



**Pension  
Quality  
Mark**

## **Pension Quality Mark Standards Paper**

July 2010

# Pension Quality Mark (PQM)

## A: The PQM 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 from 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), or non-contributory schemes (A7).

### **Standard A1: Headline Contribution Standard - levels of contributions**

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

The headline Pensions Quality Mark 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 earnings**

To meet the PQM or PQM PLUS standard pensionable pay should normally amount to at least 80% of total pay. In normal years, this standard must be met in the case of at least 90% of employees in the scheme. Employees whose pensionable pay is more than four times the level of average earnings may be excluded from this calculation.

Notes:

- Total pay means wages, salary, commissions, bonuses and overtime, but not expenses and benefits, such as share options, medical insurance and car allowances.
- Normal years means years in which there have not been exceptional events that caused members to have unusually high levels of non-pensionable pay.
- 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 2009 survey figure was £25,800.

### 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 A** 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 B** 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 C** 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 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 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.

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

**Employer E** 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 F** 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 G** 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.

### A note on contribution issue: salary sacrifice; contracting out

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
- Schemes that are contracted out of the State Second Pension may only count the contributions made by the employer and employee that are not related to contracted-out benefits.

## **B: The PQM Governance Standards**

**The governance standard sets out the objective, structures and issues that must be satisfied to achieve an adequate governance arrangement.**

**To meet the standard, the pension scheme must:**

- ensure that adequate governance arrangements are in place and that the pension scheme is well run and meets the needs of scheme members (B1);
- meet ONE of the three governance structure standards: trustees (B2), management committee (B3), annual scheme review (B4): and
- meet BOTH the standards on key governance issues: simple investment options (B5) and charges (B6).

### **Standard B1: Headline Governance Standard - governance arrangements**

The scheme or employer must ensure that adequate governance arrangements are in place to ensure the pension scheme is well run and meets the needs of scheme members.

### **Standard B2: Trustees**

Where the pension scheme is overseen by a trustee body it meets the headline governance standard provided that:

- B2(i) trustees regularly discuss the DC pension scheme at their meetings; and
- B2(ii) trustees undertake training or learning that meets the relevant DC sections of the Pensions Regulators code on Trustee Knowledge and Understanding; and
- B2(iii) the trustees review key issues relating to how well the scheme is run and whether it is meeting employees needs. A list of good practice issues the scheme may review throughout the year are set out in Box 1 on page 7.

## Standard B3: Management Committee

Where there is a Management Committee that oversees the running of a contract-based scheme (or any similar formal group or committee responsible for scheme governance), it can meet the governance standard, provided that EACH of the following four requirements are met:

- B3(i) the Management Committee meets regularly to discuss the pension scheme, and notes are made of the issues raised and the decisions taken; and
- B3(ii) the Management Committee includes one or more scheme members (or their representative); and
- B3(iii) members of the Management Committee receive relevant training on pension issues; and
- B3(iv) the Management Committee reviews key issues relating to how well the scheme is run and whether it is meeting employees needs. A list of good practice issues the scheme may review throughout the year are set out in Box 1 below.

### **Box 1: Good practice list of issues to be regularly reviewed in a DC Scheme**

- The effectiveness, accuracy and cost of the administration (whether in-house, third party or by a pension provider), including internal control mechanisms.
- The performance and charges of the fund managers.
- The appropriateness and range of the investment choices offered, particularly the default fund.
- The effectiveness and accuracy of member communications and information.
- The level of employee engagement, including the level of take-up and the level of employee contributions (particularly where these are voluntary or flexible).
- The adequacy of the processes and support for members approaching retirement, including take-up of the Open Market Option.
- Relevant changes to legislation, regulation or tax rules.

## **Standard B4: Annual scheme review**

Where there are no trustees or Management Committee the employer can demonstrate a schemes compliance with the governance standard if there are regular reviews of the scheme to check that it is well run and is meeting the needs of scheme members. To meet the headline governance standard the employer will need to show that these scheme reviews meet EACH of the following four requirements:

- B4(i) the review occurs at least annually, and there is a formal note of the review which sets out the issues considered and any changes made or actions taken; and
- B4(ii) the review involves consultation with scheme members, such as through a staff survey, or through direct involvement of staff representatives in the review process and meetings; and
- B4(iii) the review involves input from someone with knowledge and understanding of pension issues, such as someone who has completed relevant training or who has a relevant qualification; and
- B4(iv) the review must cover the key issues relating to how well the scheme is run and whether it is meeting employees needs. A list of issues that it is good practice to review are set out in Box 1 on page 7. The employer must demonstrate that some of these key issues have been reviewed in the last year for the standard to be met.

## **Standard B5: Simple investment options**

The scheme must offer simple investment options so that scheme members do not have to choose between large numbers of funds unless they are willing to do so. To meet this standard the scheme must meet at least ONE of the following 3 requirements:

- B5(i) there is a default investment option for new members; or
- B5(ii) there is a simple choice from a limited range of risk-rated funds; or
- B5(iii) where there is a wider choice of funds, face-to-face or interactive information, guidance or advice should be provided for new members to help them make an investment choice.

## **Standard B6: Charges**

Average total charges, including all administration and fund management charges that are paid by scheme members (including both current and past employees) must be not more than a 1% Annual Management Charge. The standard applies to any default fund, or limited range of risk-return rated funds that are offered as a simple choice for new members (see standard B5), or any other funds which are used by more than 20% of scheme members.

## C: The PQM 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 standard schemes must:

- provide employees with initial, on-going and at retirement communications that are clear and engaging so as to enable members to take decisions about their pension and retirement (C1);
- meet ALL the three standards on initial (C2), ongoing (C3), and at retirement communications (C4); and
- ensure that all written communications also pass a standard on the quality of written communications (C5).

### Standard C1: **Headline Communications Standard - clear and engaging communications**

Employees must be provided with initial, ongoing and at retirement communications that are clear and engaging, and provide the information necessary for members to take decisions about their pension and retirement.

### 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).

### **Standard C3: Ongoing communications**

The employer or scheme must ensure that ongoing communications are provided to scheme members to maintain their engagement and help them consider any action relating to retirement saving that they might need to take.

The ongoing communications must meet at least one of the following requirements:

- C3(i) face-to-face or telephone communications to scheme members, for example through group seminars, one-to-one meetings or a telephone helpline; or
- C3(ii) tailored individual information is provided to scheme members, for example by providing online access to the individuals pension account or to a pension calculator; or
- C3(iii) generic information for scheme members, for instance through a newsletter or written update or through a regularly updated internet or intranet site.

### **Standard C4: At retirement communications**

The employer or scheme must demonstrate that scheme members approaching retirement age receive information and support to help them think about their options, including the Open Market Option.

### **Standard C5: Quality of written communications**

All written communications that are provided to demonstrate the scheme meets standards C2, C3 and C4 must be clear and engaging. Box 2 lists good practice suggestions for making written communications clear and engaging. The written communications provided must demonstrate some of these good practice points.

#### **Box 2: Good practice suggestions for making written communications clear and engaging**

- The communication should avoid jargon or technical language that will not be understood by the average employee.
- Documents should be short (1-2 sides), or have the most important key messages highlighted in a short summary section or covering letter.
- Choices must be set out in a clear and simple format that allows employees to compare options and make decisions.
- Communications should encourage scheme members to make decisions and take action where appropriate, such as by reviewing their contribution level or fund choice, or considering their options on retirement.
- Bullet points, pictures, charts or diagrams should be used where appropriate to make the information easier to visualise and understand.