Sagicor

overview

An Employer Sponsored Pension Plan (Superannuation Fund) is a special retirement savings vehicle with its main aim being to provide contributors with a reasonable replacement income after they reach their retirement age. These arrangements are also referred to as occupational schemes. Superannuation Funds are governed by Trust Law, Income Tax Act and also by the Pension Act (2004). It is a trust arrangement where an employer places assets in the care of trustees to ensure the provision of a pension for members of the plan who are the beneficiaries of the trust. The trustees therefore have full management and administration rights and responsibilities for the assets but these rights must be exercised to the full advantage of the beneficiaries of the fund. The main advantages of operating these funds are as follows:

- contributions are deducted before tax
- contributions earn tax free interest
- the employer's contributions on behalf of a member are also tax free

The participants in the operations of these funds are:

- the trustees
- the employer
- professional advisors (Consultants, Investment Managers, Administrators, Actuaries, Auditors and Lawyers)
- the Financial Services Commission
- the Taxpayer Audit & Assessment Department (now TAJ)

Who may join the Superannuation Fund?

All permanent male and female employees of a company, that satisfy that company's probationary period. The eligibility criteria are set out in the plan's rules.

Contribution requirements of a Superannuation Fund

Typically an employee is required to pay into a pension fund an amount referred to as his "compulsory contributions". A great majority of pension funds require that this amount be 5% of salary, however, it can vary from plan to plan and is set out in the plan rules. This amount is deducted from a member's salary before determining his taxable income. A member can also choose to pay an additional amount referred to as his "optional contributions".

The total compulsory and optional contributions can be 10% or more of salary given what the employer contributes. This is in keeping with the recent Validation Act (2013). There are, however, plans to which only the employer contributes. These are called non-contributory plans. These are, however, in the minority in Jamaica.

Defined Benefit Plans vs. Defined Contribution Plans

In the case of a Defined Benefit Plan, the employer will contribute on behalf of each member, once the plan is a contributory plan, in accordance with the amount required to fund retirement benefits for all members. This is usually defined in the rules as a "balance of cost" to fund the promised benefit.

With Defined Contribution Plans, the employer contribution typically matches the amount the member pays as his compulsory contributions.

FAQs