

The logo consists of a white checkmark shape on a dark teal background, with the words 'PENSION QUALITY MARK' in white, bold, sans-serif capital letters below it.

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# **PQM STANDARDS FOR EMPLOYERS USING A PQM READY SCHEME**

April 2017

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define the scheme type first

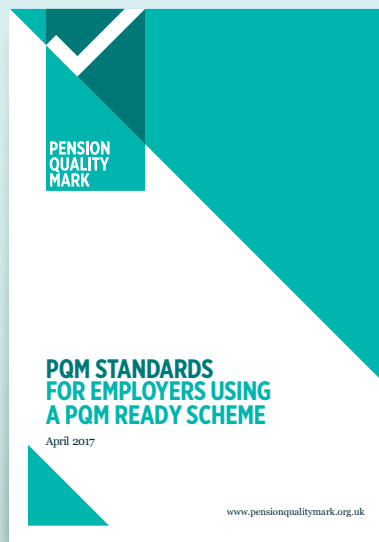
- ▶ Single-employer scheme?
- ▶ Using a master trust or a multi-employer scheme without PQM READY?

See **THE STANDARDS**



- ▶ Using a PQM READY master trust or multi employer scheme?

See **PQM STANDARDS FOR EMPLOYERS USING A PQM READY SCHEME**



- ▶ Master Trust?
- ▶ Multi-employer scheme?

See **PQM READY STANDARDS**



Does the scheme meet the standards?

yes

no/not sure

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# INTRODUCTION

**Thank you for your interest in the Pension Quality Mark.**

This standards document is applicable if you are an employer using a PQM READY scheme.

If you are running your own occupational or contract-based single-employer scheme, or are using a multiemployer scheme or a master trust that does not have PQM READY, please refer to PQM standards. If you are a multi-employer scheme or a master trust please refer to PQM READY standards. Both documents are available to download from <http://www.pensionqualitymark.org.uk/publications.php>.

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# A: THE CONTRIBUTION STANDARDS

## THE CONTRIBUTION STANDARD SETS OUT THE LEVELS OF EMPLOYER AND EMPLOYEE CONTRIBUTIONS REQUIRED TO MEET THE PQM AND PQM PLUS STANDARDS.

### To meet the standards, the scheme must:

- ▶ in the case of the PQM standard, offer a total contribution of 10% of pay, with at least 6% from the employer or, to achieve the PQM PLUS standard, provide a total contribution of 15%, with at least 10% from the employer (A1);
- ▶ satisfy the definition on pensionable earnings (A2);
- ▶ comply with the rules for ONE of the contribution configurations permitted: fixed contribution schemes (A3), matching contribution schemes (A4), age-related schemes (A5), service-related schemes (A6), noncontributory schemes (A7), or grade or job category related contributions (A8);
- ▶ comply with the rules on waiting periods and nursery arrangements (A9) where applicable.

### STANDARD A1: HEADLINE CONTRIBUTION STANDARD – LEVELS OF CONTRIBUTIONS

The headline PQM standard is that the overall contribution rate must be at least 10%, with a contribution of at least 6% from the employer.

The headline PQM PLUS standard is that the overall contribution rate must be at least 15%, with a contribution of at least 10% from the employer.

### STANDARD A2: PENSIONABLE PAY

All schemes must meet EITHER standard A2(i) OR standard A2(ii) on the levels of pensionable pay or contributions as a proportion of scheme members' total pay.

- A2(i)** The annual pensionable pay received by all scheme members must, in aggregate, be equal to at least 85% of the annual total pay received by all scheme members.
- A2(ii)** The annual total contributions paid into the scheme must, in aggregate, be equal to at least 10% of all the annual total pay received by all scheme members for PQM schemes, or 15% of annual total pay for PQM PLUS schemes.

Scheme members who have been in the scheme for less than a year or whose pay is more than twice average earnings may be excluded from the calculation in A2(i) or A2(ii).

### Notes:

- ▶ *Total pay means wages, salary, commissions, bonuses and overtime, but not expenses and benefits, such as share options, medical insurance and car allowances. Applicants may use PAYE earnings as a proxy for total pay if they wish.*
- ▶ *Average earnings means the most recent figure for median gross annual earnings for full time employees from the ONS's Annual Survey of Hours and Earnings (ASHE). The 2016 survey figure was £28,000.*
- ▶ *Applicants may use total pay and pensionable pay figures relating to all employees when calculating A2(i), if figures relating only to scheme members are hard to obtain.*

### EXAMPLES

**Employer A** has a pension scheme where the total pay of all the scheme members over the last year was £1.41m. The total amount of pay received by scheme members that was pensionable was £1.29m over the same period. This means that across the scheme over 85% of total pay was pensionable, so the scheme meets standard A2(i) on pensionable pay.

**Employer B** has a scheme where the total pay of all scheme members over the last year was £19.24m. The total amount of employer and employee contributions paid into the scheme over the same period was £3.06m. Total contributions are over 15% of the total pay of scheme members, so the scheme meets standard A2(ii) on pensionable pay at the level of a PQM PLUS scheme.

### STANDARD A3: FIXED CONTRIBUTIONS

Where there are fixed employer and employee contributions, the scheme can meet the contribution standards provided it meets the headline contribution standard (A1) and the pensionable earnings standard (A2) and:

- A3(i)** the employer contribution is the same size or larger than the employee contribution.

#### EXAMPLE

Employer C has a scheme where the employer contributes 6% and the employee contributes 6%. As the total contribution of 12% exceeds the PQM standard of 10% and the employer contribution meets the standard of 6%, the scheme is eligible for the PQM award.

### STANDARD A4: MATCHING CONTRIBUTIONS

Where a scheme has matching contribution arrangements it can meet the PQM standards provided it satisfies the pensionable earnings standard (A2) and it meets EACH of the following three requirements:

- A4(i)** at least one of the contributory options available to the employee has the potential (when combined with the employer contribution) to meet the contribution standards, i.e. 10% for PQM and 15% for PQM PLUS, and that employer contributions are at least 6% for PQM and 10% for PQM PLUS (A1); and
- A4(ii)** the employer contribution is the same size or larger than the employee contribution (i.e. the rate of the employer match must be on a one for one or more generous basis); and
- A4(iii)** the scheme can demonstrate that the employer or scheme meets communications requirement C2(ii) explaining how employees can make and receive contributions at the level required by the PQM or PQM PLUS standards.

#### EXAMPLES

Employer D has a scheme where the employer matches employee contributions on a one to one basis. The employer will pay a contribution of up to 6% provided the member also pays 6%. The scheme literature outlines how employees making higher contributions can receive matching employer contributions. Given that the scheme has the potential to have an overall contribution of 12%, including an employer contribution of 6%, and the scheme literature highlights how to get matching contributions, the scheme qualifies for the PQM.

Employer E has a scheme which offers a 4% contribution even if the employee makes no contribution but also offers up to a further 3% provided the employee matches the additional contributions on a one to one basis. In other words, if the employee puts in the full 3%, the employer will contribute both an unconditional contribution of 4% plus a further 3% matching contribution, resulting in a total pension contribution of 10%. Scheme literature explains how matching contributions can meet the level of the standard. This scheme meets the PQM standard as it offers the potential for a total contribution of 10%.

## STANDARD A5: AGE-RELATED CONTRIBUTIONS

Schemes with age-related contributions can qualify for the PQM standards if the scheme can demonstrate it meets the pensionable earnings standard (A2) and it meets EITHER of the following two requirements:

**A5(i)** the AVERAGE contribution of a notional scheme member who joined on his or her 22nd birthday and left on his or her 65th birthday (a career of 43 years) would meet the headline contribution standards (A1); or

**A5(ii)** actual current AVERAGE contributions meet the headline contribution standards (A1)

AND it meets BOTH of the following two further requirements:

**A5(iii)** where scheme literature provided to employees mentions PQM it makes it clear at what ages the contributions do and do not meet the headline contribution standards (A1); and

**A5(iv)** the employer contribution is of the same value or greater than any employee contribution.

## STANDARD A6: SERVICE-RELATED CONTRIBUTIONS

Schemes with service-related contributions can qualify for the PQM standards if the scheme can demonstrate it meets the pensionable earnings standard (A2) and EACH of the following requirements:

**A6(i)** AVERAGE contributions into the scheme meet the headline contribution standards (A1); and

**A6(ii)** where scheme literature provided to employees mentions PQM it makes it clear at what service periods the contributions do and do not meet the headline contribution standards (A1); and

**A6(iii)** the employer contribution is of the same value or greater than any employee contribution.

### Notes:

- ▶ Contributions made in first three months of an employment do not have to be included in the calculation of the average.
- ▶ Where there is a waiting period of more than 3 months, contributions into a nursery scheme must be included in the calculation of average contributions (see Standard A9).
- ▶ We also consider the contributions that will be paid once a person has been employed for 10 years. This means at the start of their 11th year. The PQM standard reached will be the average contribution for that career or the contribution that is available at the start of the 11th year, whichever is lower.

## STANDARD A7: NON-CONTRIBUTORY SCHEMES

A non-contributory pension scheme can meet the standard if it satisfies the pensionable earnings standard (A2) and EITHER of the following two requirements:

- A7(i)** the employer contribution is at least 10% for PQM or 15% for PQM PLUS; or
- A7(ii)** where the employer contributions alone are less than 10% for PQM or 15% for PQM PLUS, the scheme may qualify for the PQM standards provided that:
  - ▶ the employer contribution is at least 6% for PQM or 10% for PQM PLUS; and
  - ▶ at least half of the employees in the scheme are making voluntary employee contributions at a level that ensures total contributions are 10% for PQM or 15% for PQM PLUS; and
  - ▶ the scheme or employer meets communications standard C2(ii) by explaining how employees can make a contribution at a level that meets these standards.

### EXAMPLES

**Employer F** offers a scheme where the employer makes a contribution of 10% and none is required of the employee. As the employer contribution is 10% and the overall contribution meets the 10% PQM standard, the scheme is eligible for the PQM award.

**Employer G** has a non-contributory scheme where the employer pays in 8% without the need for any employee contribution. However, the employer makes clear how the employee can make voluntary contributions to boost their pension, and over half of scheme members make voluntary contributions of 2% or more. Therefore, the scheme qualifies for the PQM standard.

## STANDARD A8: GRADE OR JOB CATEGORY RELATED CONTRIBUTIONS

Schemes where different categories or grades of employees have access to differing levels of contributions can qualify for the PQM standards if the scheme can demonstrate it meets the pensionable earnings standard (A2) and EACH of the following requirements:

- A8(i)** the highest contributions available to the category of staff that is treated least generously meet the headline contribution standard (A1)
- A8(ii)** the employer contribution is of the same value or greater than any employee contribution for all categories of employees.

### Note:

*Where an employer is able to brand a scheme differently for different grades or categories of staff so that it appears to be a separate scheme to the employees, it may make a PQM application for each branded part of the scheme separately, so that A8(i) only covers staff within that part of the scheme.*

### EXAMPLES

**Employer H** has a scheme where staff on lower grades can receive employer contributions of up to 6%, if the employee puts in 6%, but higher grade staff can get up to 10% employer contributions, if they put in 10% themselves. The scheme meets the PQM contribution standard (A1) because the highest contributions available to the lowest grade are 12% with 6% from the employer.

**Employer I** has a scheme where there is a fixed employee contribution of 4% and the employer adds a 4% contribution for retail staff or 8% for head office staff. The employer provides separate literature to the 2 different categories of workers with different branding. Therefore the employer can apply separately for the head office part of the scheme which meets the PQM contribution standard. The retail staff part of the scheme does not meet the PQM contribution standard, and could not use the PQM logo in any way.

## STANDARD A9: WAITING PERIODS AND NURSERY SCHEMES

Schemes may have a waiting period, which means employees cannot join the scheme for a period of time after starting employment. However, schemes that operate a waiting period of longer than three months must meet BOTH of the following requirements:

- A9(i)** Employees who are waiting to join the scheme must be eligible to join another scheme (such as a nursery scheme) within three months of starting employment; and
- A9(ii)** If contributions into the nursery scheme are different to the contributions into the main scheme then the AVERAGE contributions across both the main scheme, and those in the waiting period in the nursery scheme, must meet the headline contribution standards, in the same way as schemes with service-related contributions under standard A6(i).

**Note:** Contributions made in first three months of an employment do not have to be included in the calculation of the average in A9(ii).

### EXAMPLE

Employer J has a scheme with a waiting period of one year before employees are eligible to join. However, there is a separate nursery scheme which employees are automatically enrolled into within three months of joining the employer.

The scheme with the one year waiting period can qualify for PQM so long as the average contributions of those in the main scheme and those in the waiting period in the nursery scheme meet the PQM contribution standards (A1).

### A NOTE ON SALARY SACRIFICE

For the purpose of meeting the contribution standards schemes that operate salary sacrifice must treat the salary sacrificed by the employee as a notional employee contribution rather than as part of the employer contribution.



# C: THE COMMUNICATIONS STANDARDS

**THE COMMUNICATION STANDARD SETS OUT THE WAY IN WHICH SCHEMES MUST COMMUNICATE WITH THEIR MEMBERS IN ORDER TO MEET THE STANDARD.**

**To meet the standards, the schemes must:**

- ▶ Ensure that any initial communications issued by the employer meet standard(C2).

**DO YOU NEED HELP TO ESTABLISH IF YOUR SCHEME MEETS THE STANDARDS?**

Contact the PQM team on 020 7601 1770 or email [info@pensionqualitymark.org.uk](mailto:info@pensionqualitymark.org.uk) they will be happy to help with any questions.

## **STANDARD C2: INITIAL COMMUNICATIONS**

All new employees who are eligible to join the scheme must be provided with helpful and engaging information at the induction/joining stage.

This information must meet BOTH the following requirements:

- C2(i)** it must explain the benefits of the scheme and how the employee can join; and
- C2(ii)** where there is flexibility over contributions, it must explain how employees can opt for contributions that meet or exceed the level required by the PQM standard or, where relevant, the PQM Plus standard (A1).







**T:** 020 7601 1770

**E:** [info@pensionqualitymark.org.uk](mailto:info@pensionqualitymark.org.uk)

**W:** [www.pensionqualitymark.org.uk](http://www.pensionqualitymark.org.uk)

Cheapside House  
138 Cheapside  
London EC2V 6AE

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