**Core Unit 3 – Running a Workplace Pension Scheme**

**Assignment 1 notes**

(Part 1 – Design and Part 2 – Automatic Enrolment)

Recommended Time: 1 Hour

1. **In addition to holding a record of the contribution type or ‘stream’, list the information the administration team should also hold for each member.**

Answer should cover:

* Date contributions are received
* Date contributions are invested
* Transaction history of units bought and sold such as where:
* Contributions have been invested for the member
* There has been a switch in investment funds following a change in the member’s
* investment strategy or as a result of lifestyling
* The member’s unit allocation has been rebalanced so that the monetary value of the unit holding between each investment fund matches the member’s investment strategy
* There has been a disinvestment, either in part or in full, due to a transfer (e.g. pension sharing order) or the member crystallising benefits
* Unit prices for each fund for any date on which investment or disinvestment transactions take place
* As well as fund holdings for each member, the system may also be required to hold separate investment holdings, which can result from processing short service refunds to members where the employer investment amount is not disinvested. These amounts are often held as a balancing item and may be referred to as an ‘unallocated account’.

# 10 marks

1. **Briefly explain Middleware.**

Answer should cover:

Middleware is computer software that sits between different software applications to provide additional functionality from that already provided. This type of solution is often provided by a third party where the replacement or development of the current systems would be too costly or time restrictive to meet the specified requirements.

This software solution has been adopted by many employers to facilitate their duties for automatic enrolment. Successful implementation of middleware is critical for these duties as there is specific information that has to be passed between an employer’s payroll, HR and pensions functions to ensure that worker assessments and reporting requirements are met.

**10 marks**

1. **List the criteria that defined contribution contract based scheme must meet to be a qualifying schemes for automatic enrolment.**

Answer should cover:

The minimum contribution rates and default investment fund charge cap are the same for contract based pension arrangements as for occupational schemes, however the following supervisory criteria must also be met:

* UK schemes must be subject to regulation by the Financial Conduct Authority (FCA);
* operations for UK schemes must be carried out by a person authorised under section 19 of the Financial Services Market Act 2000;
* only defined contribution benefits may be provided;
* there must be a legally binding obligation on the employer to pay minimum contributions in respect of the jobholder to the provider;
* direct payment arrangements must exist for the employer to collect and pay over contributions to the provider.

**5 marks**

1. **Explain why real time online switching is not the standard approach in practice.**

Answer should cover:

Real time switching is becoming more common, but is not a standard approach for several reasons:

* Technology solutions can be costly
* Trustees/managers are wary of members making a decision and this being implemented without the administrators first having sight of the action, due to:
* Worry that the dealing cycles may not be understood by the members, for example, the concept of time out of the market if the switch is between fund managers
* Members may not understand that they have to request the switch by a certain cut off
* point or that day’s cycle is missed
* Members may not understand that the price they see on the screen will not be the price used for the deal
* The trustees could be charged per transaction and unlimited switching could increase the costs of administration considerably
* Technology is a major barrier:
* Interfaces between pensions administration systems and investment dealing systems are rare, unless responsibility for the administration and investment management are with the same provider and they have developed integrated systems. Where they do exist, it often only works if the different funds are on the same platform.
* Until recently, there was an unwillingness to take responsibility for building or paying for the integration between the different platforms. This, however, is starting to change with the advent of straight through processing.
* Until recently, there was no industry standard means of communicating electronically between investment managers and different administration platforms. Indeed, some providers have not yet adopted straight through processing.
* Members may not have access to the internet or may lack confidence in making decisions in this way

**10 marks**

1. **List the advantages of providing static online information.**

Answer should cover:

The advantages of providing static online information are that it:

* Can be amended within hours rather than weeks or months
* Can be amended for very little cost
* Does not involve the costs associated with reprint as with hard copies
* Is possible to direct members to the website for instant access to up to date information
* Is possible to email members and potential members the hyperlink to the pension website
* Saves money on stationery and postage

**5 marks**

1. **Explain the different information requirements for an employer under their automatic enrolment duties.**

Answer should cover:

The different information requirements for an employer are to give:

* information to eligible jobholders and the trustees, managers or provider of pension schemes as part of the automatic enrolment, re-enrolment and enrolment (opt-in) process
* information to jobholders with a right to opt in and entitled workers with a right to join that explains both the right of a jobholder to opt in to an automatic enrolment scheme and the right of an entitled worker to join a pension scheme
* information about postponement, where an employer chooses to use postponement
* information about the transitional period for schemes with defined benefits, where an employer chose to use the transitional period

**5 marks**

1. **List the common reasons why employers may decide to use postponement.**

Answer should cover:

* Common reasons for employers deciding to use postponement include:
* to avoid automatically enrolling temporary staff whose employment does not last beyond the end of the postponement period
* it allows workers to be re-assessed at a point when earnings are more likely to be representative of typical levels
* high staff turnover
* management of peaks in earnings
* to facilitate payroll processing (e.g. alignment of weekly and monthly pay reference periods)

**5 marks**