

Money Purchase Definition – Do You Know What You Are Dealing With?

In our briefing "[Be Ready for Money Purchase Mayhem!](#)" we highlighted that the new statutory definition of "money purchase benefits" could affect all pension plans that provide any defined contribution benefits at all – including defined benefit plans offering money purchase benefits from additional voluntary contributions. It is vital that trustees and employers understand the classification of the benefits provided by their pension plan to determine how those benefits must be administered and funded going forward.

The Government has indicated that the new statutory definition and supporting legislation will be brought into force in early July 2014. The new definition will apply retrospectively, from 1 January 1997. There was considerable concern within the pensions industry that, where benefits within a pension plan have previously been treated as money purchase benefits but no longer fit the new definition, trustees and employers would have to revisit decisions taken and benefits paid in the past, all the way back to 1997. To address these concerns the Government has produced regulations containing transitional provisions, which (except in a few limited circumstances) provide that trustees and employers will not have to revisit or unravel past actions.

Now the focus is on future benefit provision. Trustees and employers whose pension plans contain any form of defined contribution benefits (including those offered by way of additional voluntary contributions) should assess whether those benefits fit within the new legal definition of money purchase benefits. If this is not the case then the implications may be far reaching, affecting, for example, issues such as: the funding of the pension plan, eligibility for PPF protection, increases applied to pension benefits, the distribution of assets on winding-up, and various administrative practices.

Action

We recommend that trustees and employers seek advice as a matter of urgency to clarify the legal status of the benefits provided by their pension plan. Without this clarification trustees run the risk of failing to comply with the appropriate areas of legislation applying to non-money purchase benefits.

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