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Mandatory occupational pensions

To be introduced in 2006

FINANSDEPARTEMENTET

Ministry of Finance

The Act relating to mandatory occupational pensions entered into force on 1 January 2006.

The Act means that most employers must have an occupational pension scheme for their employees. Employers who already have an occupational pension scheme must ensure that the scheme satisfies the Act's minimum requirements. The Act does not apply to employers who have a pension scheme in accordance with legislation or collective agreements that apply to state or local authority employees.

The introduction of mandatory occupational pensions is an important contribution to the efforts to secure everyone an adequate pension, and it will ensure that most employees earn pension entitlements that supplement the National Insurance pension.

About the mandatory occupational pension

Employers must either have a defined contribution or a defined benefit pension scheme. Defined benefit schemes provide pre-defined benefits, usually a certain percentage of the members' salary on retirement. In defined contribution schemes, employers pay a pre-defined annual contribution. Defined contribution schemes are offered by banks, life insurance companies, pension funds and companies that manage securities funds. Defined benefit schemes are offered by life insurance companies and pension funds.

Employers will pay contributions into the scheme every year, so that employees earn pension entitlements. The contribution must be at least two per cent of the employees' earnings between 1 G and 12 G (G = the National Insurance basic amount) in a defined contribution scheme. A corresponding requirement applies to defined benefit schemes. In addition to the contribution, the pension scheme shall also contain an insurance element that ensures that employees continue to earn pension entitlements in the event of disability. It is permitted to exclude employees under the age of 20 and those in part-time employment of less than 20 per cent of a full-time position from the pension scheme. Employees may be required to also contribute to their own pensions, but such contributions will not reduce the minimum requirement for employers' contributions. Employers are also obliged to cover the costs of administering the pension scheme.

The main rule is that pensions shall be paid for at least 10 years from the age of 67 years. The size of the annual pension will depend on several factors. In contribution schemes, pension payments will depend on the size of the contribution, the number of years contributions have been paid, the return on the pension assets and the length of the period during which a pension is paid. In defined benefit schemes, the pension will normally be stipulated as a certain percentage of the employee's salary on retirement. The size of the annual pension will therefore depend on how many years the employee has worked and his/her salary on retirement.

Employers intending to establish a pension scheme

Employers' associations and trade unions will probably be willing to help with information. Many of them are also expected to negotiate schemes on behalf of their members. It is also possible to contact the different suppliers of defined contribution and defined benefit occupational pension schemes.

Employers who already have a pension scheme

In general, the minimum requirements for mandatory occupational pensions apply to all employers covered by the Act. This means that occupational pension schemes that were established before the Act relating to occupational pensions entered into force will also be obliged to comply with the stipulated minimum requirements. Employers must therefore check that their schemes are in compliance with the minimum requirements.

The scheme shall take effect from 1 July 2006 at the latest

The deadline for establishing an occupational pension scheme that satisfies the minimum requirements is 31 December 2006, but the scheme shall have economic effect for employees from 1 July 2006.