Pensions
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Core Unit 1A – Providing for Retirement

Assignment 1 Notes
(Part 1 – Providing for Retirement)

Recommended Time: 1 Hour

1. List 5 principles of the Department of Work and Pensions (DWP) Style Guide.

5 Marks

The list should include five of the following seven key principles:

- [the member] feeling in control.
- What's in it for [the member].
- Make it relevant.
- Clarity of roles [who to go to for information].
- Overcome contextual barriers.
- Accessible presentation [aimed at the right level, well set out etc.].
- Establish baseline knowledge and confidence [use straightforward language, establish basic concepts before detail etc.].

In addition, the guide recommends a consistent use of diagrams.

(Relevant section of the manual is Part 1 Chapter 2.4.4.)

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2. Outline some of the typical options available for retirement saving in addition to pension savings.

10 marks

A full answer should include an outline of the following:

- ISAs / NISAs (From 1st July 2014 the New ISA (NISA) was launched but the term ISA is still commonly used including by the government) / LISAs. ISAs can be in cash, stocks and shares, Innovative Finance or Lifetime. It is possible to save in one of each type of ISA during a single tax year.

- Corporate wraps Gives employees access to the widest possible range of investment opportunities but with none of the historical restrictions. Allows employees to contribute through their payrolls into a choice of ISAs, pensions, and investment accounts. The employee can manage the workplace and personal financials in one place.

- Property. Possibilities include Buy to let where you buy property to rent it out. Should only be used as part of a more diversified strategy. Principal Private Residence via downsizing where you buy a cheaper property to release equity or Equity Release where you generate income via a loan secured on the home or part of it but continue to live in it during their lifetime. SIPPS -Self-Invested Personal Pensions can be used to invest in commercial property.

(Relevant section of the manual is Part 1 Chapter 2.3)

3. Explain the EET Principle.

10 marks

You need to include each syllable of the acronym here to explain the Principle.

To be eligible for this tax treatment the scheme had to be established under trust; and its sole purpose had to be the provision of annuities for former employees on their retirement.

Answer should cover the following:

- Contributions **E**xempt from tax… Pension contributions qualify for tax relief-they are paid into the scheme from an employee's gross pay before tax, so that for a 20% taxpayer a £100 contribution would only cost £80.
- Investments built up largely **E**xempt from tax…Pension contributions are invested, with the aim for t hem to grow in value. Any returns on investments are largely exempt from tax.
- Pensions payable subject to **T**ax…Retirement income is taxed in the same way as employment income e.g. 20% for a basic rate tax payer.

(Relevant section of the manual is Part 1 Chapter 1.4.1)

4. Explain the new pensions freedom and contrast it with capped and flexible drawdown.

10 marks

Answer should cover the following:

Capped Drawdown –

- Finance Act 2004 (as modified by Finance Act 2005).
- Member permitted to take varying amounts each year subject to a maximum set by regulation.
- No minimum amount to be taken.

Flexible Drawdown –

- Finance Act 2011.
- Minimum Income Requirement – initially set at £20,000.
- Individuals no longer an active member of any scheme.
- No limit to drawdown amount.

New Pensions Freedom –

- Taxation of Pensions Act 2014 effective 6 April 2015.
- All Defined Contribution pots.
- No Minimum Income Requirement – income from other sources irrelevant.
- All scheme members aged 55 or over [some members would need to transfer]
- Members can choose how much to take as and when they want.

(Relevant section of the manual is Part 1 Chapter 1.4.4.)

5. Identify the changes to State Pension Ages outlined in recent Pensions Acts.

5 marks

Answer should cover the following:

- Pensions Act 2007, State Pension Age to gradually rise to 68 by 2046
- Timetable modified by Pensions Acts of 2011 and 2014.

Currently as follows for men and women:

- From 65 to 66 between 2018 and 2020 (Pensions Act 2011).
- .From 66 to 67 between 2026 and 2028 (Pensions Act 2014)
- From 67 to 68 between 2044 and 2046 (Pensions Act 2007).

Periodic reviews at least once every six years (Pensions Act 2014).

The reviews will seek to give individuals affected by changes to their SPA at least ten years' notice.

(Relevant section of the manual is Part 1 Chapter 2.2.3.)

6. Outline the payment and contribution requirements of the New State Pension.

5 Marks

Answer should cover the following:

- New State Pension for those who reach State Pension Age on or after 6 April 2016.
- Transitional arrangements for those who have built up an entitlement to the Basic State Pension and/or S2P at that date.
- Amount above level of single person guarantee credit.
- Option to defer or suspend payment.
- Paid at full rate to individuals with 35 or more "qualifying years"
- Proportional amount paid to those with "qualifying years" – option to increase amount by paying voluntary national insurance contributions.
- Annual increase in payment.

(Relevant section of the manual is Part 1 Chapter 2.2.4.)

7. List 5 aspects of the Disclosure Regulations as they apply to occupational pension schemes.

5 marks

From 6 April 2014 most of the disclosure requirements relating to pension schemes are contained in the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013.

List should include five of the following:

- Certain information to be given to all members on joining and updated when it changes.
- Members can request certain information.
- A trustees' report must be prepared annually, made available on request.
- Information to be given to members when they leave or retire (wake up pack for DC members) and if member were to die to the member's beneficiaries.
- Summary Funding Statement.
- Annual Benefit Statements automatically (money purchase) or on request (non-money purchase).
- Annual Pension Savings Statements (those accruing large pension benefits).
- Benefit crystallization events: lifetime allowance used.
- Transfer of safeguarded benefits: request for advice.
- Information on specific events such as winding up.

(Relevant section of the manual is Part 1 Chapter 2.4.2.)