

PENSIONS MANAGEMENT INSITITUTE
ADVANCED DIPLOMA IN RETIREMENT PROVISION
DEFINED CONTRIBUTION ARRANGEMENTS - OCTOBER 2019

EXAMINERS' REPORT

Overall the standard in this sitting was disappointing by comparison with that shown in the April 2019 sitting. Many candidates had evidently not studied diligently enough and this was apparent in questions 1, 3 and 4 where they showed a lack of knowledge of the subject matter. In many instances the required format of the answer was not adopted so easy marks were missed. A significant number of candidates tended to tell the examiners everything they knew about the subject based on their own experience but did not actually answer the question set so did not advance their position and wasted valuable time. In addition candidates need to make it clear which part of a particular question they are answering to make it easier for the examiners to identify the points made and award credit where this is due.

Once again as in previous years handwriting was on occasions hard to decipher so those candidates who choose to sit their examinations manually would be advised to practise writing answers under examination conditions to hone this skill.

Question 1

You are a Pensions Adviser for ABC Limited whose directors are required to establish a DC occupational pension scheme for their staff. Prepare a report for them which covers the following:

- a) the role of the employer (10 Marks)
- b) the role of the provider (15 Marks)

Generally answers to this question were somewhat vague and did not bring out the factors that were sought. Many waded into long descriptions on auto enrolment and master trusts which although worthy of a mention were not really relevant to the question. Annoyingly some candidates mixed the answers to a) and b) so the examiners had difficulty identifying to which part of the question a particular response related. Hardly any mention of contract based pensions was made which was surprising given how topical they are just now.

In Part a) most candidates appreciated that good member outcomes must be the prime consideration for any employer and the role that the Pensions Regulator plays in this arena i.e. to ensure members are informed adequately and regularly about their pension provision.

Common omissions were:

- In contract based pensions employers should take the lead role and work closely with their provider and adviser to establish an effective governance framework.
- Employer governance committees can help with this task
- An important part of an effective governance framework is to have a clear communications and education programme in place.

In Part b) very few candidates mentioned unbundling and bundling which again was disappointing given that this is how the service offering is split by providers in the arena of pension provision.

Common omissions were:

- Providers of contract based pensions are subject to regulatory oversight by the FCA.
- The Pensions Regulator works with the FCA to ensure the equivalence of governance standards apply to contract based and trust based schemes
- The provider's role may be restricted to being contracted to provide a range of scheme investment funds or an investment platform (this is an example of an unbundled arrangement and the FCA will regulate the provider)
- A bundled service provides not only the scheme investments but also other services such as administration and member communications

The relevant part of the manual is Part 4 Chapter 1.1.1 – 1.2.1.

Question 2

- a) **You are a Pensions Consultant for the DEF Limited Occupational Pension Scheme whose administration has been brought back in-house. Write an email to the Pensions Manager which outlines the objectives of DC scheme administration.**

(10 Marks)

- b) **Outline the requirements the Trustees of the Scheme need to fulfil in order for the Scheme to be administered effectively.**

(5 Marks)

Part a) was quite well answered with most candidates mentioning the deduction of member contributions from their salaries in line with the payment schedule and their remittance to the pension scheme within the statutory time-scales. The application of the contributions to the member's chosen investments funds was clearly brought out as was the need to ensure that any disinvestments and investment switches are actioned promptly.

Common omissions were:

- The need to ensure that the decumulation process is robust
- Members are communicated all the options under the scheme rules and legislation and their choices are promptly processed.

Part b) was less well answered although a good number mentioned the need for the trustees to provide timely and accurate information and to have in place a process for various financial transactions.

Common omissions were:

- The requirement for trustees to understand and reduce the risk inherent in DC administration
- The quality of data and speed with which it is delivered to the administrator is crucial to an effective administration and investment process

- Members request information by a variety of communication methods which means that levels of customer service must match the expectation of the members if confidence in the pension scheme is to prevail.

The relevant part of the study manual is Part 2 Chapter 2

Question 3

A. With regard to self-invested personal pensions (SIPPs)

(a) Explain why SIPPs would appeal to investors

(5 Marks)

(b) Outline the investment options offered by SIPPs

(10 Marks)

NOTE: You are not required to cover contributions and benefits in your answer.

B. Outline the tax conditions applicable to an EFRBS

(10 Marks)

Part a) was well answered with the vast majority mentioning the much wider investment freedom inherent in a SIPP than is available under a personal pension or a stakeholder pension. In essence SIPPs appeal because investors can choose for themselves how their pension funds are invested and SIPPs can accommodate the more esoteric assets which meet the needs of many clients.

Part b) was less well answered, many candidates tended to spend too long describing passive and active investments but omitted to mention others such as certain types of property. Not many covered 'taxable property' which is anything that can be touched and moved and thus could be made available for the enjoyment of the members rather than being used to provide a fund for their retirement. The tax consequences for the members of investing in 'taxable property' were hardly mentioned and the fact that SIPP Providers may introduce their own restrictions to avoid the risk of 'scheme sanction charges' being levied against them. Consequently they do not allow the full range of permitted investments.

On a positive note most candidates mentioned the ability of SIPPs to invest directly in UK equities and overseas equities, UK and overseas bonds, life assurance managed funds, unit trusts, investment trusts and open ended investment companies.

Part C) was again poorly answered; although many candidates mentioned the fact that tax relief for the employer is only available once benefits are put into payment and pensions are subject to PAYE tax very few mentioned that a NIC charge will apply unless benefits are drawn as at least 75% pension.

Other common omissions were:

- The member is neither taxed nor subject to NICs on employer contributions
- Death benefits are subject to IHT
- Any investment returns and capital gains are subject to tax

- In the case of a pre 6th April 2006 EFRB where the employee has been taxed on the employer's contributions and no further contributions have been paid since 6th April 2006 the benefits can be paid as a tax free cash sum and the death benefit lump sum will retain its exemption from IHT
- WEF 6th April 2011 employees are required to pay income tax and NIC on any reward, recognition or loan in connection with the employee's employment

The relevant part of the manual is Part 5 Chapter 2 2.3.2-2.3.4 and Part 5 Chapter 1, 1.4.

Question 4

(a)

(i) Identify the core components of the proposed Pensions Dashboard. (3 Marks)

(ii) Outline the issues which are key to the success of the Dashboard. (9 Marks)

(b) Write brief notes on the creation of a Single Financial Guidance Body (3 Marks)

Answers to Part a) were a mixture with some candidates displaying a sound knowledge of the components whereas others clearly had not learned the material. Many mentioned Digital Identity, Dashboard User Interface and the Pension Finder Service but some did not elaborate on what these terms actually mean in practice. In particular the Dashboard User Interface entails a set of screens, menus and commands through which consumers view information and carry out tasks.

Part b) also attracted a mixed response; many candidates mentioned the calls for the Government to legislate to force every pension scheme in the UK to feed member information into the dashboards. In addition the need for a broader range of contributors to be called upon to deliver support for the work was brought out as was the need to set a minimum level of data required for individuals to be able to find their pensions.

Common omissions were:

- The more expensive elements involved in the development of the Pensions Dashboard have yet to be funded
- Information displayed will need to show contact details so that the member knows where to go to in order to find further information on their benefits
- Subsequent phases are likely to focus on displaying more information on the amount of the benefit due and providing sufficient information to support individual members in their retirement planning including the level of detail a professional adviser would require.

Part C was well answered with most candidates mentioning the Financial Guidance and Claims Bill which received Royal Assent in May 2018. Happily most made the point that the Act allows for the merger of the existing services provided by Pension Wise, the Pensions Advisory Service and the Money Advice Service.

The overriding aim is to ensure that savers are able to access free and impartial pensions and money guidance as well as debt advice.

The relevant part of the manual is Part 6, Chapter 1, 1.2.

Question 5

- (a) From the standpoint of eligibility outline the factors to be considered by an employer in the design of a DC scheme.**

(5 Marks)

(b)

- (i) Explain the term 'salary sacrifice'.**

(2 Marks)

- (ii) Outline the advantages of 'salary sacrifice'**

(3 Marks)

Part a) was generally well answered; most candidates brought out the minimum and maximum age requirements and the minimum service requirement. It was pleasing to see that some mentioned restricted membership in order to cover a specific section of the workforce such as executives.

Common omissions were:

- A DC scheme may be set up specifically to cater for employees who were formally in a company DB scheme which has closed
- The minimum and maximum age for admission to a scheme is one of the many exemptions in the Age Discrimination legislation

Parts b (i) and b (ii) were well answered, most candidates understood that employees do not contribute directly to the pension scheme if salary sacrifice is chosen and the fact that employee contributions which are subject to NIC become employer contributions which are not subject to NIC.

Some however did not grasp that salary sacrifice is a low cost way of increasing the efficiency of pension contributions as essentially members can make the same contribution to their pension but with a smaller deduction from their take home pay.

The relevant part of the manual is Part 1 Chapter 2, 2.1 and 2.4.

Question 6

Outline:

a) the strategic and operational objectives of the Financial Conduct Authority

(5 Marks)

b) the purpose and statutory objectives of the Prudential Regulatory Authority

(5 Marks)

Once again the quality of answers submitted to this question was varied; candidates either knew the subject or they didn't. Many confused a) and b) unfortunately but a) proved more popular with some candidates scoring high marks. Most grasped that the FCA has the prime objective to ensure that relevant financial markets perform well and that the interests of consumers is safeguarded.

Common omissions were:

- The FCA needs to promote effective competition in the interests of consumers and
- minimise the extent to which regulated businesses may be used for a purpose connected with financial crime.

Part b) was answered less well; many candidates did not grasp that the PRA exists to protect and improve stability of the UK's financial system through regulation and supervision. It also needs to promote safety and soundness of banks/building societies/credit unions and insurers and investment firms.

Other common omissions were:

- The PRA needs to contribute to the securing of protection for current and future insurance policyholders
- The PRA needs to facilitate effective competition.

The relevant part of the manual is Part 2 Chapter 1, 1.3.1 and 1.3.2.