may be made available to members:

- transfer of **membership only** from the COMP part to the active COSR part of the same COMB scheme
- transfer of **membership and past accrued protected rights** from the COMP part to the active COSR part of the same COMB scheme.

7.19 For internal transfers of rights or membership, or membership and past accrued rights, from the COSR part of the scheme, see Chapter 11 of manual CA14, *Termination of Contracted-out Employment - Manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes*.

### **Consent to a transfer**

7.20 The employee's consent must normally be obtained before a transfer of accrued rights can take place.

## *Internal transfer of membership and accrued protected rights from the COMP part of a COMB scheme to the active COSR part of the same COMB scheme*

### **What to do**

7.21 Services to Pensions Industry will always require notification of transfers of membership and past accrued protected rights from the COMP part to the active COSR part of the same COMB scheme.

<b>Step</b>	<b>Action</b>
1	fill in form CA1892
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

### **Statements**

7.22 If form CA1892 is received and a GMP is included in the transferred rights, that is the commencement date of contracted-out employment is before 6 April 1997, a statement form CA1625 will be issued to the scheme. The amount quoted does not take account of any pension rights shared on divorce.

7.23 If form CA1892 is received and the commencement date of contracted-out employment is on or after 6 April 1997, a statement of transfer of contracted-out pension liability, form CA1899, will be issued to the scheme.

### **Calculation of the GMP**

7.24 Where a COMP scheme opens a COSR part from 6 April 1998, and

- an employee transfers from the COMP scheme to the COSR part of the COMB scheme, and
- the rights transferred include protected rights accrued up to and including 5 April 1997.

a GMP calculation will be performed for the pre '97 transferred rights when the transfer notification form CA1892 is processed.

7.25 The Section 148 revaluation order relevant at the date of transfer will be used in the calculation.

## Revaluation of the GMP

- 7.26 The onward GMP revaluation rate following the transfer of past accrued protected rights from the COMP part of the COMB scheme to the COSR part of the same COMB scheme, must be Section 148. The COSR part of the COMB scheme's chosen revaluation rate for early leavers does not take effect until contracted-out employment in the COMB scheme terminates.

## Age-related payments

- 7.27 If a transfer of the member's protected rights takes place from the COMP part to the COSR part of a COMB scheme, Inland Revenue National Insurance Contributions Office can make an early payment, allowing the scheme to use all the protected rights to calculate the transfer value. See paragraph 3.29.
- 7.28 If the scheme wishes to receive an early payment before completing the transfer, they should advise Services to Pensions Industry of the details of the relevant contracted-out earnings using form CA1902. See paragraph 3.32.
- 7.29 Any age-related payment which falls due based on contracted-out earnings relevant to employment in the COMP part of the COMB scheme will be **offered** to the scheme.
- 7.30 Although payments will be offered to the receiving scheme, the transferring scheme must make the member aware that these payments may not be accepted.

### *Internal transfer of membership only from the COMP part to the active COSR part of a COMB scheme and previously accrued COMP/COMPSPH rights are retained in the COMP part of the COMB scheme*

- 7.31 If the member transfers to the active COSR part, but leaves their accrued protected rights in the COMP part of the COMB scheme, no notification is normally required, but see paragraph 7.33.
- 7.32 An appropriate notification will however be required when the member terminates contracted-out employment in the COMB scheme overall. At termination stage, Services to Pensions Industry will
- identify any pre '97 rights as protected rights, and
  - calculate a Contracted-out Deduction (COD) using the Section 148 revaluation order relevant to the tax year of leaving the COMB scheme.

## Identification of the type of Pre '97 Rights held in a COMB scheme

- 7.33 In a COMB scheme, Services to Pensions Industry will identify any pre '97 rights as either COSR or COMP rights, via the Scheme Contracted-out Number (SCON) shown on any notice of termination received.
- 7.34 However, there will be occasions when Services to Pensions Industry will not be able to identify the type of pre '97 rights for a COMB scheme where the employer ran other salary related and money purchase contracted-out schemes before one of the schemes became a COMB scheme and then transferred members from the existing schemes into the COMB scheme.
- 7.35 In these cases, Services to Pensions Industry will always need to be notified when an employee transfers from the COMP part of a COMB scheme to the active COSR part of the same COMB scheme, if the following criteria are met
- the employee transfers membership only (and not their accrued rights) from the COMP to the active COSR part
  - the period of contracted-out employment in the COMP part (including any service in the original COMP scheme) started before 6 April 1997, and
  - the employer operates, or has operated, another contracted-out scheme(s) independently of the COMB scheme.

## Notification to use where membership only is to be transferred

### What to do

- 7.36 For transfers of membership only, where the criteria at paragraph 7.35 is satisfied, notify Services to Pensions Industry

Step	Action
1	fill in form CA1897, make sure that the pre '97 rights indicator is always completed
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer

- 7.37 On receipt of form CA1897, Services to Pensions Industry will note the relevant National Insurance accounts to ensure the correct calculations are performed on overall termination of contracted-out employment in the COMB scheme.

### Statements

- 7.38 The main purpose of form CA1897 is to accurately identify the nature of pre 6 April 1997 occupational pension rights. It is not a termination notice and, therefore, a statement will not be issued.
- 7.39 If, in exceptional circumstances, the majority of members are to be transferred from the COMP part of a COMB scheme to the active COSR part of the same COMB scheme, the scheme should advise Services to Pensions Industry in writing. If appropriate, Services to Pensions Industry will provide a listing (CA1898) of all employees, with pre '97 rights, recorded as being in contracted-out employment with the employer(s) participating in the scheme.
- 7.40 If the employer has more than one scheme, Services to Pensions Industry cannot identify the particular scheme an individual employee belongs to. It is therefore important that the scheme administrator identifies the appropriate members of the COMP part of the COMB scheme who are to transfer to the COSR part and completes the CA1898 to show the pre '97 rights appropriate to those members who are transferring.

### *Accrued rights retained in the COMB scheme on termination*

- 7.41 If an employee's contracted-out employment in the COMP part of the COMB scheme terminates and the rights accrued in the COMB scheme (including any salary related rights) are to be retained in the scheme, the scheme must notify Services to Pensions Industry:

### What to do

Step	Action
1	fill in form CA1589
2	sign and date the form and send it to Services to Pensions Industry. It can be sent within one month before the expected date of termination but no later than six months after the date of termination

### Statements

- 7.42 Services to Pensions Industry will identify any pre '97 rights as being either COSR or COMP rights and where a GMP forms part of the rights retained in the scheme, a statement, form CA1625 will be issued. The amount quoted does not take account of any pension rights shared on divorce.

## Calculation of the GMP

- 7.43 If a GMP forms part of the rights retained in the scheme, the relevant calculation will only be performed at the point an employee leaves the COMB scheme overall.
- 7.44 A GMP calculation will be performed for such rights when the termination notification, form CA1589, is processed. The Section 148 revaluation order relevant at the date of leaving the COMB scheme overall will be used in the calculation.

## Age-related payments

- 7.45 Any age-related payments which fall due based on contracted-out earnings relevant to employment in the COMP part of the COMB scheme will be paid to the scheme.

## *Buying back GMP rights and Post '97 COSR rights into the state scheme*

### COSR and COMP Rights have accrued in the COMB scheme

- 7.46 GMP and/or post '97 COSR rights can be bought back into the state scheme by payment of a Contributions Equivalent Premium (CEP).

### What is a CEP?

- 7.47 A CEP represents the amount of National Insurance rebate received by the employer and employee both through the reduction in National Insurance contributions (NICs) and the NIC rebate given based on earnings between the Lower earnings Limit (LEL) and the earnings threshold. See paragraph 2.17.

From 6 April 2000 the CEP will continue to be calculated on earnings between the LEL and the Upper Earnings Limit (UEL). The introduction of the Employee and Employer Earnings Thresholds will not impact on the way in which the CEP is calculated.

When a scheme elects to pay a CEP they may recover the Certified Amount from any refund the employee may be entitled to from the pension fund. The Certified Amount represents the employee contracted-out rebate given on earnings between the LEL and the UEL.

Where the employee has not received the full NIC rebate on earnings between the LEL and the Employee Earnings Threshold, a deduction equal to the amount of NIC rebate not enjoyed by the employee, should be made to the Certified Amount.

Information provided on the End of Year Return (P14) does not identify if the employee had low or fluctuating earnings for example, where the employee may not have received the full NIC rebate on all earnings between the LEL and the Employee Earnings Threshold. Therefore the Certified Amount will always be calculated as though an employee has received the full NIC rebate on all earnings. However, if it is known that the employee had low or fluctuating earnings during the relevant employment, the Certified Amount may need to be recalculated using the relevant NICs information from the employer.

- 7.48 Payment of a CEP restores Additional Pension entitlement. It extinguishes the contracting-out liability in the COSR part of a COMB scheme.

### Conditions for payment of a CEP

- 7.49 A CEP may be paid after the termination of contracted-out employment if:
- the contracted-out employment was by reference to a COSR scheme or included service in the COSR part of a COMB
  - the total period of contracted-out employment within the COMB scheme and, if applicable, any previous related COSR employment must be less than two years

- the period of employment ended before the earner reached the scheme's normal pension age, or if earlier, the end of the tax year before State Pension Age (SPA)
- total qualifying service as defined by the Pensions Schemes Act (PSA) 1993, is less than two years
- there are no accrued rights to short service benefit (except in the case of a widow or widower, see Chapter 8 of manual CA14, *Termination of Contracted-out Employment, Manual for Salary Related Pension schemes and Salary Related parts of mixed benefit schemes*)
- an election is made by writing to Services to Pension Industry (see paragraph 7.55) and one of the following applies:
  - the earner ceases to be in contracted-out employment, and this is not due to the earner's death, unless the earner leaves a widow or widower. See Chapter 8 of the CA14, or
  - the scheme has ceased to contract-out on 6 April 1997 or later, but see the CA15, *Cessation of Contracted-out Pension Scheme Manual for further information*, or
  - the scheme is wound up on 6 April 1997 or later.

7.50 A CEP is not payable if:

- pension rights are transferred to another contracted-out scheme or to an APP scheme, or
- an employee exercises an option allowed under scheme rules to have pension rights preserved, even though the qualifying conditions of the PSA 1993 are not satisfied, or
- an employee elects to have the pension rights secured through an insurance policy or annuity contract, or
- accrued rights include rights transferred in from an APP/APPSPH scheme, or
- a woman dies whilst in contracted-out employment, and the period of contracted-out employment is entirely before 5 April 1997, or
- a woman has paid reduced-rate contributions for the whole period of contracted-out employment, or
- the scheme **has ceased to contract-out** or is wound up before 6 April 1997, but see manual CA15, *Cessation of Contracted-out Pension Scheme Manual*.

7.51 **Only the full rate contributions should be included in the CEP calculation, if a married woman paid:**

- E rate contributions for part of a period of contracted-out employment and
- D rate contributions for the remainder of the period.

## Time limits for payment of CEPs

7.52 CEPs must be paid by the later of

- six months after termination, or
- one month after Services to Pensions Industry notify the amount due.

## Extension of time limits

7.53 The time limits for making payment may be extended in exceptional circumstances if payment cannot reasonably be made within the normal time limit. An application for an extension of the time limits

must be made as outlined in Chapter 8 of the CA14 *Termination of Contracted-out Employment manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes*.

7.54 The Commissioners of Inland Revenue can extend the time limits by:

- up to six months if satisfied that payment could not reasonably be made within the original period
- more than six months if satisfied that earlier payment would be prejudicial to the interests of the earner or the scheme members.

## *Notifying Services to Pensions Industry*

### **What to do**

7.55 If an employee has accrued both COSR rights and protected rights in the COMB scheme, the overall period of scheme membership is less than two years, a CEP may be paid for any COSR rights held in the scheme

<b>Step</b>	<b>Action</b>
1	provide a letter containing the following information: <ul style="list-style-type: none"> <li>• confirmation that COSR rights are to be discharged by the payment of a CEP, and</li> <li>• details of the period of contracted-out employment within the COMB scheme, and</li> <li>• the earnings between the LEL and UEL relevant to employment in the COSR part of the COMB scheme which are to be used in the CEP calculation</li> </ul>
2	fill in form: <ul style="list-style-type: none"> <li>• CA1589, if the protected rights are to be retained in the scheme, or</li> <li>• CA1892, if the protected rights are to be transferred to a COSR, COMP/COMPSP, COMB or APP/APPSP scheme</li> </ul>
3	form CA1589 or CA1892 should show the full period of contracted-out employment in the COMB scheme and should be attached to the letter containing the CEP details
4	send the form and attached letter to Services to Pensions Industry

7.56 If a woman has paid reduced rate contributions for part of the period of contracted-out employment, the letter at Step 1 above should show

- only those earnings on which full contracted-out (D rate) NICs were paid.

7.57 The amount of the premium due can be calculated and sent with the letter, but if in doubt, await form CA1620.

7.58 A CEP of £17 or less for each individual employee is not required to be notified or paid.

7.59 Chapter 8 of manual CA14, *Termination of Contracted-out Employment - Manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes*, provides further details on the calculation and payment of a CEP.

## *Transfer of rights accrued in a COMB scheme to another COMB, COMP/COMPSPH, COSR, APP or APPSHP scheme*

### **Consent to a transfer**

7.60 The employee's written consent must normally be obtained before a transfer of accrued rights may take place.

## *Transfer of rights accrued in a COMB scheme to the active COMP part of another COMB scheme or COMP/COMPSPH scheme*

7.61 A transfer may be made if:

- the employee consents in writing, and
  - is employed by an employer who is a contributor to the receiving scheme, or
  - has previously been a member of the receiving scheme, or
  - is not in contracted-out employment but the employer is a contributor to the receiving scheme
- the receiving scheme uses the transfer payment to provide money purchase benefits under the receiving scheme for or in respect of, the member, and
- the transfer payment is at least equal to the value of the rights accrued in the COMB scheme.

## **Previous GMP transfer with Section 148 revaluation held in the COSR part of a COMB scheme and both COSR and COMP accrued rights are transferred**

7.62 The later transfer can be treated as a first transfer if:

- an external transfer has previously taken place to the COSR part of the COMB scheme with Section 148 revaluation, and
- the member subsequently transfers to the COMP part of the same COMB scheme leaving their past accrued COSR rights in the COSR part, and
- all pension rights accrued in the COMB scheme are subsequently externally transferred to a COSR scheme or COSR part of another COMB scheme
- the periods linked by Section 148 transfers are treated as one.

## **Previous GMP transfer with fixed or limited rate revaluation held in the COSR part of a COMB scheme and both COSR and COMP accrued rights are transferred**

7.63 The fixed or limited rate revaluation applying to any GMP rights must be replaced by Section 148 revaluation to determine at SPA, or earlier death, the amount to be deducted from state Additional Pension (AP) entitlement, if:

- an external transfer has previously taken place to the COSR part of the COMB scheme with fixed or limited rate revaluation, and
- the member subsequently transfers to the COMP part of the same COMB scheme leaving his past accrued COSR rights in the COSR part, and
- all pension rights accrued in the COMB scheme are subsequently externally transferred to a COMP/COMPSPH scheme or the COMP part of another COMB scheme.

Any Limited Revaluation Premium (LRP) paid will be refunded. See paragraphs 2.17 and 9.28 of the CA14, *Termination of Contracted-out Employment - Manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes*, for details of deductions from state Additional Pension and LRP refunds.

- 7.64 There is no need to tell Services to Pensions Industry if an employee moves within six months from one scheme to another operating under the same Employer's Contracting-out Number (ECON), **if the rights accrued in the original scheme are also transferred**. If the rights are held in the original scheme, then that scheme must submit a termination notification.

## Notification to use if the employee is in contracted-out employment under the receiving scheme

### What to do

- 7.65 If the employee is in contracted-out employment under the receiving scheme, notify Services to Pensions Industry:

Step	Action
1	fill in form CA1892
2	sign and date the form. Send it to Services to Pensions Industry within five weeks of the date of the transfer payment

## Statements

- 7.66 A statement of transfer of protected rights liability, form CA1882, will be issued to any receiving scheme that gets incentive and/or age-related payment information on a paper schedule. If the receiving scheme gets payment information via magnetic media then confirmation of any incoming transfers will be included in this information. For further details, see manual CA70, *Magnetic Media Transmission of Data to Appropriate Personal Pension, Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes*.

## Notification to use if the employee is not in contracted-out employment under the receiving scheme

### What to do

- 7.67 If the employee is not in contracted-out employment under the receiving scheme, notify Services to Pensions Industry:

Step	Action
1	fill in form: <ul style="list-style-type: none"><li>CA1893, if a notice of termination form CA1589 has previously been sent, or</li><li>CA1894, if a notice of termination form CA1589 <b>has not</b> previously been sent</li></ul>
2	sign and date the form and send it to Services to Pension Industry within five weeks of the date of the transfer payment

## Statements

- 7.68 A statement of transfer of protected rights liability, form CA1882, will be issued to any receiving scheme that gets incentive and/or age-related payment information on a paper schedule. If the receiving scheme gets payment information via magnetic media then confirmation of any incoming transfers will be included in this information. For further details, see manual CA70, *Magnetic Media Transmission of Data to Appropriate Personal Pension, Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes*.

## Age-related payments following the transfer

- 7.69 Any age-related payment which falls due based on the contracted-out earnings relevant to the period of employment being transferred, will be paid to the receiving COMP/COMPSPH scheme.

## *Transfer of rights accrued in a COMB scheme to an APP/APPSPH scheme*

- 7.70 A transfer payment for rights accrued in the COMB scheme may be made to an APP/APPSPH scheme, if
- the employee consents in writing, and
  - the receiving scheme uses the transfer payment to provide money purchase benefits in the form of protected rights, and
  - the transfer payment is at least equal to the value of the rights accrued in the COMB scheme.
- 7.71 If the member also has COSR rights held in the COMB scheme and both the COSR and COMP rights are to be transferred, see paragraphs 7.62 and 7.63 if a previous transfer of GMP rights had been accepted into the COSR part of a COMB.

## Notification to use if the employee is currently contributing to the APP/APPSPH scheme

### What to do

- 7.72 If the employee is currently contributing to the APP/APPSPH scheme, notify Services to Pensions Industry:

Step	Action
1	fill in form CA1892
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

## Statements

- 7.73 A statement of transfer of protected rights liability, form CA1882, will be issued to any receiving scheme that gets minimum contributions (MCs) payment information on a paper schedule. If the receiving scheme gets MCs payment information via magnetic media then confirmation of any incoming transfers will be included in this information. For further details, see manual CA70, *Magnetic Media Transmission of Data to Appropriate Personal Pension, Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes*.

## Notification to use if the employee is not currently contributing to the APP scheme

### What to do

- 7.74 If the employee is not currently contributing to the APP/APPSHP scheme, notify Services to Pensions Industry

Step	Action
1	fill in form: <ul style="list-style-type: none"><li>• CA1893, if a notice of termination form CA1589 has previously been sent, or</li><li>• CA1894, if a notice of termination form CA1589 has <b>not</b> previously been sent</li></ul>
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

### Statements

- 7.75 A statement of transfer of protected rights liability, form CA1882, will be issued to any receiving scheme that gets MCs payment information on a paper schedule. If the receiving scheme gets MCs payment information via magnetic media then confirmation of any incoming transfers will be included in this information. For further details, see manual CA70, *Magnetic Media Transmission of Data to Appropriate Personal Pension, Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes*.

### Age-related payments following the transfer

- 7.76 Any age-related payment which falls due based on contracted-out earnings relevant to the period of employment being transferred, will be paid to the receiving APP/APPSHP scheme.

### Freestanding Additional Voluntary Contributions scheme

- 7.77 Protected rights cannot be transferred from the COMP part of a COMB scheme to a Freestanding Additional Voluntary Contributions (FSAVC) scheme.

### *Transfer of rights accrued in a COMB scheme to the COSR part of another COMB scheme or COSR scheme*

- 7.78 A transfer payment may be made if:
- the employee consents in writing , and
  - is employed by an employer who is a contributor to the receiving scheme, or
  - has previously been a member of the receiving scheme , or
  - is not in contracted-out employment, but the employer is a contributor to the receiving scheme.
- 7.79 The receiving scheme must revalue any GMP rights accrued up to 5 April 1997. There are no Inland Revenue National Insurance Contributions Office restrictions as to which of the two rates of revaluation, either fixed or Section 148 rates, can be applied unless a transfer has previously taken place. However, the rules of the transferring and receiving schemes may impose restrictions.

- 7.80 If the person whose pension rights are transferred is not in contracted-out employment covered by the importing scheme, the scheme must look after GMP rights accrued up to 5 April 1997 and/or post '97 COSR rights as if he/she were in employment covered by the new scheme.
- 7.81 If the member also has COSR rights held in the COMB scheme and both the COSR and COMP rights are to be transferred, see paragraph 7.62, where the GMP rights were transferred with Section 148 revaluation. Where the transfer is at fixed or limited rate the new COSR scheme must:
- revalue the previously transferred rights at the same rate, or
  - choose to change the rate of revaluation being applied to previously transferred rights from fixed or limited rate Section 148. The S148 rate must be used from the earlier termination date. Any Limited Revaluation Period (LRP) paid is refunded. Schemes wishing to do this must advise Services to Pensions Industry in writing.
- 7.82 There is no need to tell Services to Pension Industry if an employee moves within six months from one scheme to another operating under the same ECON **if the rights accrued in the original scheme are also transferred**. If the rights are held in the original scheme then that scheme must submit a termination notification.

## Notification to use if the employee is in contracted-out employment under the receiving scheme

### What to do

- 7.83 If the employee is taking up contracted-out employment under the receiving scheme, notify Services to Pensions Industry:

Step	Action
1	fill in form CA1892
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

### Statements

- 7.84 A GMP statement, CA1625 will be issued to the receiving scheme. The amount quoted does not take account of any pension rights shared on divorce.
- 7.85 If there is no GMP liability, a statement of transfer of contracted-out liability, form CA1899, will be issued to the receiving scheme.

## Notification to use if the employee is not in contracted-out employment under the receiving scheme

### What to do

7.86 If the employee is not in contracted-out employment under the receiving scheme, notify Services to Pensions Industry

Step	Action
1	Fill in form: <ul style="list-style-type: none"><li>• CA1893, if a notice of termination form CA1589 has previously been sent, or</li><li>• CA1894, if a notice of termination form CA1589 has <b>not</b> previously been sent</li></ul>
2	sign and date the form. Send the completed form to Services to Pensions Industry within five weeks of the date of the transfer payment

### Statements

7.87 A statement of transfer of contracted-out liability, form CA1899, will be issued to the receiving scheme.

### Age-related payments

7.88 When a transfer of the member's protected rights, to a COSR scheme, is to take place, the Inland Revenue National Insurance Contributions Office will be able to make an early payment allowing schemes to use all the protected rights to calculate the transfer value, see paragraph 3.29.

7.89 If a scheme wishes to receive an early payment before completing the transfer they should advise Services to Pensions Industry of the details of the relevant contracted-out earnings, using form CA1902. See paragraph 3.32.

7.90 Any age-related payment based on contracted-out earnings relevant to the period of employment being transferred which fall due after the transfer is recorded will be **offered** to the receiving COSR scheme or COSR part of a COMB scheme.

7.91 Although payments will be offered to the receiving scheme, the transferring scheme must make the member aware that these payments may not be accepted.

### *Transfer from an active COMP part of a COMB scheme to an overseas occupational pension scheme or overseas arrangement, other than one which is or was contracted-out and still under the financial supervision of Services to Pensions Industry*

7.92 The rights accrued may be transferred to an overseas occupational pension scheme, as detailed in paragraphs 6.45 to 6.53.

### *Splitting the rights accrued in a COMB scheme*

7.93 The rights accrued in a COMB scheme may be split as detailed in paragraphs 6.56 to 6.62.

## **8** Contracted-out Salary Related (COSR) schemes that switched to Contracted-out Money Purchase (COMP) status from 6 April 1997

### *Background*

- 8.1 In order for a scheme to have been contracted-out before 6 April 1997, it must have done so either as a Contracted-out Salary Related (COSR) or Contracted-out Money Purchase (COMP) scheme.
- 8.2 A scheme could not be contracted-out by both routes simultaneously, nor could a COSR scheme become a COMP scheme (or vice versa) unless it had
- first ceased to contract out and discharged its liability to pay either:
    - Guaranteed Minimum Pensions (GMPs), or
    - protected rights, and
  - then re-elected to contract-out on the other basis.

### *COSR schemes switching to COMP status from 6 April 1997*

- 8.3 Under a second set of regulations amended by The Occupational Pension Schemes (Contracting-out) Amendment Regulations 1996, a live COSR scheme as at 5 April 1997 could switch to COMP status on 6 April 1997, and from that date commence accruing contracted-out pension rights on a money purchase basis.
- 8.4 GMPs accrued up to and including 5 April 1997 will be held within the pre '97 COSR part of the scheme and supervised by Services to Pensions Industry in the same way as GMPs held in formerly certified schemes. Details on the supervision of formerly certified schemes are provided in manual CA15, *Cessation of Contracted-out Pension Scheme Manual*.
- 8.5 Contracted-out rights accrued from 6 April 1997 will be on a money purchase basis only and details of the termination procedures for this type of Contracted-out Mixed Benefit (COMB) scheme are provided in this manual.
- 8.6 This Chapter gives guidance for those COSR schemes that switched to COMP status from 6 April 1997. For guidance and procedures about COMB schemes, ie schemes which are contracted-out on both a salary related and money purchase basis:
- when a member leaves the COMP part, see Chapter 7 for further details
  - when a member leaves the COSR part, see the CA14, *Termination of Contracted-out Employment - Manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes*.

### *Notifications of termination of contracted-out employment*

- 8.7 Services to Pensions Industry must be notified whenever membership of the COMP scheme terminates before the start of the tax year in which State Pension Age (SPA) is reached, see paragraph 4.1.
- 8.8 Services to Pensions Industry do not require notifications of termination for the period up to 5 April 1997 for those employees who are a member of the scheme before and after the switch to COMP status. This is because contracted-out employment has not terminated.

- 8.9 If either COMP rights only, or COMP/COMPSPH and COSR rights, have accrued on termination of contracted-out employment, they may be:
- retained in the scheme. See paragraphs 8.17 to 8.21
  - transferred to another COMB, COMP/COMPSPH, COSR, or Appropriate Personal Pension (APP)/Appropriate Personal Pension Stakeholder Pension (APPSHP) scheme. See paragraphs 8.30 to 8.62
  - transferred to an overseas occupational pension scheme or overseas arrangement in limited circumstances. See paragraphs 6.45 to 6.53.
- 8.10 If the accrued COSR and COMP rights are to be split, see paragraph 6.56 to 6.62 and 8.25.

### **Notifications to use**

- 8.11 Use the appropriate COMP notifications on termination of contracted-out employment. The notifications are listed in Chapter 4.

### **Responsibility for notification**

- 8.12 The responsibility for notifications of termination of contracted-out employment may be delegated to one body, for example to a scheme or insurance company, although most termination forms require entries by both the employer and the scheme.

### **Time limits for notifications**

- 8.13 The time limit for notifications is shown in paragraph 5.5. An extension of the time limit may be approved on application to Services to Pensions Industry, as explained in paragraph 5.6.

### ***Internal transfers between the Pre '97 COSR scheme and the COMP scheme***

- 8.14 If a COSR scheme switches to COMP status on 5 April 1997, the pre '97 COSR rights **cannot** be transferred to the COMP scheme set up from 6 April 1997.

### **Identification of the type of pre '97 rights**

- 8.15 Services to Pensions Industry will usually identify any pre '97 rights as COSR rights via the Scheme Contracted-out Number (SCON) shown on any termination notification received.
- 8.16 Services to Pensions Industry will not be able to identify any pre '97 rights if the employer operates, or has operated, another contracted-out scheme(s). In these circumstances, the procedures in paragraphs 11.28 to 11.35 of manual CA14, *The Termination of Contracted-out Employment - Manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes* will be used.

### ***Accrued rights retained in the COMP scheme on termination***

- 8.17 If an employee's contracted-out employment in the scheme terminates, and the rights, including any salary related rights accrued up to 5 April 1997, are to be retained in the scheme, the scheme must notify Services to Pensions Industry.

## Notification to use

### What to do

8.18	Step	Action
	1	fill in form CA1589
	2	sign and date the form. Send it to Services to Pensions Industry within one month before the expected date of termination but no later than six months after the date of termination

## Statements

- 8.19 If Services to Pensions Industry identify any pre '97 rights as COSR rights, they will issue a statement form CA1625. The amount quoted does not take into account of any pension rights shared on divorce.

## Calculation of the GMP

- 8.20 If a GMP forms part of the rights retained in the scheme, the relevant calculation will only be performed at the point an employee leaves the scheme overall.
- 8.21 A GMP calculation will be performed for such rights when the notice of termination, form CA1589, is processed. The Section 148 revaluation order relevant at the date of leaving the scheme overall will be used in the calculation.

## Age-related payments following termination

- 8.22 Any age-related payment which falls due based on contracted-out earnings relevant to employment in the COMP scheme will be paid to the scheme.

## *Buying back GMP rights into the state scheme*

## COSR and COMP rights have accrued in the scheme

- 8.23 GMP rights accrued in the pre '97 COSR scheme may be bought back into the state scheme by payment of a Contributions Equivalent Premium (CEP).
- 8.24 If the conditions in Chapter 7 are satisfied, a CEP can be paid for any periods for which COSR rights are held within the scheme, provided the total period of membership in the scheme (in both the COSR and COMP schemes) is less than two years. This includes any period when the employee was a linked member of a COSR scheme immediately before the scheme switched to COMP status.

## Notifying Services to Pensions Industry

### What to do

- 8.25 If an employee has accrued both COSR rights and protected rights in the scheme and the overall period of scheme membership is less than two years, a CEP may be paid for any COSR rights held in the scheme. To notify Services to Pensions Industry

Step	Action
1	provide a letter containing the following information: <ul style="list-style-type: none"><li>• confirmation that COSR rights are to be discharged by the payment of a CEP, and</li><li>• details of the period of contracted-out employment within the scheme, and</li><li>• the earnings relevant to COSR employment in the scheme which are to be used in the CEP calculation</li></ul>
2	fill in form: <ul style="list-style-type: none"><li>• CA1589, if the protected rights are to be retained in the scheme, or</li><li>• CA1892, if the protected rights are to be transferred to a COSR, COMP/COMPSPH, COMB or APP/APPSPH scheme</li></ul>
3	form CA1589 or CA1892 should show the full period of contracted-out employment in the scheme and should be attached to the letter containing the CEP details
4	send the completed form and attached letter to Services to Pensions Industry

- 8.26 If a woman has paid reduced rate contributions for part of the period of contracted-out employment, the letter at step 1 above should show

- only those earnings on which full contracted-out (D rate) National Insurance contributions (NICs) were paid

- 8.27 The amount of the premium due can be calculated and sent with the letter, but if in doubt, await form CA1620.

- 8.28 A CEP of £17 or less for each individual employee is not required to be notified or paid.

- 8.29 Chapter 8 of manual CA14, *Termination of Contracted-out Employment - Manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes*, provides further details on the calculation of a CEP.

### *Transfer of rights accrued to a COMB, COMP/COMPSPH, COSR or APP/APPSPH scheme*

#### Consent to a transfer

- 8.30 The employee's written consent must usually be obtained before a transfer of accrued rights may take place.

## *Transfer of rights accrued to a COMP part of a COMB scheme or COMP/COMPSPH scheme*

8.31 A transfer may be made if:

- the employee consents in writing, and
  - is employed by an employer who is a contributor to the receiving scheme, or
  - has previously been a member of the receiving scheme
  - is not in contracted-out employment but the employer is a contributor to the receiving scheme, and
- the receiving scheme uses the transfer payment to provide money purchase benefits under the receiving scheme for or in respect of, the member, and
- the transfer payment is at least equal to the value of the rights accrued in the exporting scheme.

### **Previous GMP transfer with fixed or limited rate revaluation held within the Pre '97 COSR part of the scheme and both COSR and COMP rights are to be transferred**

8.32 The fixed or limited rate revaluation applying to any GMP rights must be replaced by Section 148 revaluation to determine at SPA, or earlier death, the amount to be deducted from state Additional Pension (AP), if:

- an external transfer has previously taken place to the pre '97 COSR part of the scheme with fixed or limited rate revaluation, and
- all pension rights accrued in the scheme are subsequently externally transferred.

**Note:** Any Limited Revaluation Premium (LRP) paid will be refunded. See paragraphs 2.17 and 9.28 of manual CA14, *Termination of Contracted-out Employment - Manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes*, for details of deductions from state AP and LRP refunds.

8.33 There is no need to tell Services to Pensions Industry if an employee moves within six months from one scheme to another operating under the same Employer's Contracting-out Number (ECON) **if the rights accrued in the original scheme are also transferred**. If the rights are held in the original scheme then that scheme must submit a notice of termination.

### **Notification to use if the employee is in contracted-out employment under the receiving scheme**

#### **What to do**

8.34 If the employee is in contracted-out employment under the receiving scheme notify Services to Pensions Industry

<b>Step</b>	<b>Action</b>
1	fill in form CA1892
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of transfer payment

## Statements

- 8.35 A statement of transfer of protected rights liability form CA1882 will be issued to any receiving scheme that gets incentive and/or age-related payments information on a paper schedule. If the receiving scheme gets payment information via magnetic media the confirmation of any incoming transfer will be included in this information. For further details see manual CA70, *Magnetic Media Transmission of Data to Appropriate Personal Pension, Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes*.

## Notification to use if the employee is not in contracted-out employment under the receiving scheme

### What to do

- 8.36 If the employee is not in contracted-out employment under the receiving scheme notify Services to Pensions Industry

Step	Action
1	fill in form: <ul style="list-style-type: none"><li>• CA1893, if a notice of termination form CA1589 has previously been sent, or</li><li>• CA1894, if a notice of termination form CA1589 has <b>not</b> previously been sent</li></ul>
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

## Statements

- 8.37 A statement of transfer of protected rights liability form CA1882 will be issued to any receiving scheme that gets incentive and/or age-related payments information on a paper schedule. If the receiving scheme gets payment information via magnetic media the confirmation of any incoming transfer will be included in this information. For further details see manual CA70, *Magnetic Media Transmission of Data to Appropriate Personal Pension, Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes*.

## Age-related payments following the transfer

- 8.38 Any age-related payment which falls due based on the contracted-out earnings relevant to the period of employment being transferred will be paid to the receiving COMP/COMPSHP scheme.

### *Transfer of rights accrued to an APP/APPSHP scheme*

- 8.39 A transfer payment for rights accrued in the scheme may be made to an APP scheme, if:
- the employee consents in writing, and
  - the receiving scheme uses the transfer payment to provide money purchase benefits in the form of protected rights, and
  - the transfer payment is at least equal to the value of the rights accrued in the exporting scheme.

## Previous GMP transfer with fixed or limited rate revaluation held within the Pre '97 COSR part of the scheme and both COSR and COMP rights are to be transferred

8.40 The fixed or limited rate revaluation applying to any GMP rights must be replaced by Section 148 revaluation to determine at SPA, or earlier death, the amount to be deducted from state AP entitlement, if

- an external transfer has previously taken place to the original COSR scheme with fixed or limited rate revaluation, and
- all pension rights accrued in the scheme are subsequently externally transferred to an APP scheme.

**Note:** LRP paid will be refunded. See paragraphs 2.17 and 9.28 of manual CA14, *Termination of Contracted-out Employment - Manual for Salary Related Pension Schemes and Salary Related Parts of Mixed Benefit Schemes*, for details of deductions from state AP and LRP refunds.

## Notification to use if the employee is currently contributing to the APP/APPSHP

### What to do

8.41 If the employee is currently contributing to the APP/APPSHP notify Services to Pensions Industry

Step	Action
1	fill in form CA1892
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

## Statements

8.42 A statement of transfer of protected rights liability, form CA1882, will be issued to any receiving scheme that gets minimum contributions (MCs) payment information on a paper schedule. If the receiving scheme gets MCs payment information via magnetic media then confirmation of any incoming transfers will be included in this information. For further details, see manual CA70, *Magnetic Media Transmission of Data to Appropriate Personal Pension, Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes*.

## Notification to use if the employee is not currently contributing to the APP/APPSHP scheme

### What to do

8.43 If the employee is not currently contributing to the APP/APPSHP notify Services to Pensions Industry

Step	Action
1	fill in form : <ul style="list-style-type: none"><li>• CA1894, if a notice of termination form CA1589 has <b>not</b> previously been sent, or</li><li>• CA1893, if a notice of termination form CA1589 has previously been sent</li></ul>
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

## Statements

- 8.44 A statement of transfer of protected rights liability, form CA1882, will be issued to any receiving scheme that gets MCs payment information on a paper schedule. If the receiving scheme gets MCs payment information via magnetic media then confirmation of any incoming transfers will be included in this information. For further details, see manual CA70, *Magnetic Media Transmission of Data to Appropriate Personal Pension, Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes*.

## Age-related payments following the transfer

- 8.45 Any age-related payment which falls due based on contracted-out earnings relevant to the period of employment being transferred, will be paid to the receiving APP scheme.

## Freestanding Additional Voluntary Contributions scheme

- 8.46 Protected rights cannot be transferred from the COMP part of a COMB scheme to a Freestanding Additional Voluntary Contributions (FSAVC) scheme.

## *Transfer of rights accrued to the COSR part of a COMB scheme or COSR scheme*

- 8.47 A transfer payment may be made if:
- the employee consents in writing, and
    - is employed by an employer who is a contributor to the receiving scheme, or
    - has previously been a member of the receiving scheme, or
    - is not in contracted-out employment, but the employer is a contributor to the receiving scheme.
- 8.48 The receiving scheme must revalue any GMP rights accrued up to 5 April 1997. There are no Inland Revenue National Insurance Contributions Office restrictions as to which of the two rates of revaluation, either fixed or Section 148, can be applied unless a transfer has previously taken place, but the rules of the transferring and receiving schemes may impose restrictions.
- 8.49 If the person whose pension rights are transferred is not in contracted-out employment covered by the importing scheme, the scheme must look after GMP rights accrued up to 5 April 1997 and/or post '97 COSR rights as if he/she were in employment covered by the new scheme.

## **Previous GMP transfer with Section 148 revaluation held within the Pre '97 COSR part of the scheme and both COSR and COMP rights are to be transferred**

- 8.50 The later transfer can be treated as a first transfer, if:
- an external transfer has previously taken place to the pre '97 COSR part of the scheme with Section 148 revaluation, and
  - the employee continues to be a member of the scheme following the switch to COMP status, and
  - all pension rights accrued in the scheme are externally transferred to a COSR scheme or COSR part of a COMB scheme, and
  - the periods linked by Section 148 transfers are treated as one.

## Previous GMP transfer with fixed or limited rate revaluation held within the Pre '97 COSR part of the scheme and both COSR and COMP rights are to be transferred

- 8.51 If an external transfer of GMP rights has previously taken place to the original COSR scheme with the revaluation at fixed or limited rate revaluation and the rights accrued both before and after the switch to COMP status are transferred, the new COSR scheme must:
- revalue the previously transferred rights at the same rate, or
  - choose to change the rate of revaluation being applied to previously transferred rights from fixed or limited rate to Section 148. The Section 148 rate must be used from the earlier termination date. Any LRP paid is refunded. Schemes wishing to do this must advise Services to Pensions Industry in writing.
- 8.52 There is no need to tell Services to Pensions Industry if an employee moves within six months from one scheme to another operating under the same ECON, **if the rights accrued in the original scheme are also transferred**. If the rights are held in the original scheme, then that scheme must submit a termination notification.

## Notification to use if the employee is in contracted-out employment under the receiving scheme

### What to do

- 8.53 If the employee is in contracted-out employment under the receiving scheme, notify Services to Pensions Industry

Step	Action
1	fill in form CA1892
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

## Statements

- 8.54 A GMP statement, CA1625 will be issued to the receiving scheme. The amount quoted does not take account of any pension rights shared on divorce.
- 8.55 If there is no GMP liability, a statement of transfer of contracted-out liability, form CA1899, will be issued to the receiving scheme.

## Notification to use if the employee is not in contracted-out employment under the receiving scheme

### What to do

- 8.56 If the employee is not in contracted-out employment under the receiving scheme, notify Services to Pensions Industry

Step	Action
1	fill in form: <ul style="list-style-type: none"><li>• CA1894, if a notice of termination form CA1589 has <b>not</b> previously been sent, or</li><li>• CA1893, if a notice of termination form CA1589 <b>has</b> previously been sent</li></ul>
2	sign and date the form and send it to Services to Pensions Industry within five weeks of the date of the transfer payment

### Statements

- 8.57 A statement of transfer of contracted-out liability CA1899 will be sent to the receiving scheme.

### Age-related payments

- 8.58 When a transfer of the member's protected rights, to a COSR scheme, is to take place, Inland Revenue National Insurance Contributions Office will be able to make an early payment allowing schemes to use all the protected rights to calculate the transfer value.
- 8.59 If a scheme wishes to receive an early payment before completing the transfer, they should advise Services to Pensions Industry of the details of the relevant contracted-out earnings, using form CA1902. See paragraph 3.29.
- 8.60 Any age-related payment based on contracted-out earnings relevant to the period being transferred which fall due after the transfer is recorded will be **offered** to the receiving COSR scheme or COSR part of a COMB scheme.
- 8.61 Although payments will be offered to the receiving scheme, the transferring scheme must make the member aware that these payments may not be accepted.

### *Transfer of rights accrued to an overseas occupational pension scheme other than one which is, or was, contracted-out and still under the financial supervision of Services to Pensions Industry*

- 8.62 The rights accrued may be transferred to an overseas occupational pension scheme, as detailed in paragraphs 6.45 to 6.55.

### *Splitting the rights accrued*

- 8.63 The rights accrued may be split as detailed in paragraphs 6.56 to 6.62.

## 9 Using protected rights for pension purposes

### *General*

- 9.1 The member's protected rights must be used to:
- provide a pension from the scheme
  - buy a pension (annuity) from an insurance company or friendly society
  - commute the pension on the grounds of triviality or on the grounds of serious ill health.
- 9.2 These options can be taken by the member at any time between their 60th and 75th birthdays.

### *Widows' or widowers' entitlement*

- 9.3 From 6 April 2002 where the member has:
- used their protected rights for pension purposes and then died, or
  - died before using their protected rights for pension purposes

any widow or widower will be entitled to a pension. Where the member died before 6 April 2002 any widow or widower will be entitled to a pension provided certain conditions are met.

**Note:** Where protected rights are used to purchase a single life annuity and a member subsequently marries or remarries there is no requirement for the scheme to provide a pension to the surviving spouse on the member's death. However, a pension would be payable in respect of any **pre 1997** protected rights where the protected rights were used to purchase an annuity on or before **5 April 2002**. From 6 April 2002 the pre 97 protected rights can be used to purchase a single life annuity where the member is unmarried at the time the annuity is purchased.

- 9.4 The conditions are:
- the widow or widower is entitled to Child Benefit for a child under 18, or is residing with a child under 16 who is:
    - the son or daughter of the widow or widower of the deceased, or
    - a child for whom the deceased, immediately before his or her death, was (or would have been if the child had not been absent from Great Britain) entitled to Child Benefit, or
    - a child for whom the widow or widower was entitled to Child Benefit (or would have been if the child had not been absent from Great Britain) and the widow or widower and the deceased were residing together immediately before the deceased's death, or
  - the widow or widower was age 45 or over:
    - at the date of the deceased's death, or
    - during a period of real or notional entitlement to Child Benefit.
- 9.5 The options for a widow or widower who does not satisfy the conditions set out in paragraph 9.4 or if an unmarried member dies before a pension is bought or provided are covered in Chapter 10.

## *Effect on state retirement pension*

- 9.6 Information about how membership of a Contracted-out Money Purchase (COMP) scheme or a COMP part of a Contracted-out Mixed Benefit (COMB) scheme affects entitlement to state retirement pension is given in Appendix 5.

## *Providing or buying a pension*

- 9.7 The protected rights can be used to:
- provide a pension by the COMP scheme, or
  - buy a pension (annuity) from an insurance company or friendly society.

## **What to do**

- 9.8 If the protected rights have been used for the benefit of the member or if the member has died before using their protected rights, a widow or widower, (or where the date of death is prior to 6 April 2002, a qualifying widow or widower) the COMP scheme or the COMP part of a COMB scheme must

<b>Step</b>	<b>Action</b>
1	fill in form CA1594 showing either indicator '2' or indicator '3', as appropriate
2	send the form to Services to Pensions Industry within five weeks from the date on which effect has been given to the protected rights

## **Statements**

- 9.9 A statement CA1883 will be sent to the provider of the pension to confirm that they have accepted responsibility for paying the pension.

## **Payment of outstanding age-related payments in respect of the member**

- 9.10 The payment will be made to the provider of the pension, if the amount calculated is at least 10 x the weekly Lower Earnings Limit (LEL) current at the time the payment arises.
- 9.11 The payment will be made to the member, if the amount calculated
- falls below 10 x the LEL current at the time payment arises, and
  - is for a tax year before that in which the member reaches State Pension Age (SPA).

## **Payment of outstanding age-related payments in respect of the widow or widower**

- 9.12 The payment will be made to the provider of the pension, if the amount calculated is at least 10 x the weekly LEL current at the time the payment arises.
- 9.13 The payment will be made to the widow or widower, if the amount calculated
- falls below 10 x the weekly LEL current at the time payment arises, and

- is for a tax year before that in which the member reaches SPA.

### *Commutation on the grounds of triviality*

9.14 In certain circumstances the protected rights can be commuted into a lump sum.

### **Conditions**

9.15 Commutation is available:

- for the **member** between ages 60 and 75 if:
  - the aggregate value of all pension benefits (including protected rights) payable under **all** schemes relating to employment with the same employer does not exceed £260 a year, and
- for a **widow or widower** where the member died on or after April 2002, or
- for a **qualifying widow or widower** where the member died before April 2002 if the conditions at paragraph 9.4 are satisfied, and
  - the value of the protected rights payable under all schemes relating to employment with the same employer does not exceed £260 per year and the member has died before giving effect to the protected rights.

### **What to do**

9.16 If the member, or the member's widow or widower, or qualifying widow or widower, elects to commute the pension, the COMP scheme or a COMP part of a COMB scheme must

<b>Step</b>	<b>Action</b>
1	fill in form CA1594 showing indicator '1'
2	send the form to Services to Pensions Industry within five weeks of the date on which the lump sum payment is made

### **Statements**

9.17 Statement CA1884 will be issued to the member, widow or widower advising that the protected rights have been commuted.

Payment of outstanding age-related payments in respect of member

9.18 Any age-related payment which falls due, except if it is for the tax year in which the member reaches SPA, will be paid to the member.

Payment of outstanding age-related payments in respect of the widow or widower

9.19 Any age-related payment which falls due, except if it is for the tax year in which the member reaches SPA, will be paid to the widow or widower.

### *Commutation on the grounds of serious ill health*

9.20 From 28 July 2000, the Child Support, Pensions and Social Security Act 2000 makes provision that Protected Rights held in an occupational pension scheme can be commuted into a cash lump sum on the grounds of serious ill health.

- This lump sum is available to members regardless of age:
  - where the member is terminally ill and has a life expectancy of less than 12 months
- The amount of the lump sum must be:
  - an amount equal to the value of the protected rights, or
  - in the case of a married member, an amount that does not exceed one half of the value of the protected rights, as a survivors benefit must be provided by the scheme.

What to do

- 9.21 If the member elects to commute the pension on the grounds of serious ill health, the COMP scheme or COMP part of a COMB scheme must:

Step	Action
1	fill in form CA1594 showing indicator "4"
2	send the form to Services to Pensions Industry within 5 weeks of the date on which the lump sum payment is made

## Statements

- 9.22 Statement CA8017 will be issued to the scheme administrator advising that the protected rights have been commuted on the grounds of serious ill health.

## Payment of outstanding age-related payments in respect of the member

- 9.23 Any age-related payment which falls due, except if it is for the tax year in which the member reaches SPA, will be paid to the member.

### *Notification has not been received to advise how effect has been given to the protected rights*

- 9.24 The National Insurance accounts of COMP scheme members will be looked at annually to identify cases for the previous calendar year where:
- effect has not been given to the protected rights, and
  - the member has:
    - reached SPA, or
    - reached age 75, or
    - died.
- 9.25 Notice CA1885 will be issued to the scheme for any member where effect has not been given to the protected rights. As a matter of urgency the scheme must forward the relevant notification to Services to Pensions Industry.

## **10** Death of a member before effect is given to their protected rights

### *Member's widow or widower qualifies as the beneficiary for protected rights*

- 10.1 From 6 April 2002 if a member of a Contracted-out Money Purchase (COMP) scheme dies before their protected rights can be used, their widow or widower will qualify as the beneficiary for these protected rights. Where the member died before 6 April 2002 and their protected rights had not been used, their widow or widower will qualify, as the beneficiary for these protected rights provided certain conditions are met.
- 10.2 The conditions are that the widow or widower:
- is entitled to Child Benefit for a child under 18, or is residing with a child under 16 who is:
    - the son or daughter of the widow or widower of the deceased, or
    - a child for whom the deceased, immediately before their death, was (or would have been if the child had not been absent from Great Britain) entitled to Child Benefit, or
    - a child for whom the widow or widower was entitled to Child Benefit (or would have been if the child had not been absent from Great Britain) and the widow or widower and the deceased were residing together immediately before the deceased's death, or
  - was age 45 or over:
    - at the date of the deceased's death, or
    - during a period of real or notional entitlement to Child Benefit.
- 10.3 If these conditions are satisfied, or the member died on or after 6 April 2002, the member's widow or widower can use the protected rights to buy or provide a pension. See Chapter 9 for further information.

### *Member not married, or where the date of death is before 6 April 2002, the member's widow or widower does not qualify as the beneficiary for protected rights*

- 10.4 The protected rights should be discharged in accordance with the directions of the member if they die before effect is given to the protected rights and at the time of death, the:
- member was not married, or where the date of death is before 6 April 2002
  - member's widow or widower:
    - is under age 45, and
    - has no dependent children.
- 10.5 The nominated beneficiary(ies) must use the member's protected rights to:
- provide a pension from the scheme, or
  - buy a pension (annuity) from an insurance company or friendly society, or
  - have them paid as a lump sum.

- 10.6 If there is no person to whom the protected rights can be discharged they should be paid as a lump sum to the member's estate.
- 10.7 When an individual first joins a COMP scheme or a COMP part of a Contracted-out Mixed Benefit (COMB) scheme, they should have indicated to the scheme who the nominated beneficiary(ies) is to be in the event of their death. Schemes must ensure their documentation and procedures enable them to discharge their liability if a member dies without leaving a widow or widower, or a qualifying widow or widower where the member died before 6 April 2002.

## What to do

- 10.8 If the protected rights are paid as a lump sum or used to provide or buy a pension (annuity) the COMP scheme or a COMP part of a COMB scheme must:

Step	Action
1	fill in form CA1584, make sure that the name and address of the recipient(s) of the lump sum payment or pension is shown  <b>If there is more than one nominated beneficiary, a separate CA1584 should be completed for each</b>
2	the completed form(s) must be sent to Services to Pensions Industry as soon as possible

### *Payment of outstanding age-related payments on the death of the member*

- 10.9 Services to Pensions Industry need certain information to enable them to make any outstanding age-related payments, if a member of a COMP scheme dies, and
- there is no widow or widower, or qualifying widow or widower, or
  - no claim to widows benefit was made when the death was recorded.
- 10.10 To obtain this information, Services to Pensions Industry will issue form CA1546 to the scheme of which the deceased was a member at the date of death, asking for information about the earnings paid in the
- tax year of death, and, or
  - preceding tax year.

Schemes should always wait for form CA1546 before sending forms CA1902 to employers.

## What to do

- 10.11 When form CA1546 is received

Step	Action
1	the COMP scheme should issue form CA1902 to the relevant employer(s), ensuring the form shows the tax year(s) for which the earnings information is required, as shown on form CA1546
2	the employer(s) should complete and send form CA1902 either back to Services to Pensions Industry or to the scheme, as requested

## **Payment of outstanding age-related payments when effect has not yet been given to the protected rights**

- 10.12 If effect has not been given to the protected rights when form CA1902 is processed, any outstanding age-related payments that fall due will be paid to the COMP scheme or a COMP part of a COMB scheme.

## **Payment of outstanding age-related payments when a lump sum payment has been recorded on the account**

- 10.13 Any outstanding age-related payments which fall due, except if they are for the tax year in which the member reaches State Pension Age (SPA), will be paid to the widow or widower or nominated beneficiary.

## **Payment of outstanding age-related payments when the provision or purchase of a pension (annuity) is recorded on the account**

- 10.14 If a payment falls due, which is at least 10 x the weekly Lower Earnings Limit (LEL) current at the time payment arises, it will be paid to the provider of the pension, except if it is for the tax year in which the member reaches SPA.
- 10.15 If a payment falls due, which is below 10 x the weekly LEL current at the time payment arises, it will be paid to the widow or widower or nominated beneficiary, except if it is for the tax year in which the member reaches SPA.

## *Notification has not been received to advise how effect has been given to the protected rights*

- 10.16 The National Insurance accounts of COMP scheme members will be looked at annually to identify cases for the previous calendar year where effect has not been given to the protected rights and the member has
- reached SPA, or
  - reached age 75, or
  - died.
- 10.17 A notice CA1885 will be issued to the scheme for any member if effect has not been given to the protected rights. As a matter of urgency, the scheme should send the relevant notification to Services to Pensions Industry.

## 11 Statements

### *Guaranteed Minimum Pension (GMP) statements*

- 11.1 GMP statements are issued to Contracted-out Salary Related (COSR) and Contracted-out Mixed Benefit (COMB) schemes for periods of contracted-out employment for which a GMP has accrued.
- 11.2 The Inland Revenue National Insurance Contributions Office issue statements when notification is received that an employee has
- left contracted-out employment before State Pension Age (SPA)
  - reached SPA
  - died, leaving a widow or widower.
- 11.3 If further information is received which alters any GMP, a further statement is issued. Statements are dated and supersede any previously issued.
- 11.4 Any date from which a GMP is payable is based on the employee's date of birth as recorded by the Inland Revenue National Insurance Contributions Office. If the date of birth is disputed, notify Services to Pensions Industry.

### *Employee leaves contracted-out employment before SPA*

#### **GMP statement CA1625**

- 11.5 CA1625 is sent to the scheme or other body responsible for payment showing:
- the GMP amount
  - any post 5 April 1988 GMP amount
  - the rate of revaluation.

The amounts quoted do not take account of any pension rights shared on divorce.

- 11.6 If contributions have been paid at both the reduced (E) rate and full (D) rate during the period of employment, the statement will show:
- the full period of employment **but**
  - a GMP based on the full rate contracted-out contributions only.
- 11.7 If there are periods of employment linked by transfers and the revaluation rates used are different, statement CA1625 will show:
- the overall GMP amount
  - any overall post 5 April 1988 GMP amount
  - the component GMP amounts
  - any post 5 April 1988 GMP component amounts
  - the rate of revaluation used in the calculation for each component.

The amounts quoted do not take account of any pension rights shared on divorce.

- 11.8 Each GMP amount is revalued up to and including the tax year in which service under the latest scheme ended.
- 11.9 If an employee leaves contracted-out employment before SPA, the GMP is revalued by the scheme's chosen rate(s) of revaluation.
- 11.10 When calculating a GMP, amounts are rounded to the nearest 1p for each component, 0.5p is rounded up.

### *Statements issued when employee, or former employee, reaches SPA*

- 11.11 When at SPA an employee has accrued any GMP, post '97 COSR rights or protected rights, the following statements are issued:
- CA1627 to the employee, showing:
    - the weekly GMP/Contracted-out Deduction (COD), if appropriate. The amounts quoted do not take account of any pension rights shared on divorce
    - the name and address of the scheme
  - CA1629 to the scheme, showing:
    - the name and address of the employee
    - the date, according to Inland Revenue National Insurance Contributions Office records, from which the GMP is payable, if appropriate
    - the total revalued GMP, if appropriate. The amounts quoted do not take account of any pension rights shared on divorce
    - a breakdown of the total GMP, if appropriate.
- 11.12 A breakdown of the total GMP shows
- for a single period of employment:
    - the early leaver GMP
    - the revalued GMP
    - any post 5 April 1988 GMP amounts.

The amounts quoted do not take account of any pension rights shared on divorce.

- for several periods of employment linked by transfers:
  - the early leaver GMP for each period of employment
  - the revalued GMP for each period of employment
  - any post 5 April 1988 GMP amounts.

The amounts quoted do not take account of any pension rights shared on divorce.

- 11.13 If an employee has continued in contracted-out employment up to SPA, any GMP/COD is calculated using Section 148 orders.
- 11.14 Schemes must inflation-proof GMPs/CODs built up from 6 April 1988.

## *Widow's entitlement*

11.15 Where a married man dies **and** his widow is entitled to half of any GMP or post '97 COSR rights built up, or in payment to him, at the date of death **and** a claim to bereavement benefit is being dealt with, the following statements are used:

- form CA1626 to the widow showing:
  - the weekly GMP/COD, if appropriate. The amounts quoted do not take account of any pension rights shared on divorce, and
  - the name and address of the scheme, and
- form CA1633 to the scheme showing:
  - identity details of the late husband and widow
  - the widow's address
  - the late husband's date of death
  - the weekly widow's GMP, if appropriate. The amounts quoted do not take account of any pension rights shared on divorce, and
  - a breakdown of the widow's GMP, if appropriate.

11.16 If state benefit is not payable, a further notification is sent to the scheme advising that there is no liability. If at a later date, the state benefit ceases to be payable a notification is not sent.

### **CA1931 - Statement of possible pension liability for a widow**

11.17 CA1931 will be issued to the scheme when a man dies with post '97 COSR rights and a claim to Bereavement Benefit has not been made.

### **CA1932 - Statement of possible pension liability for a widow**

11.18 CA1932 will be issued to the employer with statement CA1931 when the scheme name and address cannot be retrieved from the records held by Inland Revenue National Insurance Contributions Office.

11.19 Schemes must inflation-proof widow's GMPs/CODs built up from 6 April 1988.

### **CA1702 - Notice of possible widows protected rights liability**

11.20 CA1702 will be issued to the scheme when a man with protected rights dies on or after 6 April 2002 and a claim to bereavement benefit has not been made.

## *Widower's entitlement*

11.21 The following statements are used to notify schemes of possible or actual liability:

- CA1702 when there **may** be a widower or, qualifying widower where the date of death is before 6 April 2002 with protected rights liability. The statement will show the:
  - details of the deceased member
  - period of contracted-out employment
- CA1635 when there **may** be a qualifying widower with GMP and /or post '97 COSR rights. The statement will show the:

- details of the deceased scheme member including the date of death
- period of contracted-out employment
- amount of GMP which would be payable, if appropriate
- CA1636 when the scheme has identified that a qualifying widower exists and has returned the tear-off portion of statement CA1635 indicating that they wish to be informed of any change to the GMP. The statement will show the:
  - identity details of the scheme member and widower
  - widower's address
  - period of contracted-out employment
  - revised amount of widower's GMP. The amounts quoted do not take account of any pension rights shared on divorce.
- CA1637 when there is a qualifying widower with GMP and/or post '97 COSR rights. The statement will show the:
  - the identity details of the scheme member and widower
  - the widower's address
  - the period of contracted-out employment
  - the amount of widower's GMP, if appropriate. The amounts quoted do not take account of any pension rights shared on divorce.

11.22 CA1641 which is sent to widowers or, **qualifying widowers** where the date of death is before 6 April 2002 when:

- the widower and his late wife were both over SPA when she died, and
- the widower inherits Additional Pension based on his late wife's National Insurance contributions (NICs)

The statement will show:

- the weekly GMP/COD, if appropriate. The amounts quoted do not take account of any pension rights shared on divorce.
- the name and address of the scheme.

### *Protected rights statements/notices*

#### **CA1883 - Statement of pension liability**

11.23 When the member or their widow or widower gives effect to the protected rights by provision of a pension, statement CA1883 will be issued to the scheme responsible for the payment of the pension. This may be:

- a Contracted-out Money Purchase (COMP) Contracted-out Money Purchase Stakeholder (COPSHP) scheme
- a COMB scheme

- an Appropriate Personal Pension (APP) Appropriate Personal Pension Stakeholder Pension (APPSHP) scheme
- an insurance company, or
- a friendly society.

### **CA1884 - Statement where pension rights are commuted**

11.24 CA1884 will be issued to the member, widow or widower when the protected rights have been commuted on the grounds of triviality.

### **CA1885 - Notice advising effect has not been given to the protected rights**

11.25 CA1885 will be issued to the scheme where effect has not been given to the protected rights and the member has:

- reached SPA
- reached age 75
- died.

### *Buy-out of a GMP*

11.26 CA1623 will be issued to the receiving scheme whenever a member's GMP rights are bought out by an insurance company. The statement will show the same information as that for form CA1625 as detailed at paragraph 11.5.

### *Transfer statements*

11.27 From 6 April 1997 two new statements will be issued by Services to Pensions Industry. These are designed to help receiving schemes track and take account of transferred-in benefits.

11.28 The statements will show the following:

- exporting scheme's details
- scheme member's details
- period of contracted-out employment
- receiving Employer Contracting-out Number (ECON), if any
- receiving Scheme Contracted-out Number (SCON) or Appropriate Scheme Number (ASCN)
- date of birth
- a microfilm number which should be quoted on any correspondence with Services to Pensions Industry.

### **CA1899 - Statement of transfer of contracted-out pension liability**

11.29 CA1899 will be issued to the receiving scheme for periods of employment that are before and span 6 April 1997 where:

- there has been a change of Responsible Paying Authority (RPA), and
- the receiving scheme is a COSR or COSR part of a COMB scheme.

- 11.30 CA1899 will be issued to the receiving scheme for periods of employment that are entirely post 6 April 1997 where:
- there has been a transfer and the receiving scheme is a COSR scheme or COSR part of a COMB scheme, or
  - there is a buy-out to an insurance company, or
  - there has been a change of RPA and the receiving scheme is a COSR or a COSR part of a COMB scheme.

## CA1882 - Statement of transfer of protected rights liability

- 11.31 CA1882 will be issued to the receiving scheme when there has been a:
- transfer to a COMP/COMPSPH scheme or COMP part of a COMB scheme or an APP/APPSPH scheme, or
  - change of RPA and the new paying authority is a COMP/COMPSPH or COMP part of a COMB scheme or an APP/APPSPH scheme
- 11.32 **Note:** Where the receiving scheme is an APP/APPSPH scheme which gets minimum contributions (MCs) information via magnetic media or a COMP/COMPSPH scheme or COMP part of a COMP scheme, which gets incentive and/or age-related payment information via magnetic media then confirmation of any incoming transfers will be included in this information. For further information see manual CA70, *Magnetic Media Transmission Data to Appropriate Personal Pension and Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes*.

## 12 Pension sharing on divorce

### *Background*

- 12.1 Pension scheme rights can be a valuable part of the assets which need to be considered when a marriage ends. From 1 December 2000 legislation came into force allowing divorcing couples the option to share their pension assets as part of the overall divorce settlement. Apart from the basic State Retirement Pension and survivor's pensions, which is not shareable, it is possible to share most types of occupational and personal pensions including that available through the additional state pension, commonly known as the State Earnings Related Pension Scheme (SERPS) or State Second Pension.
- 12.2 Pension sharing is available alongside existing methods of dealing with pension rights on divorce: offsetting and earmarking. The new measure will help to provide the courts with a comprehensive range of options for dealing with pensions at the time of divorce. Pension sharing will
- provide greater flexibility and choice for divorcing couples and the courts
  - allow pension rights to be treated in a way which provides for the fairest overall settlement of assets in each divorce case, and
  - increase the opportunity for divorcing couples to achieve complete financial independence through a "clean break" settlement.

- 12.3 Pension sharing on divorce was introduced as part of the Welfare Reform and Pensions Act 1999. Pension sharing is available in all divorce and nullity proceedings **beginning** on or after 1 December 2000. After this date it is possible for a court to issue a pension share order or agreement to the pension scheme provider as part of the divorce settlement.
- 12.4 Once a couple decide to go ahead with divorce proceedings a court can order that pension sharing is to apply. The court (or for divorces obtained in Scotland, the party who will benefit from the pension sharing) will issue copies of the pension sharing order or agreement to the pension scheme or provider.

### *Safeguarded Rights*

- 12.5 Contracted-out rights of a scheme member derived from the membership of a contracted-out occupational pension scheme which are transferred to the former spouse on divorce are known as “safeguarded rights” and therefore will be distinguished from the contracted-out rights built up by a member of a contracted-out occupational pension scheme.
- 12.6 Scheme rules can specify whether all of the accrued rights that are subject to a pension share become safeguarded rights, therefore safeguarded rights may include some non contracted-out rights. In addition, the safeguarded rights might include safeguarded rights from a previous divorce.
- 12.7 The requirements for safeguarded rights broadly reflect those for contracted-out rights. In particular the government wish to ensure that safeguarded rights (which are wholly or in part financed by rebates of National Insurance contributions) are securely protected and used for the purpose for which they are intended - to provide an income in retirement.
- 12.8 Safeguarded rights will not be tracked or monitored by the department. It is important, therefore, that schemes maintain accurate records when a former spouse's rights are preserved in the scheme, transferred or bought out through an insurance policy. Schemes should also keep details of the pension share order, as they will need to record the percentage of the share on the member's pension account.
- 12.9 The “safeguarded” rights will be ringfenced and will be subject to the same conditions that apply to post - 1997 salary related contracted-out rights or protected rights. But note that schemes will not be required to provide survivors' benefits from the safeguarded rights nor will we track or monitor them.
- 12.10 A pension or annuity in respect of safeguarded rights is normally required to start being paid between the ages of 60 and 65, unless early payment is appropriate, for example, because of ill health, or the former spouse has agreed to payment on a date later than their 65th birthday up to age 75.

### *Calculation Service*

- 12.11 Occupational pension schemes will be required to provide a valuation of accrued pension rights to enable the courts to decide on the fairest overall settlement of assets.
- 12.12 To assist schemes with this process, the calculation services currently available can be used to request a COD/GMP calculation at any time during the pension sharing on divorce procedures.
- 12.13 As with the existing Individual Contracted-out Deduction (COD)/GMP Calculation Service, calculations for pension sharing cases will be provided free of charge.

### *Pension Sharing on Divorce Notification*

- 12.14 Where pension rights have been shared, the courts, (or in Scotland, the party who will benefit from the pension sharing) will formally notify the scheme which will in turn be required to notify Services to Pensions Industry. Schemes will have 4 months to implement the pension share order.
- 12.15 A new form "Pension Sharing on Divorce Notification", CA2202 has been introduced for completion by scheme administrators to notify Services to Pensions Industry of the pension share. This should be submitted to Services to Pensions Industry following the implementation of the pension sharing order, but not later than six months following the date of termination of contracted-out employment.
- 12.16 In respect of couples obtaining a divorce in Scotland, a monetary value or percentage rate will be awarded to the former spouse, however, the scheme will be required to notify Services to Pensions Industry of the share as a percentage.
- 12.17 On receipt of the notification Services to Pensions Industry will update the National Insurance records of both the member and the former spouse to show that a "Pension Share" has occurred.
- 12.18 Details from the CA2202 will be held on a stand-alone computer system, which in turn, may be interrogated to answer any specific enquiries about the pension share itself. Information from the database can be provided on request.

### *Contracted-out Deduction*

- 12.19 When a member's pension rights are shared with a former spouse, a full COD will always be deducted from the member's pre 1997 Additional Pension. The COD will not be reduced to take account of any contracted-out rights that are subject to a pension sharing order/agreement.

# Appendix 1 - Contracted-out Money Purchase (COMP) forms

You can either use these forms or make up your own forms. If you produce your own forms, the format must be approved by Services to Pensions Industry. To obtain the guidelines for producing your own forms and to obtain approval, contact Services to Pensions Industry Data Input Section.

To obtain copies of these forms, send a letter or form CA1586 to

✉ Inland Revenue  
National Insurance Contributions Office  
Services to Pensions Industry  
Benton Park View  
Newcastle upon Tyne  
NE98 1ZZ

These forms are not available from Department for Work and Pensions offices or the Occupational Pensions Regulatory Authority (OPRA).

Form	Description
CA1579	Cessation of Class 1 National Insurance contributions (NICs) while abroad
CA1580	Enquiry service - request for a calculation
CA1583	Notification of split protected rights
CA1584	Notification of payment of a lump sum where there is no qualifying widow or widower
CA1586	Forms order form
CA1589	Protected rights retained in the scheme
CA1590	Transfer to another Contracted-out Money Purchase (COMP)/Contracted-out Money Purchase Stakeholder (COMPSHP) scheme or the active COMP part of a Contracted-out Mixed Benefit (COMB) scheme  <b>To be used to notify periods of contracted-out employment entirely before 6 April 1997</b>
CA1591	Transfer to an Appropriate Personal Pension (APP)/Appropriate Personal Pension Stakeholder (APPSHP) scheme if the employee is contributing to the personal pension scheme  <b>To be used to notify periods of contracted-out employment entirely before 6 April 1997</b>
CA1592	Transfer to a Contracted-out Salary Related (COSR) scheme or the active COSR part of a COMB scheme  <b>To be used to notify periods of contracted-out employment entirely before 6 April 1997</b>
CA1593	Recommencement of employment under a different employer using the same scheme

<b>Form</b>	<b>Description</b>
<b>CA1594</b>	Purchase of an annuity through an insurance company  Provision of a pension by a COMP/COMPSHP or COMB scheme  Commutation of the protected rights on the grounds of triviality or serious ill health
<b>CA1596</b>	Application for an extension of time limit
<b>CA1892</b>	Transfer to: <ul style="list-style-type: none"> <li>• another COMP/COMPSHP scheme</li> <li>• a COSR scheme</li> <li>• an APP/APPSHP scheme</li> <li>• the active COMP or active COSR part of a COMB scheme</li> </ul> <p><b>To be used to notify periods of contracted-out employment which either begins before and terminates after 6 April 1997, or are entirely after 5 April 1997</b></p>
<b>CA1893</b>	Change of Responsible Paying Authority (RPA) to: <ul style="list-style-type: none"> <li>• another COMP/COMPSHP scheme</li> <li>• a COSR scheme</li> <li>• an APP/APPSHP scheme</li> <li>• the active COMP or active COSR part of a COMB scheme</li> </ul>
<b>CA1894</b>	Termination/Change of RPA to: <ul style="list-style-type: none"> <li>• another COMP/COMPSHP scheme</li> <li>• a COSR scheme</li> <li>• an APP/APPSHP scheme</li> <li>• the active COMP or active COSR part of a COMB scheme</li> </ul>
<b>CA1895</b>	Transfer to an Overseas scheme/Overseas arrangement
<b>CA1902</b>	Notification of earnings for the early payment of Age-Related Rebate
<b>CA2202</b>	Notification of Pension Sharing on Divorce

## Appendix 2 - Statements/notifications issued

Statement/notice	Description
CA1546	Letter issued to scheme asking them to obtain earnings information for a member who has died, or for a member who has attained State Pension Age (SPA) before 6 April 1998
CA1623	Statement issued to a receiving insurance company after a buy-out has taken place
CA1625	Statement of pension entitlement issued to a Contracted-out Salary Related (COSR) scheme or the active COSR part of a Contracted-out Mixed Benefit (COMB) scheme where there is Guaranteed Minimum Pension (GMP) liability
CA1626	Statement of pension entitlement issued to a widow when the late husband was contracted-out of the additional state pension, commonly known as State Earnings Related Pension Schemes (SERPS) or State Second Pension and a claim to widow's benefit/bereavement benefit has been processed
CA1627	Statement of pension entitlement issued to an individual who was contracted-out of the additional state pension, commonly known as SERPS or State Second Pension when a claim to state retirement pension has been processed
CA1629	Statement of pension liability issued to the scheme when a claim to state retirement pension has been processed
CA1633	Statement of pension liability issued to the scheme when a man dies and a claim to widow's benefit/bereavement benefit has been made
CA1635	Statement of possible pension liability issued to a COSR scheme or COSR part of a COMB scheme when a female member dies on/after 6 April 1989
CA1636	Statement of pension liability issued to a COSR scheme or COSR part of a COMB scheme upon request if a GMP value changes when a female member dies on/after 6 April 1989
CA1637	Statement of actual widow's pension liability issued to a COSR scheme or COSR part of a COMB scheme when a female member dies on/after 6 April 1989
CA1641	Statement of pension entitlement issued to a widower when there may be entitlement to receive a widower's pension from their late wife's occupational pension or Appropriate Personal Pension (APP)/Appropriate Personal Stakeholder Pension (APPSHP) scheme
CA1702	Notice of possible widow/widower's protected rights liability issued to a Contracted-out Money Purchase (COMP)/Contracted-out Money Purchase Stakeholder Pension (COMP) or APP/APPSHP scheme when no claim to bereavement benefit is recorded
CA1882	Statement of protected rights liability issued to the receiving COMP/COPSHP scheme, or the receiving active COMP part of a COMB scheme, or an APP/APPSHP scheme, when protected rights are transferred

<b>CA1883</b>	Statement of pension liability issued to the receiving scheme when a pension has been provided by the COMP scheme, or the active COMP part of a COMB scheme, or an insurance company or friendly society
<b>CA1884</b>	Statement issued to the member, widow or widower when the protected rights have been commuted on the grounds of triviality
<b>CA1885</b>	<p>Notice issued to the scheme advising that the member has:</p> <ul style="list-style-type: none"> <li>• reached SPA, or</li> <li>• reached age 75, or</li> <li>• died</li> </ul> <p>and Services to Pensions Industry has not been notified as to how the protected rights have been used</p>
<b>CA1899</b>	Statement of transfer of contracted-out pension liability issued to the receiving COSR scheme, or the receiving active COSR part of a COMB scheme when protected rights are transferred
<b>CA1931</b>	Notice of possible pension liability issued to the scheme when a man dies with post '97 COSR scheme benefits and a claim to widow's benefit has not been made
<b>CA1932</b>	Covering letter issued to the employer with notice CA1931 or CA1635 when the scheme name and address cannot be retrieved from the records held by the Department
<b>CA8017</b>	Statement issued to scheme administrators when the protected rights have been commuted on the grounds of serious ill health
<b>CA8097</b>	Statement issued to scheme administrators to confirm that the member is drawing an income from the protected rights
<b>CA8098</b>	Statement issued to scheme administrators to confirm that the widow or widower is drawing an income from the protected rights



*Table 2 - Composite divisors for tax years up to and including 1987/88*

Use this table to obtain the divisor used to calculate the COD, see Appendix 4

Tax years in working life	Divisor	Composite Divisor
1-20	80	4160
21	84	4368
22	88	4576
23	92	4784
24	96	4992
25	100	5200
26	104	5408
27	108	5616
28	112	5824
29	116	6032
30	120	6240
31	124	6448
32	128	6656
33	132	6864
34	136	7072
35	140	7280
36	144	7488
37	148	7696
38	152	7904
39	156	8112
40	160	8320
41	164	8528
42	168	8736
43	172	8944
44	176	9152
45	180	9360
46	184	9568

continued

*(Table 2 - Composite divisors for tax years up to and including 1987/88)*

Tax years in working life	Divisor	Composite Divisor
47	188	9776
48	192	9984
49	196	10192

*Table 3 - Composite divisors for tax years from 1988/89*

Use this table to obtain the divisor used to calculate the COD, see Appendix 4

Tax years in working life	Divisor	Composite Divisor
1-20	100	5200
21	105	5460
22	110	5720
23	115	5980
24	120	6240
25	125	6500
26	130	6760
27	135	7020
28	140	7280
29	145	7540
30	150	7800
31	155	8060
32	160	8320
33	165	8580
34	170	8840
35	175	9100
36	180	9360
37	185	9620
38	190	9880
39	195	10140
40	200	10400

continued

*(Table 3 - Composite divisors for tax years from 1988/89)*

Tax years in working life	Divisor	Composite Divisor
41	205	10660
42	210	10920
43	215	11180
44	220	11440
45	225	11700
46	230	11960
47	235	12220
48	240	12480
49	245	12740

*Table 4 - Contracted-out rebates for the period 1997/1998 - 2001/2002*

Age on the last day of the preceding tax year	Appropriate age-related percentage for the tax year				
	1997/98	1998/99	1999/2000	2000/01	2001/02
15	3.1	3.1	2.2	2.2	2.2
16	3.2	3.2	2.2	2.2	2.2
17	3.2	3.2	2.3	2.3	2.3
18	3.3	3.3	2.3	2.3	2.3
19	3.3	3.3	2.3	2.4	2.4
20	3.4	3.4	2.4	2.4	2.4
21	3.4	3.4	2.5	2.5	2.5
22	3.5	3.5	2.5	2.5	2.5
23	3.5	3.5	2.6	2.6	2.6
24	3.6	3.6	2.6	2.6	2.6
25	3.6	3.7	2.7	2.7	2.7
26	3.7	3.7	2.7	2.7	2.7
27	3.8	3.8	2.8	2.8	2.8
28	3.8	3.8	2.9	2.9	2.9

continued

(Table 4 - Contracted-out rebates for the period 1997/1998 - 2001/2002)

Age on the last day of the preceding tax year	Appropriate age-related percentage for the tax year				
	1997/98	1998/99	1999/2000	2000/01	2001/02
29	3.9	3.9	2.9	2.9	2.9
30	3.9	3.9	3.0	3.0	3.0
31	4.0	4.0	3.0	3.0	3.0
32	4.0	4.0	3.1	3.1	3.1
33	4.1	4.1	3.2	3.2	3.2
34	4.2	4.2	3.2	3.2	3.3
35	4.3	4.2	3.3	3.3	3.3
36	4.5	4.4	3.4	3.4	3.4
37	4.6	4.5	3.5	3.5	3.5
38	4.8	4.7	3.7	3.6	3.5
39	5.0	4.9	3.8	3.8	3.7
40	5.2	5.1	4.0	3.9	3.8
41	5.4	5.3	4.2	4.1	4.0
42	5.8	5.5	4.4	4.3	4.2
43	6.4	5.9	4.6	4.5	4.4
44	7.2	6.5	5.0	4.7	4.6
45	8.0	7.3	5.6	5.1	4.8
46	8.9	8.1	6.3	5.7	5.2
47	9.0	9.0	7.1	6.4	5.8
48	9.0	9.0	8.0	7.2	6.6
49	9.0	9.0	8.8	8.2	7.4
50	9.0	9.0	9.0	9.0	8.4
51	9.0	9.0	9.0	9.0	9.0
52	9.0	9.0	9.0	9.0	9.0
53	9.0	9.0	9.0	9.0	9.0
54	9.0	9.0	9.0	9.0	9.0

continued

*(Table 4 - Contracted-out rebates for the period 1997/1998 - 2001/2002)*

Age on the last day of the preceding tax year	Appropriate age-related percentage for the tax year				
	1997/98	1998/99	1999/2000	2000/01	2001/02
55	9.0	9.0	9.0	9.0	9.0
56	9.0	9.0	9.0	9.0	9.0
57	9.0	9.0	9.0	9.0	9.0
58	9.0	9.0	9.0	9.0	9.0
59	9.0	9.0	9.0	9.0	9.0
60	9.0	9.0	9.0	9.0	9.0
61	9.0	9.0	9.0	9.0	9.0
62	9.0	9.0	9.0	9.0	9.0
63	9.0	9.0	9.0	9.0	9.0

*(Table 5 - Contracted-out rebates for the period 2002/2003 - 2006/2007)*

Age on the last day of the preceding tax year	Appropriate age-related percentage for the tax year				
	2002/03	2003/04	2004/05	2005/06	2006/07
15	2.6	2.6	2.6	2.6	2.6
16	2.6	2.6	2.6	2.6	2.6
17	2.7	2.7	2.7	2.7	2.7
18	2.7	2.7	2.7	2.7	2.7
19	2.8	2.8	2.8	2.8	2.8
20	2.8	2.8	2.8	2.8	2.8
21	2.9	2.9	2.9	2.9	2.9
22	2.9	2.9	2.9	2.9	3.0
23	3.0	3.0	3.0	3.0	3.0
24	3.1	3.1	3.1	3.1	3.1
25	3.1	3.1	3.1	3.1	3.1
26	3.2	3.2	3.2	3.2	3.2
27	3.2	3.2	3.2	3.2	3.2
28	3.3	3.3	3.3	3.3	3.3

*(Table 5 - Contracted-out rebates for the period 2002/2003 - 2006/2007)*

Age on the last day of the preceding tax year	Appropriate age-related percentage for the tax year				
	2002/03	2003/04	2004/05	2005/06	2006/07
29	3.4	3.4	3.4	3.4	3.4
30	3.4	3.4	3.4	3.4	3.4
31	3.6	3.6	3.6	3.6	3.6
32	3.6	3.6	3.6	3.6	3.6
33	3.7	3.7	3.7	3.7	3.7
34	3.8	3.8	3.8	3.8	3.8
35	3.8	3.8	3.8	3.8	3.8
36	3.9	3.9	3.9	3.9	3.9
37	4.0	4.0	4.0	4.0	4.0
38	4.1	4.1	4.1	4.1	4.1
39	4.1	4.1	4.1	4.1	4.1
40	4.3	4.2	4.2	4.2	4.2
41	4.4	4.4	4.3	4.3	4.3
42	4.6	4.5	4.4	4.4	4.4
43	4.8	4.7	4.6	4.5	4.4
44	5.0	4.9	4.8	4.7	4.6
45	5.3	5.1	5.0	4.9	4.8
46	5.5	5.4	5.3	5.1	5.0
47	6.0	5.6	5.5	5.4	5.3
48	6.8	6.1	5.7	5.6	5.5
49	7.8	6.9	6.2	5.8	5.7
50	9.0	7.9	7.1	6.4	5.9
51	10.3	9.1	8.1	7.2	6.5
52	10.5	10.5	9.3	8.2	7.4
53	10.5	10.5	10.5	9.5	8.4
54	10.5	10.5	10.5	10.5	9.7

continued

*Table 5 - Contracted-out rebates for the period 2002/2003 - 2006/2007)*

Age on the last day of the preceding tax year	Appropriate age-related percentage for the tax year				
	2002/03	2003/04	2004/05	2005/06	2006/07
55	10.5	10.5	10.5	10.5	10.5
56	10.5	10.5	10.5	10.5	10.5
57	10.5	10.5	10.5	10.5	10.5
58	10.5	10.5	10.5	10.5	10.5
59	10.5	10.5	10.1	9.7	9.3
60	10.5	10.5	10.5	10.3	9.9
61	10.5	10.5	10.5	10.5	10.5
62	10.5	10.5	10.5	10.5	10.5
63	10.5	10.5	10.5	10.5	10.5

## Appendix 4 - Examples of calculations

### *List of examples*

- Example 1**      Early leaver Contracted-out Deduction (COD) - where the period of contracted-out employment is entirely pre 6 April 1997
- Example 1A**    Early leaver COD - where period of contracted-out employment spans 6 April 1997
- Example 2**      Retirement COD - where the period of contracted-out employment is entirely pre 6 April 1997
- Example 2A**    Retirement COD - where the period of contracted-out employment spans 6 April 1997
- Example 3**      Member's COD - where the period of contracted-out employment is entirely pre 6 April 1997 (member is deceased)
- Example 3A**    Member's COD - where the period of contracted-out employment spans 6 April 1997 (member is deceased)
- Example 4**      Contributions Equivalent Premium (CEP)
- Example 4A**    CEP including previous transfer from a Contracted-out Money Purchase (COMP) scheme or COMP part of a Contracted-out Mixed Benefit (COMB) scheme
- Example 5**      Certified Amount
- Example 5A**    Certified Amount if tax year 2000/2001 or later is involved
- Example 5B**    Certified Amount where there has been a transfer from a COMP/COMPSPH scheme or COMP part of a COMB scheme

## *Calculating the COD*

- 1 COD applies to periods of COMP employment, including periods of transferred in service, from 6 April 1978 up to and including 5 April 1997.
- 2 It is based on:
  - contracted-out National Insurance contributions (NICs) paid, up to and including 5 April 1987 (1986/87 tax year)
  - contracted-out earnings, from 6 April 1987 (from the 1987/88 tax year) up to and including 5 April 1997

### **Formula**

To calculate the COD take the following actions:

- 1 calculate the earnings factor for each tax year
- 2 multiply by the revaluation factor in order to
- 3 revalue the earnings factor for each tax year
- 4 add the revalued earnings factors together
- 5 divide by the composite divisor appropriate to the employee's working life
- 6 divide by 1000
- 7 round the result to the nearest penny

**Note:** If the period of employment spans 6 April 1988 two separate calculations (pre and post '88 elements) are needed. They should be rounded separately, then added together.

## *Calculating the earnings factors*

- 3 The COD is calculated from contracted-out earnings factors, not actual earnings.

### **Transferred in service for tax years up to and including 1984/85**

- 4 Earnings factors are based on NICs paid at the contracted-out rate on earnings between the Lower Earnings Limit (LEL) and Upper Earnings Limit (UEL).
- 5 The contracted-out part of contributions are rounded up to the nearest multiple of 10 pence, unless they already amount to a multiple of 10 pence.

### **Transferred in service including tax years 1985/86 and 1986/87**

- 6 Since 6 October 1985 NICs have been payable at differing percentage rates, depending on earnings. For these two years earnings factors are based on contributions, but calculated as if contributions had all been paid at the maximum rate (6.85%).
- 7 In both instances the earnings factor is calculated by dividing the contributions by the contracted-out percentage for that year.

- 8 The result is rounded
- to the nearest 1p (0.5p is rounded up) **then**
  - the total earnings factor for each year is rounded to the nearest pound (50p is rounded up).

## Service from the tax year 1987/88

- 9 Earnings factors are based on the earnings on which an employee has paid contracted-out NICs.
- 10 Column 1d of the contracted-out contributions tables shows the amount of earnings on which an employee has paid contracted-out contributions.
- 11 If you use the exact percentage method rather than the contribution tables to work out the earnings, the amount you arrive at may include pence. This should be rounded down to the next whole pound before recording the gross and contracted-out earnings on the P11(87) and P14 End of Year Summary.
- 12 The earnings factor is the total rounded contracted-out earnings figure shown at column 1d of form P11(87) or column 1d of the P14 End of Year Summary. The COD calculation uses these earnings.

## *Calculating the revalued earnings factors*

- 13 Earnings factors are revalued in the line with movements in earnings generally. The rate of revaluation is set out in an order made under Section 148 of the Social Security Administration Act 1992. The percentages set out in the order are converted to revaluation factors for calculation purposes.
- 14 Revalued earnings factors must be calculated using the revaluation factors in Appendix 3 Table 1.
- 15 For early leavers, use the order made in the tax year in which contracted-out employment terminated to revalue the contracted-out earnings factors for all tax years before the tax year of leaving. The earnings factor for the tax year of leaving is multiplied by 1000.
- 16 In death or retirement cases
- use the order made in the tax year before death occurred or State Pension Age (SPA) was reached (the final relevant year (FRY))
  - revalue the earnings factors for each of the tax years before the FRY
  - multiply the earnings factor for the FRY by 1000
  - do not take into account the earnings factor for the tax year of death or the tax year in which SPA is reached.
- 17 **Note:** If the period of employment spans 6 April 1997 the COD is calculated using the order relevant to the tax year of termination. Disregard earnings for tax years after 1996/97 up to and including the tax year of termination/FRY.
- 18 The earnings factors must be multiplied by the appropriate revaluation factors then added together to give the total revalued earnings factor. See Appendix 3 Table 1

### *Dividing by the composite divisor*

19 Working life for the purpose of this calculation:

- runs from:
  - 6 April 1978, or
  - if later, the 6 April on or immediately before the employee's 16th birthday, and
- ends 5 April before SPA.

See Appendix 3, Tables 2 and 3

### *Dividing by 1000*

20 The resulting amount must be:

- divided by 1000, and
- the COD rounded to the nearest 1p (0.5p or more being rounded up).

See Example 1

Revaluation

21 From 1 July 1992, the Social Security Pensions Act 1975 consolidated with the Social Security Administration Act 1992. The effect of this merger is that from 25 May 1993, the rates of revaluation are set out under Section 148 orders of the Social Security Administration Act 1992. All previous rates of revaluation as set out under Section 21 of the Social Security Pensions Act 1975 are incorporated within the new Section 148 orders.

22 The earnings for each tax year included in the COD calculation must be revalued individually, using the Section 148 order in force at the time of transfer, retirement or death.

*Example 1 - Early leaver COD - where the period of employment is entirely pre 6 April 1997*

Sex: Male

Date of birth: 4 June 1942

Years in working life: 29

Period of employment: 5 January 1987 - 30 March 1989

Tax year	Contracted-out contributions/earnings	Earnings Factor	Revaluation Factor	Revalued Earnings Factor
1986/87	$219.96 \times 100 / 6.85 = 3211.09 =$	3211x	1168=	3750448
1987/88		13320x	1087=	14478840
<b>Total pre 6/4/88</b>				<b>18229288</b>
1988/89		13728x	1000* =	13728000
<b>Total post 5/4/88</b>				<b>13728000</b>

\*No revaluation

**Weekly COD**

Formula  $\text{Total Revalued Earnings Factor} \div \text{Composite divisor} \div 1000$

Pre 6/4/88  $18229288 \div 6032 \div 1000 = \text{£}3.02$

Post 5/4/88  $13728000 \div 7540 \div 1000 = \text{£}1.82$

**Weekly COD = £4.84**

**Note 1:** The earnings factors are rounded to the nearest pound, for example £0.50 or more is rounded up to the next pound.

**Note 2:** Details of both the Revaluation Factors and Composite Dividers are shown in Appendix 3.

*Example 1A - Early leaver COD - where the period of employment spans 6 April 1997*

Use:

- the contracted-out contributions/earnings which relate to the period of employment for all tax years up to and including the 1996/97 tax year
- the Section 148 Order made in the tax year of termination to revalue the contracted-out earnings factors

Sex: Male

Date of birth: 29 March 38

Years in working life: 24

Period of employment: 6 April 1995 - 30 March 1999

Tax year	Earnings Factor	Revaluation Factor	Revalued Earnings Factor
1995/96	21000x	1500=	31500000
1996/97	22000x	1400=	30800000
1997/98	23000x	1300=	not taken into account
1998/99	24000x	1000=	not taken into account
			<b>Total 62300000</b>

**Weekly COD**

Formula                      Total revalued Earnings Factor   Composite divisor ÷ 1000

$$62300000 \div 6240 \div 1000$$

**Weekly COD = £9.98**

**Note 1:** Details of both the Revaluation Factors and Composite Dividers are shown in Appendix 3 (the revaluation factors used are assumed figures for the purposes of this calculation).

*Example 2 - Retirement COD - where the period of employment is entirely pre 6 April 1997*

Sex: Male  
 Date of birth: 4 June 1921  
 Years in working life: 8  
 Period of employment: 6 April 1978 - 4 June 1986  
 Reached SPA: 4 June 1986

Tax year	Contracted-out contributions/earnings	Earnings Factor	Revaluation Factor	Revalued Earnings Factor
1978/79	$84.60 \times 100 / 4 = 2115 =$	2115x	2210=	4674150
1979/80	$142.40 \times 100 / 4 = 3560 =$	3560x	1950=	6942000
1980/81	$160.40 \times 100 / 4.25 = 3774.11 =$	3774x	1629=	6147846
1981/82	$187.10 \times 100 / 5.25 = 3563.80 =$	3564x	1364=	4861296
1982/83	$207.20 \times 100 / 6.25 = 3315.20 =$	3315x	1239=	4107285
1983/84	$309.30 \times 100 / 6.85 = 4515.32 =$	4515x	1151=	5196765
1984/85	$356.00 \times 100 / 6.85 = 5197.08 =$	5197x	1066=	5540002
1985/86	$522.96 \times 100 / 6.85 = 7634.45 =$	7634x	1000* =	7634000
1986/87	219.96	not taken into account		
<b>Total</b>				<b>45103344</b>

\*Final relevant year - no revaluation

**Weekly COD**

Formula  $\text{Total revalued Earnings Factor} \div \text{Composite divisor} \div 1000$

$$45103344 \div 4160 \div 1000$$

**Weekly COD = £10.84**

**Note 1:** The earnings factors are rounded to the nearest £, eg £0.50 or more is rounded up to the next £.

**Note 2:** Details of both the Revaluation Factors and Composite Dividers are shown in Appendix 3.

**Note 3:** Where the member left contracted-out employment prior to the last complete tax year before SPA the COD at the date of leaving needs to be revalued up to SPA.

The COD should be calculated using all contracted-out earnings factors up to and including the date of leaving (or 1996/97 tax year if earlier), revalued using the Section 148 orders made in the last complete tax year prior to SPA.

### Example 2A - Retirement COD - where the period of employment spans 6 April 1997

Use the contracted-out contributions/earnings which relate to the period of employment for all tax years up to and including the 1996/97 tax year.

Sex: Male  
 Date of birth: 4 June 1934  
 Years in working life: 21  
 Period of employment: 6 April 1988 - 4 June 1999

Tax year	Earnings Factor	Revaluation Factor	Revalued Earnings Factor
1988/89	13000x	2134=	27742000
1989/90	13500x	1976=	26676000
1990/91	14000x	1854=	25956000
1991/92	14500x	1703=	24693500
1992/93	15000x	1586=	23790000
1993/94	15500x	1458=	22599000
1994/95	16000x	1321=	21136000
1995/96	16500x	1231=	20311500
1996/97	17000x	1118=	19006000
1997/98	17500	not taken into account	
1998/99	18000	not taken into account	
1999/2000	Tax year member reached SPA - earnings not taken into account		
<b>Total</b>			<b>211910000</b>

#### Weekly COD

Formula Total Revalued Earnings Factor ÷ Composite Divider ÷ 1000

$$211910000 \div 5460 \div 1000$$

**Weekly COD = £38.81**

**Note 1:** As the member reached SPA on 4 June 1999 the earnings factors have to be revalued using the Section 148 orders made in April 1998.

**Note 2:** Where the member left contracted-out employment prior to the last complete tax year before SPA the COD at the date of leaving needs to be revalued up to SPA.

The COD should be calculated using all contracted-out earnings factors up to and including the date of leaving (or 1996/97 tax year if earlier), revalued using the Section 148 orders made in the last complete tax year prior to SPA.

**Note 3:** Details of both the Revaluation Factors and Composite Dividers are shown in Appendix 3 (the revaluation factors used are assumed figures for the purposes of this calculation).

**Example 3 - Member's COD - where the period of employment is entirely pre 6 April 1997 (member is deceased)**

Sex: Male  
 Date of birth: 4 June 1942  
 Years in working life: 29  
 Period of employment: 5 January 1987 - 30 March 1989  
 Date of death: 4 July 1990  
 Revaluation: by Section 148 Orders

Tax year	Contracted-out contributions/earnings	Earnings Factor	Revaluation Factor	Revalued Earnings Factor
1986/87	$219.96 \times 100 / 6.85 = 3211.09$	3211x	1294=	4155034
1987/88		13320x	1205=	16050600
<b>Total pre 6/4/88</b>				<b>20205634</b>
1988/89		13782x	1108=	15270456
<b>Total post 5/4/88</b>				<b>15270456</b>

**Weekly COD**

Formula Total revalued Earnings Factor ÷ Composite divisor ÷ 1000

Pre 6/4/88  $20205634 \div 6032 \div 1000 = \text{£}3.35$

Post 5/4/88  $15270456 \div 7540 \div 1000 = \text{£}2.03$

**Weekly COD = £5.38 (post 5/4/88 amount = £2.03)**

**Widow's COD**

As the member died on 4 July 1990, and was under SPA at the date of death, the widow is entitled to the full COD amount.

**Widow's weekly COD = £5.38 (post 5/4/88 amount = £2.03)**

**Note 1:** If the deceased was female, any widower's COD is limited to the post 5 April 1988 amount.

**Note 2:** If a person leaves contracted-out employment and dies in the same tax year, the earnings factors for that year are not taken into account when assessing any widow's or widower's COD.

**Note 3:** Details of both the Revaluation Factors and Composite Dividers are shown in Appendix 3.

**Note 4:** As the member died on 4 July 1990 and the scheme's revaluation rate is Section 148 orders, the earnings factors have to be revalued using the Section 148 orders made in April 1989.

**Note 5:** Where the member left contracted-out employment prior to the last complete tax year before death the COD at the date of leaving needs to be revalued up to death.

The COD should be calculated using all contracted-out earnings factors up to and including the date of leaving (or 1996/97 tax year if earlier), revalued using the Section 148 orders made in the last complete tax year prior to death.

**Note 6:** The rules for the amount of COD inherited by the widow/widower are shown in Appendix 5.

*Example 3A - Member's COD - where the period of employment spans 6 April 1997 (member is deceased)*

Use the contracted-out contributions/earnings which relate to the period of employment for all tax years up to and including the 1996/97 tax year.

Sex: Male  
 Date of birth: 4 June 1944  
 Years in working life: 31  
 Period of employment: 6 April 1988 - 4 June 1999  
 Date of death: 4 July 1999

Tax year	Earnings Factor	Revaluation Factor	Revalued Earnings Factor
1994/95	16000x	1321=	21136000
1995/96	16500x	1231=	20311500
1996/97	17000x	1118=	19006000
1997/98	17500	(not taken into account)	
1998/99	18000	(not taken into account)	
1999/2000	Tax year member died - earnings not taken into account		
<b>Total</b>			<b>60453500</b>

**Member's weekly COD**

Formula Total Revalued Earnings Factor ÷ Composite Divider ÷ 1000

$$60453500 \div 8060 \div 1000$$

**Member's weekly COD = £7.50**

**Widow's COD**

As the member died on 4 July 1999, and effect had not been given to the protected rights prior to death, the widow is entitled to the full COD amount.

**Widow's weekly COD = £7.50**

**Note 1:** If the deceased was female, any widower's COD is limited to the post 5 April 1988 amount.

**Note 2:** Details of both the Revaluation Factors and Composite Dividers are shown in Appendix 3. (The revaluation factors used are assumed figures for the purposes of this calculation.)

**Note 3:** As the member died on 4 July 1999 and the scheme's revaluation rate is Section 148 orders, the earnings factors have to be revalued using the Section 148 orders made in April 1998.

**Note 4:** Where the member left contracted-out employment prior to the last complete tax year before death the COD at the date of leaving needs to be revalued up to death.

The COD should be calculated using all contracted-out earnings factors up to and including the date of leaving (or 1996/97 tax year if earlier), revalued using the Section 148 orders made in the last complete tax year prior to death.

**Note 5:** The rules for the amount of COD inherited by the widow or widower are shown in Appendix 5.

# Appendix 5 - How membership of a COMP/COMPSPH scheme or COMP part of a COMB scheme affects State Additional Pension

## *Introduction*

- 1 The Additional Pension (AP) is the earnings-related part of both the retirement pension and widow's benefit. It is also known as the 'State Earnings Related Pension Scheme', (SERPS) from 6 April 2002 SERPS was reformed by State Second Pension. The amount of AP a person can get is based on the amount and type of earnings on which National Insurance has been paid from 6 April 1978.
- 2 Between 6 April 1997 and 5 April 2002, members of contracted-out schemes will cease to build up any further entitlement to AP. However, they will retain their entitlement to any AP accrued between 6 April 1978 and 5 April 1997. From 6 April 2002 members of Contracted-out schemes earning between the Lower Earnings Level (LEL) and the Lower Earnings Threshold (LET) will also build up entitlement to State Second Pension.
- 3 AP can only be paid from the date an individual reaches State Pension Age (SPA) and claims their state pension. Widows and widowers may also receive AP based on their late spouse's earnings.

## *Deductions from the AP for the member*

- 4 Any AP earned between the **1978/79 and 1996/97** tax years will be reduced as a result of membership of a COMP scheme or COMP part of a COMB scheme. The amount by which AP is reduced is known as the Contracted-out Deduction (COD).
- 5 For members of a COMP scheme or a COMP part of a COMB scheme, the COD is equal to the Guaranteed Minimum Pension (GMP) that would have accrued had they been a member of a Contracted-out Salary Related (COSR) scheme. The COD may be more or less than the pension provided by the scheme. This is because the pension is based on the value of the member's fund built up in the scheme, ie money paid in together with investment return, known as the protected rights.
- 6 These deductions also take into account any rights transferred into the COMP scheme or COMP part of a COMB scheme from
  - another COMP/COMPSPH scheme or COMP part of a COMB scheme, or
  - a COSR scheme or COSR part of a COMB scheme, or
  - an Appropriate Personal Pension/Appropriate Personal Pension Stakeholder Pension (APP/APPSHP) scheme.

**The AP will be reduced by the COD even where pension rights have been commuted on the grounds of triviality or serious ill health or where a members pension rights have been subject to pension sharing on divorce. Schemes should tell any member who opts for commutation about this.**

## *Deductions from the AP for the widow or widower*

- 7 Where a member of a COMP scheme dies, leaving a widow or widower or, qualifying widow or widower (see paragraph 9.4 for the qualifying conditions) the amount of COD taken from their inherited AP will depend on **when** the member died.

### *Member died before 6 April 1996*

- 8 The AP inherited by the widow or widower will be reduced by
- a COD at **half** the rate attributable to the member, if the member died on or after attaining SPA, or
  - a COD at the **full** rate attributable to the member, if the member died before attaining SPA.

### *Member died on or after 6 April 1996*

- 9 The AP inherited by the widow or widower will be reduced by
- a COD at **half** the rate attributable to the member, if effect had been given to the protected rights at the date of death, or
  - a COD at the **full** rate attributable to the member, if effect had **not** been given to the protected rights at the date of death.

### *Date of effect*

- 10 To enable the correct AP calculation to be performed we need to know and record the date the member gave effect to the protected rights. This means
- **the date entitlement to payment first arises** for the provision of a pension by the scheme, insurance company or friendly society, or
  - **the date the lump sum was paid to the member** for trivial commutation or on the grounds of serious ill health.

#### **Example**

A and B both commence their retirement **on exactly the same day**, 12 February 1998, and both elect to have their pension paid monthly.

**A** receives payments in advance, ie first payment will be made on 12 February 1998.

**B** receives payments in arrears, ie first payment will be made on 11 March 1998.

The date of effect will be the same in both cases, ie **12 February 1998**.

The key event here is the date **entitlement** to the pension commences.

### *Inflation-proofing*

- 11 Pensions derived from protected rights accrued up to 5 April 1997 must be inflation-proofed by the lower of the increase in prices over a 12 month period or 3%. The first such increase is required to be made no later than one year after the date on which the pension becomes payable, with subsequent increases being made on each anniversary of the date of the first increase. Any balance of inflation-proofing above 3% is provided by the Department for Work and Pensions (DWP), based on the COD, via the state AP.
- 12 Pension derived from rights, other than Additional Voluntary contributions (AVCs), that cover periods of scheme membership after 5 April 1997 will be required to be inflation-proofed by the lower of the increase in prices over a 12 month period or 5%.
- 13 Widows' and widowers' pension benefits are protected in the same way.

## Appendix 6 - Payment/Recovery schedules issued to scheme administrators

### *List of schedules*

Schedule 1	Payment/Recovery schedule
Schedule 2	Net payments and recoveries

Schedule 1 - Payment/Recovery schedule

PAYMENT/RECOVERY SCHEDULE									
Provider/Scheme:xxxxxxxxxxxxxxxxxxxx	ASCN/SCON:xxxxxxxxxxxx								
Name: xxxxxxxxxxxxxxxxxxxxxxxx	Date Payment Due:	dd/mm/ccyy							
Address: xxxxxxxxxxxxxxxxxxxxxxxx	Date of calculation:	dd/mm/ccyy							
xxxxxxxxxxxxxxxxxxxxxxxxxxxx									
xxxxxxxxxxxxxxxxxxxxxxxxxxxx									
PAYMENTS									
NAME	NI NUMBER	MEMBERSHIP NUMBER	TAX YEAR	TOTAL	REBATE	ADDITIONAL REBATE	INCENTIVE	TAX RELIEF	DATE OF BIRTH
A H BROWN	AB123456A		1987/88	215.28			215.28		
P R SMITH	BC789012B		1987/88	256.88			256.88		
A J GREEN	PT345678C		1997/98	687.42	687.42				29/12/66
RECOVERIES									
AB BROWNE	AB123462B		1987/88	96.40	96.40				
MA SMYTHE	AB234664C		1997/98	210.39	210.39				25/02/68
CATCH	AB765432A		1997/98	72.26	72.26				19/05/50

Note: This layout represents the information provided on paper schedule. Please refer to manual CA70, Magnetic Media Transmission of Data to Appropriate Personal Pension Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes for details of the magnetic version of this information.

Schedule 2 - Net Payments and Recoveries

NET PAYMENTS AND RECOVERIES					
Provider/Scheme:	ASCN/SCON:nnnnnnnnnn	Date Payment Due:	dd/mm/ccyy		
Name:	xxxxxxxxxxxxxxxxxxxxxx	Date of calculation:	dd/mm/ccyy		
Address:	xxxxxxxxxxxxxxxxxxxxxx	Schedule No:	nnnnnnnn		
	xxxxxxxxxxxxxxxxxxxxxx				
<b>PAYMENTS</b>					
	TOTAL	REBATE	ADDITIONAL REBATE	INCENTIVE	TAX RELIEF
Payments	1159.58	687.42		472.16	
Recoveries	379.05	282.65		96.40	
Net payable	780.53	404.77		375.76	

Note: This layout represents the information provided on paper schedule. Please refer to the CA70, Magnetic Media Transmission of Data to Appropriate Personal Pension and Contracted-out Occupational Schemes and Contracted-out Stakeholder Pension Schemes for details of the magnetic version of this information.

## Appendix 7 - Age-related Payment Rules

### *COMP/COMPSHP Payment Rules*

Circumstances	Age-related payment in respect of the 1997/98 or later tax years
Open period of scheme membership	COMP/Contracted-out Mixed Benefit (COMB) scheme
Closed period of scheme membership	COMP/COMB scheme
Transfer to another COMP/COMPSHP scheme or a COMP part of a COMB scheme	New COMP/COMPSHP or COMB scheme
Transfer to an APP/APPSHP scheme	Appropriate Personal Pension (APP) scheme/Appropriate Personal Pension Stakeholder Pension (APPSHP)
Transfer to a Contracted-out Salary Related (COSR) scheme or a COSR part of a COMB scheme	Payment to be offered to the COSR/COMB scheme. If refused, the monies will be retained in the National Insurance fund
Transfer to an Overseas scheme or arrangement	Payment to be offered to the Overseas scheme or arrangement If refused the monies will be retained in the National Insurance fund
Buying a pension from an Insurance Company or Friendly Society in respect of: <ul style="list-style-type: none"> <li>• the member</li> <li>• the widow or widower or nominated beneficiary</li> </ul>	Payment of <b>at least 10 x weekly Lower Earnings Limit (LEL)</b> current at the time payment arises, to be made to the pension provider. Payment which is <b>less than 10 x weekly LEL</b> current at the time payment arises, to be made to the member or widow or widower or nominated beneficiary
Note: Payment will not be made for the tax year in which the member reached state pension age (SPA) if the tax year is 1997/98 or later	
Provision of a pension by the COMP/COMB scheme in respect of: <ul style="list-style-type: none"> <li>• the member</li> <li>• the widow or widower or nominated beneficiary</li> </ul>	Payment of <b>at least 10 x weekly LEL</b> current at the time payment the time payment arises, to be made to the scheme. Payment which is <b>less than 10 x weekly LEL</b> current at the time payment arises, to be made to the member or widow or widower or nominated beneficiary
Note: Payment will not be made for the tax year in which the member reached SPA if the tax year is 1997/98 or later	

continued

*(COMP/COMPSPH Payment Rules)*

<b>Circumstances</b>	<b>Age-related payment in respect of the 1997/98 or later tax years</b>
<b>Lump sum payment in death cases (ie before effect is given)</b>  Note: Payment will not be made for the tax year in which the member reached SPA if the tax year is 1997/98 or later	Payment will be made to the widow or widower or nominated beneficiary
<b>Trivial commutation</b>  Note: Payment will not be made for the tax year in which the member reached SPA if the tax year is 1997/98 or later	In respect of the member: any payment to be made to the member  In respect of the widow or widower: any payment to be made to the widow or widower
<b>Commutation on grounds of serious ill health</b>  Note: Payment will not be made for the tax year in which the member reached SPA if the tax year is 1997/98 or later	Any payment to be made to the member except where the member has subsequently died, when payments will be made to the widow or widower or nominated beneficiary

## Appendix 8 - Leaflets

Some other leaflets you may find useful

- CA29** Employer's Manual on Statutory Maternity Pay
- CA39** NI tables for Contracted-out contributions for employers with COSR schemes
- CA42** NI tables for foreign going and deep sea fishermans contributions for employers
- CA43** NI tables for Contracted-out contributions and minimum payments for employers with COMP schemes
- CA72** National Insurance contributions - deferring payment
- CWG1** Employer's Help Cards

These leaflets are available from



Inland Revenue  
National Insurance Contributions Office  
Services to Pensions Industry  
Benton Park View  
Newcastle upon Tyne  
NE98 1ZZ



08459 150 150

- IB202** Incapacity Benefit
- NP28** Class 1 NI contributions for employees
- NP45** A guide to Bereavement Benefit
- NP46** A guide to Retirement Pensions

These leaflets are available from your nearest DWP office.

- PP4** A guide to the Financial Services Act for employers

This leaflet is available from



DSS Pensions  
FREEPOST BS5555/1  
Bristol  
BS99 1BL

# Appendix 9 - COMP/COMPSPHP early leaver termination, transfer and change of Responsible Paying Authority (RPA) notifications

## Quick Reference Guide

Period of COMP employment	Pension rights retained in the scheme	Pension rights transferred	Change of Responsible Paying Authority
Begins and ends before 6 April 1997	Protected rights are retained in the scheme by submitting form CA1589	Protected rights may be transferred to: <ul style="list-style-type: none"> <li>another COMP/COMPSPHP scheme or active COMP part of a COMB scheme <ul style="list-style-type: none"> <li>- submit form CA1590</li> </ul> </li> <li>a COSR scheme or active COSR part of a COMB scheme <ul style="list-style-type: none"> <li>- submit form CA1592</li> </ul> </li> <li>an APP/APPSPHP scheme <ul style="list-style-type: none"> <li>- submit form CA1591</li> </ul> </li> <li>Overseas scheme/arrangement - submit form CA1895</li> </ul>	The responsibility for protected rights may be changed to another paying authority If this new authority is: <ul style="list-style-type: none"> <li>another COMP/COMPSPHP scheme</li> <li>a COSR scheme</li> <li>a COMB scheme (provided the protected rights were transferred to an active part)</li> <li>an APP/APPSPHP scheme</li> </ul> submit form: <ul style="list-style-type: none"> <li>CA 1893 (if a CA1859 has <b>not</b> already been submitted) <b>or</b></li> <li>CA1894 (if a CA1589 has already been submitted)</li> </ul>

continued





Period of COMP employment	Pension rights retained in the scheme	Pension rights transferred	Change of Responsible Paying Authority
Begins before 6 April 1997 and ends on or after 6 April 1997	Protected rights are retained in the scheme by submitting form CA1589	Protected rights may be transferred to: <ul style="list-style-type: none"><li>• another COMP/COMPSPHP scheme or active COMP part of a COMB scheme</li><li>• a COSR scheme or active COSR part of a COMB scheme</li><li>• an APP/APPSPHP scheme - submit form CA1892</li><li>• Overseas scheme/arrangement - submit form CA1895</li></ul>	The responsibility for protected rights may be changed to another paying authority. If this new authority is: <ul style="list-style-type: none"><li>• another COMP/COMPSPHP scheme</li><li>• a COSR scheme</li><li>• a COMB scheme (provided the protected rights were transferred to an active part)</li><li>• an APP/APPSPHP scheme</li></ul> submit form: <ul style="list-style-type: none"><li>• CA 1893 (if form CA1589 has <b>not</b> already been submitted)</li></ul> <b>or</b> <ul style="list-style-type: none"><li>• CA1894 (if form CA1589 has already been submitted)</li></ul>

continued)

Period of COMB employment	Pension rights retained in the scheme	Pension rights transferred	Change of Responsible Paying Authority
Begins and ends on or after 6 April 1997	Protected rights are retained in the scheme by submitting form CA1589	<p>Protected rights may be transferred to:</p> <ul style="list-style-type: none"> <li>• another COMP/COMPSPH scheme or active COMP part of a COMB scheme</li> <li>• a COSR scheme or active COSR part of a COMB scheme</li> <li>• an APP/APPSPH scheme - submit form CA1892</li> <li>• Overseas scheme/arrangement - submit form CA1895</li> </ul>	<p>The responsibility for protected rights may be changed to another paying authority. If this new authority is:</p> <ul style="list-style-type: none"> <li>• another COMP/COMPSPH scheme</li> <li>• a COSR scheme</li> <li>• a COMB scheme (provided the protected rights were transferred to an active part)</li> <li>• an APP/APPSPH scheme</li> <li>• submit form: <ul style="list-style-type: none"> <li>• CA 1893 (if form CA1589 has <b>not</b> already been submitted)</li> <li><b>or</b></li> <li>• CA1894 (if form CA1589 has already been submitted)</li> </ul> </li> </ul>

**Important notes:**

- from 6 April 1997 a transfer to a Section 53 (formerly contracted-out) scheme can only take place if the employee applied for the transfer before 6 April 1997
- transfers cannot be made to an inactive part of a COMB scheme





## Appendix 10 - Status of Accrued Pension Rights on transfer to another COMP/COMPSP, COSR, COMB or APP/APPSHP scheme

### Quick Reference Guide

Type of rights held in scheme prior to transfer	To COSR scheme or the active COSR part of a COMB scheme	To COMP/COMPSP scheme or the active COMP part of a COMB scheme	To an APP/APPSHP scheme
Pre 6 April 1997 GMP rights	GMP rights remain pre 6 April 1997 protected rights	GMP rights become pre 6 April 1997 protected rights	GMP rights become pre 6 April 1997 protected rights
Post 5 April 1997 COSR rights	COSR rights remain post 5 April 1997 COSR rights	COSR rights become post 5 April 1997 protected rights	COSR rights become post 5 April 1997 protected rights
Pre 6 April 1997 protected rights	Pre 6 April 1997 protected rights become pre 6 April 1997 GMP rights	Pre 6 April 1997 protected rights remain as such	Pre 6 April 1997 protected rights remain as such
Post 5 April 1997 protected rights	Post 5 April 1997 protected rights become post 5 April 1997 COSR rights	Post 5 April 1997 protected rights remain as such	Post 5 April 1997 protected rights remain as such

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This leaflet gives general guidance only and should not be treated as a complete and authoritative statement of the law.

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