Pensions Management Institute
Moving pensions forward

Core Unit 1A – Providing for Retirement

Assignment 4 Notes
(Part 4 – Workplace Pensions)

Recommended Time: 1 Hour

1. Explain who may establish a personal pension.

5 Marks

Answer should cover the following:

Only an authorised pension provider as defined by the FCA, may establish a personal pension. These are insurance companies, building societies, banks, unit trusts and friendly societies.

(Relevant section of the manual is Part 4 Chapter 1.2.4)

2. A stakeholder pension is a particular type of personal pension subject to additional requirements. Outline these additional requirements and the requirement to provide a stakeholder pension scheme.

10 Marks

Answer should cover:

Additional Requirements –

- Limit on annual management charges. They cannot exceed 1.5% of the fund's total value during the plan's first ten years. After this time the charge may not exceed 1% of the total fund.
- Must accept transfers in and no charge may be made for transfers to other stakeholders.
- Providers can stipulate a minimum contribution, but this must not exceed £20 including tax relief.
- Default Investment Option.

Requirement to provide a stakeholder pension scheme -

- From 8 October 2001.
- Every employer with five or more employees unless satisfy certain conditions.
- Abolished from 1 October 2012 for new members.

However existing members must be allowed to remain in the scheme, and where employees are already contributing to a stakeholder, the employer remains under an obligation to continue deducting contributions and remitting them to the provider until such time as the employee leaves or choses to stop payment.

(Relevant section of the manual is Part 4 Chapter 1.2.7)

3. Outline the main features of a Cash Balance Scheme, explaining the similarities to a Money Purchase Scheme.

10 Marks

Answer should cover the following:

Main Features:

- Cash sum defined at outset.
- Employer pays in whatever level of contributions is necessary to provide this lump sum.
- At retirement lump sum used to purchase a pension (may take part as lump sum).
- The rules might set out what the employer's minimum contribution rate is and stipulate a rate of investment return to be allocated such as 7% pa.

For example, a company might set up a cash balance scheme where members pay 5% of salary each year and in return get a lump sum at age 65 of 20% of final salary for each year of membership. So, a member with ten years' service when he reaches age 65 will have a pot equal to twice his final salary, and will use this to buy a pension (although in common with other schemes, part of the benefit can usually be taken in the form of a lump sum).

Similarities to Money Purchase Scheme:

- Contributions paid by employee and employer and invested.
- At retirement lump sum used to purchase a pension (may take part as lump sum).
- Although the cash value of the benefit at retirement is defined the amount of pension that the member will receive is not known in advance and will depend on market conditions prevailing when the member retires.

(Relevant section of the manual is Part 4 Chapter 2.1.5.)

4. **Describe a Group Personal Pension Arrangement and how it might be used by a company for pensioning its workforce.**

10 Marks

Answer should cover the following:

A Group Personal Pension (GPP) is used by an employer wanting to use personal pensions for its employees.

A GPP is a collection of individual personal pensions taken out with the same provider with eligibility confined to employees / former employees of that employer (company or group of companies). Economies of scale may lead to beneficial terms.

GPPs share many features of an Occupational Pension Scheme. Contributions are tax deductible. But relief on member contributions is given on a Relief at Source basis. This is simpler in principle for the company, but any higher rate relief must be reclaimed by the member via self-assessment or requesting a coding adjustment.

Usually, the employer will contribute to the GPP and these contributions will normally be deductible against corporation tax. While a GPP is not an occupational pension scheme, it shares some of the characteristics of one. The GPP can often be branded with the company's name and logo and to the member it appears much like an occupational money purchase scheme.

(Relevant section of the manual is Part 4 Chapter 1.2.2.)

5. **Describe a "self-administered pension scheme".**

5 Marks

Answer should cover the following:

- Relates to way scheme assets are invested not the manner to which the scheme is administered.
- Trustees usually seek separate organisations to provide fund management and administration services.
- Tend to be schemes of a size to warrant more control by trustees.
- Trustees monitor investment performance and change investment managers in the light of poor performance.

(Relevant section of the manual is Part 4 Chapter 2.3.4.)

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6. **Describe a cross border scheme and the requirements for an occupational scheme with its main administration in the UK.**

10 Marks

Answer should cover the following:

- A scheme designed to allow cross border activity for example where a multi-national company operates in a number of EU Member States through subsidiary companies and wishes to consolidate pension arrangements in one Member State and where an employer in one EU Member State wishes to site its pension scheme in another Member State for commercial reasons.
- Registration by a relevant supervisory body.
- Technical provisions calculated based on actuarial methods recognised by the Member State.
- Effectively run by persons of good repute.
- Governed by properly constituted rules.
- Commitment to meet costs regularly by sponsoring employer where employer guarantees payment of benefits under it.
- Scheme members sufficiently informed.
- European Pensions Directive – requirement technical provisions to be fully funded. Where the valuation for a cross border scheme shows that the scheme is underfunded, the deficit must be made up within 24 months. An existing scheme applying for authorisation to accept cross-border contributions must be fully funded at the time of the application. A newly established scheme that wants to accept cross-border contributions has 2 years from the date of its application for authorization to reach full funding, for this reason cross-border schemes are rare.
- The effect on the UK's decision to leave the EU is currently unclear.

(Relevant section of the manual is Part 4 Chapter 2.3.3.)