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### **Pension Quality Mark**

The Pension Quality Mark (PQM) has been revised and updated for 2019 to reflect changes in regulation and practice since its introduction in 2009.

To meet the new PQM standards, employers must commit to enrol all employees into a defined contribution pension scheme with a minimum contribution of 12% (with at least 6% provided by the employer).

The PQM Plus requires an employer to automatically enrol employees at 15% of pensionable pay, of which the employer must pay at least 10%.

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### **Background**

The PQM is an accreditation for workplace defined contribution (DC) pension schemes. It was introduced in 2009 by the NAPF now the Pensions and Lifetime Savings Association (PLSA) to help achieve better retirement outcomes for DC pension scheme members.

The PQM is intended to enable employers to promote good quality DC schemes to employees and potential recruits. The introduction of auto-enrolment (AE) in 2012 ensured that millions more people are saving towards their pension. AE has been a great success, with low opt-out rates, as pension scheme members have continued saving either by choice or inertia. AE contributions are now at their highest level, with some members receiving contributions as high as 9%. There is, however, a danger that those contributing at AE minimum rates will assume that this is an adequate level to provide them with a dignified retirement.

The PLSA has recognised this risk and has now raised the bar for the PQM to further differentiate PQM schemes from those that just meet the legal obligations.

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## The revised PQM standards

In order to achieve a dignified retirement, most people need to be saving more into their pensions. With people now living longer, and the state pension age increasing, this has never been more of an issue than it is now!

It is important to note that the PQM does not solely focus on contributions and employers must also:

- Provide the trustee board or pension committee with adequate support and resources to operate effectively.
- Encourage participation in the pension scheme and, where appropriate, higher contribution rates than the PQM minimum.
- Support retiring members of the scheme in making pension decisions.

However, clearly, a major part of the PQM is the level of contributions. The new standards now require an employer to automatically enrol employees at a minimum of 12% of pensionable pay, of which the employer must pay at least 6%. The PQM Plus (the more elite version of the PQM) requires an employer to automatically enrol employees at 15% of pensionable pay, of which the employer must pay at least 10%.

The main differences introduced by the new PQM standards are the increase in the contribution level from 10% to 12% and a requirement that employers must automatically enrol all employees into the pension scheme at least at the new PQM level. Previously the PQM levels could be offered as an opt-up option, but this is no longer the case.

## Comment

Buck supports the PLSA and the new PQM standards – anything which raises awareness of saving adequately for retirement can only be a good thing. However, the risk of mistakenly assuming that a dignified retirement is automatic still applies and so the need for greater personal awareness of retirement outcomes is still very real.

The PLSA's Retirement Living Standards ( <https://www.retirementlivingstandards.org.uk/> ) is an important initiative to help people get a better idea of potential retirement income needs, and this will hopefully support pension members in thinking about their own personal retirement goals. The reality is that many people may need to save more than 12% of their salary throughout their working career in order to meet their retirement objectives, but initiatives like the PQM and Retirement Living Standards, should help to build awareness of what good retirement planning looks like and avoid the risk of a generation of disappointed DC savers!

In reality, persuading some people to save 12% – let alone 15% – of their monthly salary into their pension can be a hard sell, even with a large employer contribution. Other commitments, such as saving for a house, or bringing up a family, may well be more pressing than focussing on a retirement many decades away. We are seeing a growing trend of employers combining pensions with shorter term saving products, such as ISAs and Lifetime ISAs, to support a more holistic saving culture.

This does however jeopardise these employers' chances of qualifying for PQM so we are encouraging the PQM to consider this when they next review their requirements.

The bottom line is that many DC pension scheme members are not saving as much as they should be. As a nation, too many people stay in AE defaults and have inadequate savings overall.

We believe that employers and employees need to be thinking about adequate saving across all financial objectives, not just retirement, however, the new PQM standards will improve outcomes for PQM scheme members and help shine a light on the potential deficiencies of minimum AE contribution levels.

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