

Core Unit 1A – Understanding Retirement Provision (UK)

This was a 2-hour exam split between multiple-choice questions and free-format questions. Equal weighting of marks was given to both sections.

Multiple-choice questions

There were 50 questions, each correct answer being worth 1 mark. There were two types of question, as follows:

- 40 questions where candidates select one correct answer from a choice of four possible answers, and
- 10 questions where candidates are given two statements and have to determine whether both are true, the first is true and the second is false, the first is false and the second is true, or both are false.

The questions were broadly representative of the entire syllabus.

In general, candidates achieved good scores on the multiple-choice questions.

For the multiple-choice questions areas that candidates answered less well covered the following areas of the syllabus and study material:

Subject	2019 study manual reference
State pension age	Part 1, Chapter 2.2.3
National Insurance Contributions and Employer Office	Part 2, Chapter 1.11.2
Investment adviser	Part 2, Chapter 1.19.2
Insurer	Part 2, Chapter 1.22
Public sector schemes	Part 4, Chapter 2.3.1

Short answer questions

There were eight short questions where candidates were required to write their answers in free format. Candidates are encouraged to devote one hour to this part of the examination. Most candidates did not score as highly on this part of the paper as they did on the multiple-choice section.

Question 1

Outline the main features of the NEST. (7 marks)

There was a wide range in the quality of answers to this question, with some candidates obtaining maximum marks whilst others scored very poorly. Most candidates noted that NEST is a defined contribution occupational pension scheme using a master trust. Candidates who achieved high marks also made reference to the charges, the default investment funds, the ability of individuals to carry on contributing when they change jobs, and the fact that the employer has no role in managing the scheme.

A number of candidates concentrated their answer on automatic enrolment arrangements rather than describing the features of the NEST.

The relevant section of the study manual is Part 3, Chapter 3.3,

Question 2

Describe the compensation payable to members when a scheme's assets and liabilities are transferred into the Pension Protection Fund. (8 marks)

Most candidates were able to demonstrate some knowledge of this subject and answered this question reasonably well. Many were aware of the cap and the fact that the cap is increased for members whose service in the scheme that entered the PPF exceeded 20 years. Details such as LPI increases and the 50% spouse's pension on death were often missed.

Some candidates focussed their answer on the benefit priorities on the winding-up of a pension scheme which was outside the scope of the question set.

The relevant section of the study manual is Part 2, Chapter 1.8.2.

Question 3

Outline the main features and purposes of a free-standing additional voluntary contribution (FSAVC) arrangement. (5 marks)

As with question 1, there was a wide range of scores indicating that whilst some candidates had clearly studied this topic, others evidently had not. A common error was to confuse the facility to pay voluntary contributions within the member's pension scheme with FSAVCs, with the former being arranged by the scheme's trustees and the latter being an individual arrangement effected by the member which is not connected to their pension scheme.

Few candidates stated that FSAVCs were taken out when there were restrictions on members of occupational schemes being able to concurrently contribute to a personal pension.

The relevant section of the study manual is Part 1, Chapter 1.6.3.

Question 4

Write a brief description of the pension advice allowance. (9 marks)

Candidates generally understood the concept of the pension advice allowance and those who were able to provide detailed information achieved good marks. Most correctly stated that up to £500 can be taken once per tax year and up to three times in total, to pay for retirement financial advice which is paid directly from the scheme to a regulated adviser. Not so many candidates stated that it can only be deducted from money purchase arrangements, and fewer still referred to the self-declaration system or that offering the facility is not mandatory.

A number of candidates summarised the 'pension freedoms' changes introduced on 6 April 2015 which was not required.

The relevant section of the study manual is Part 1, Chapter 2.4.6.

Question 5

Outline the role of the Scheme Actuary in relation to a defined benefit pension scheme. (6 marks)

In general, this question was answered fairly well by the majority of candidates. Answers generally made reference to assessing the scheme's funding position, valuations, advising on

the suitability of the schedule of contributions and the actuary's role in determining transfer values and early/late retirement factors. Few, however, referred to the calculation of 'section 75' debts.

The relevant section of the study manual is Part 2, Chapter 1.19.3.

Question 6

Identify the key design features of a stakeholder pension scheme that are additional requirements to those of an ordinary personal pension. (5 marks)

Results were mixed with some candidates scoring high marks and others scoring poorly. Most were aware that there are limits on the annual management charge but some failed to identify these limits or to state that they are percentages of the fund value. Many candidates had a rough idea that there are rules regarding transfers but a number failed to articulate that a stakeholder pension must accept transfers from other registered schemes of the member, and must not make a charge to pay a transfer to another stakeholder pension. The need for a default investment option was often missed.

Despite the signposting in the question a number of candidates referred to features that would be common to any personal pension arrangement, such as relief at source.

The relevant section of the study manual is Part 4, Chapter 1.2.7.

Question 7

Outline the main provisions of statutory maternity pay. (5 marks)

In the main, candidates scored very well in answering this very straightforward question. Those who stated the following points scored full marks:

- SMP can be paid for up to 39 weeks
- First 6 weeks at 90% of the employee's average weekly earnings before tax
- Remaining 33 weeks at £145.18 per week or 90% of their average weekly earnings if lower
- Tax and National Insurance need to be deducted from SMP payments

The relevant section of the study manual is Part 3, Chapter 2.1.2.

Question 8

In the context of a defined benefit pension scheme, explain the term "Final Pensionable Salary". (5 marks)

Here the examiners were looking for a comment that Final Pensionable Salary is based on the member's salary at or around the time the member leaves the scheme, the exact definition varies from scheme to scheme and is defined in the scheme rules, and that salary may be averaged over a period of time, may or may not include items such as bonuses and overtime, and may be subject to a deduction (such as an amount equal to the Lower Earnings Limit).

Whilst some candidates covered all these points a significant number failed to consider how the final salary may be defined and consequently scores for this question were a little disappointing.

The relevant section of the study manual is Part 4, Chapter 2.1.2.