

Scheme Member Zone

What is a hybrid scheme?

*One of a series of Factsheets and Quicknotes in the Module:
Types of Pension Scheme*

Information
Education
Communication



Pensioner Members



What is a hybrid scheme? Pensioner Members

This Quicknote describes what a hybrid scheme is.

- ▶ [Introduction](#)
- ▶ [What is a hybrid scheme?](#)
- ▶ [Sequential hybrid scheme](#)
- ▶ [Combination hybrid scheme](#)
- ▶ [Summary](#)

Introduction

There are many types of pension scheme offered by employers for their employees. This Quicknote summary should provide you with a brief explanation of what a 'hybrid' pension scheme is. For a more detailed description of the main types of scheme, please see our Factsheet [Types of employer sponsored pension schemes](#).



What is a hybrid scheme?

A hybrid scheme is a defined benefit scheme which includes elements of money purchase pension design.

In a defined benefit scheme your pension scheme will use a *formula*, to calculate your pension benefits using 4 key elements. The formula (and the definitions for each part of it) will be set out in the Scheme Rules. See our Factsheet, [What is a defined benefit scheme?](#)

A money purchase scheme provides benefits based upon the amount of money that is in YOUR own pension 'pot' when benefits are due to be paid. See our Factsheet, [What is a money purchase scheme?](#)

Hybrid arrangements come in many forms, but there are two common themes.

Sequential hybrid scheme (commonly called 'nursery schemes')

A sequential hybrid pension scheme, is where one specific type of pension benefit is accumulated *first* and is then *followed* by the second pension arrangement.

An example sequential hybrid scheme

- An employer provides the scheme members with 'money purchase benefits' until say, age 45, which are then held until the benefits are due.
- *Thereafter*, scheme members accumulate their pension benefits in the form of 'defined benefits'.

When benefits become due (retirement, death etc), members (or their dependents) get **both** the 'money purchase' **and** the 'defined benefit' provisions.

It is possible that this type of arrangement may now be challenged in the Courts under Age Discrimination Regulations, the pensions aspects of which became effective from 1st December 2006.



Combination hybrid scheme

A combination hybrid pension scheme can be where pension benefits are built up **at the same time** in **both** defined benefit **and** money purchase elements of the pension scheme.

An example combination hybrid scheme

- An employer offers scheme members pension benefits based upon defined benefits up to a salary 'cap' of say, £30,000 p.a.

plus

- For members whose salary is greater than this amount, additional money purchase benefits are accumulated in a separate 'pot' (the contributions to that part of the scheme would normally be based upon earnings above whatever salary 'cap' had been specified).

There are many variations to combination hybrid schemes.



Summary

People seldom have identical pensions and you should avoid drawing comparisons with colleagues whose circumstances may at first appear the same but could emerge as having significant differences.

This Quicknote forms part of our Module [Types of Pension Scheme](#) and should be read alongside the other Factsheets and Quicknotes in the series.

This is not an authoritative document. Seek professional advice from an appropriately experienced and qualified adviser.

What is a hybrid scheme v3.1 Generic
Last updated 22/12/2006



This Factsheet contains general information on particular points of interest associated with pensions but is not intended to be a complete or authoritative guide. MyCompanyPension.co.uk Ltd is not registered with the Financial Services Authority and does not give advice under the terms of the Financial Services and Marketing Act 2000. This Factsheet does not constitute any form of advice or recommendation and should not be relied on in making (or refraining from making) any specific personal or business decision.



MyCompanyPension.co.uk Ltd
PO Box 240
Telford
TF6 5YN

enquiries@mycompanypension.co.uk

©MyCompanyPension.co.uk Ltd 2007

A member of the
NAPF 
Securing the future of pensions

