ADVANCED DIPLOMA IN RETIREMENT PROVISION

DEFINED CONTRIBUTION ARRANGEMENTS

EXAMINERS' REPORT – APRIL 2019

The standards shown in this sitting fell into one of two camps, those who had clearly studied the syllabus well attained a clear pass and those who hadn't were clear failures; there were very few border line scripts around the pass mark. Overall the performance was a little disappointing by comparison with that in previous sittings. Surprisingly questions 3, 4 and 5 were not answered particularly well but question 1 was the best answered question on the paper which benefited some learners as this carried 30 marks. Unfortunately numbers 3, 4 and 5 had the effect of skewing the results somewhat but on a positive note the examiners were pleased to see an improvement in the standard of handwriting which made the scripts easier to mark than previously. Once again some learners gave the distinct impression that they had been selective in their revision and this proved fatal in many cases. The examiners wish to stress the importance of studying the whole syllabus even though some parts may not be that familiar to learners.

Question 1

Describe the following types of asset class that are likely to be offered in a DC Pension Scheme

a)	**Equities**	**(6 Marks)**
b)	**Property**	**(6 Marks)**
c)	**Bonds**	**(6 Marks)**
d)	**Cash**	**(6 Marks)**
e)	**Balanced Funds**	**(6 Marks)**

Part (a) was well answered with most learners displaying a sound understanding of the role equities play in an investment portfolio. The main omission was that overseas equities achieve diversification but introduce a currency risk. The main points sought after were:

- Equities are made up of shares in companies traded on the stock market in the UK and overseas.
- They are affected by the rises and falls in their respective markets
- They have high short term volatility when compared with bonds and cash
- They are suitable for those with a longer period to retirement but too risky for those close to retirement

Part (b) was reasonably well answered and most learners grasped the role that property plays in a portfolio. The main omission was that property has rental income that depends on the change in market value of the individual properties and their investment return. The main points ought after were:

- Property funds invest in a range of commercial properties such as retail outlets, office blocks and industrial buildings
- Normally suitable for those with a longer term to retirement but too risky for those close to retirement
- Likely to give lower returns than equities but higher than bonds
- Property is illiquid and so hard to sell quickly

Part (c) was answered well and most learners distinguished between Government bonds and corporate bonds making the point that they are appropriate vehicles for those close to retirement and are needed to buy pensions at that point. They are thus less risky than equities and property. The main points sought after were:

- Bonds rise and fall in value over their lifetime but they are not as volatile as equities or property.
- The Government or company borrows an amount of money for a fixed period and pays interest on the amount borrowed.
- The capital is repaid at the end of the fixed period

Part (d) was again quite well answered with almost all learners appreciating the role that cash plays in an investment portfolio. The main omissions were:

- Inflation may reduce the real value of the investment
- Cash helps to protect the value of a tax free cash amount from falls in value just before retirement

The main points sought after were:

- Cash works in the same way as a deposit account with a bank/building society
- Cash is expected to provide lower returns over the long term than equities or bonds
- Generally regarded as less suitable for members with more than five years before they retire

Part (e) was also well answered with most learners appreciating that balanced funds offer a mixture of asset classes to achieve a compromise and to reduce volatility by comparison with that pertaining to pure equity funds. The main omission was that they are suitable for those with more than five years to retirement. The main points ought after were:

- Balanced funds are expected to provide higher returns over the long term than bond funds and cash but lower than pure equity funds.
- Likely to be a mixture of growth and lower risk investments hence the term ‘balanced’.

The relevant part of the manual is Part 4 Chapter 2 2.2.1 – 2.2.5

Question 2

You are a Pensions Adviser for the DEF Limited Defined Contribution Occupational Pension Scheme and have been asked to produce training manual for the Administration Team on 'Leaving Service'. Outline the different categories of early leaver, describe the benefits payable for each category and show how they are calculated.

(25 Marks)

This proved to be the hardest question and several learners displayed a high degree of confusion in their answers. The main problem was that a significant number were unable to distinguish between the treatment applied to a pre 1st October 2015 leaver and that applied to a post 1st October 2015 leaver. Some understood the rules governing the benefits payable for different tranches of service completed but gave the wrong effective date for the transition from the previous regime to the new regime. Many learners tended to stray beyond the confines of the question by explaining the ways of extracting income in retirement using flexi-access drawdown and described the contribution requirements regarding auto-enrolment thereby wasting time and not scoring any extra marks.

The main points sought after were:

- Those members joining a DC scheme on or after 1st October 2015 who leave with at least 30 days' qualifying service must be offered a deferred benefit with the option of transferring to another registered pension scheme
- Post 1st October 2015 joiners who leave service with less than 30 days' qualifying service are entitled to a refund of member's contributions i.e. a short service refund lump sum (SSRLS).
- Between three months and two years' service they have an option of cash transfer sum or a SSRLS. The option of a deferred benefit is at the discretion of the scheme.
- For those post 1st October 2015 joiners with more than two years' service the member is entitled to a deferred pension with a future option of a transfer value.
- The ways of calculating a contribution refund are: current value i.e. present value of investments purchased by the members' contributions, a return of the cash amount of member contribution paid and the value of members' contributions taking into account investment returns subject to a minimum of the monetary contribution paid.
- The first £20,000 of a SSRLS is taxed at 20% and the balance is taxed at 50%
- A Scheme Administration Member Payment is paid gross but subject to income tax in the member's hands

The relevant part of the manual is Part 3 Chapter 1.

Question 3

DC occupational pension schemes require a computer system to enable the scheme to be administered. List:

a) the minimum data the system must be capable of storing, and (12 Marks)

b) the additional items that may be stored. (13 Marks)

(Total 25 Marks)

This question was surprisingly poorly answered; it was evident that many learners had not studied this part of the manual sufficiently. Basic details were omitted in many scripts such as the national insurance number and even the date of birth. Many learners knew several items but unfortunately entered the details in answer to the wrong part so could not be awarded any marks. There were however a handful of extremely good answers to this question.

In Part a) apart from the obvious points such as the date of joining the company and date of joining the scheme the examiners were looking for items such as membership category, amount of contributions received, date of receipt of contributions, date on which they were invested and the unit prices for each fund for any transaction date.

In Part b) common omissions were:

- Payroll number
- Employing company and location
- PHI cover
- Indication of whether the money purchase annual allowance has been exceeded
- Indication of whether the pensions advice allowance has been used
- Any employer special contributions

The relevant part of the manual is Part 1 Chapter 3 3.1.1 – 3.1.2.

Question 4

Outline the recent initiatives announced by the Government to combat pension scams

(10 Marks)

The standards of answer submitted were varied; some had a good grasp of the issues and scored highly but others struggled and tended to form a view of the subject based on their own experience rather than bringing out the factors in the manual so did not score any marks. A number also mentioned the services offered by Pension Wise which were not relevant to this question.

Many mentioned the ban on 'cold calling' but could not recall the legislation underpinning it i.e. the Financial Claims and Guidance Act 2018. Common omissions were:

- Efforts have been made to make the opening of SSASs by fraudsters more difficult
- The Finance Act 2018 gave HMRC the power to deregister and register schemes where the sponsoring employer is dormant which would make it more difficult for a SSAS to be opened unless there is a genuine active employer sponsoring the scheme.
- If the statutory right to transfer conditions are changed as per the proposals the member would need a genuine employment link to the receiving scheme demonstrated with relevant earnings from that employment and confirmation that the employer has agreed to participate in the scheme.

  The relevant part of the manual is Part 6 Chapter 1, 1.4.

Question 5

Identify the main features of stakeholder pension schemes

The standard of answers to this question was disappointing given how long stakeholder pensions have been in force.

A number of learners thought that stakeholder pensions had to be trust based but they can actually be either trust or contract based. Most mentioned the following:

- Stakeholders must have a statement of investment principles
- They must offer a default life styling fund
- The minimum contribution to a stakeholder cannot be higher than £20 p.m. although schemes may set a lower limit if they wish

The most common omissions were:

- Stakeholder AMCs must be limited to 1.5% of the fund value for the first 10 years afterwards no more than 1%.
- Stakeholders must accept transfers in and no charge may be made for a transfer to another stakeholder pension.
- Stakeholders must appoint a scheme auditor or a reporting accountant to check the annual declaration made by the Trustees or the Managers to ensure that the scheme complies with the charging regulations
- Stakeholders must be registered with the Pensions Regulator

The relavant part of the manual is Part 5 Chapter 2, 2.2.4