Core Unit 3 Examiners' Report

There were two parts to the question paper:

- Part One consisted of 50 multiple choice questions.
- Part Two consisted of seven short answer questions.

Part One – 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 must 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, with scores ranging between 23 and 49 marks out of 50.

Part Two – Short answer questions

Average scores for Part 2 of the paper were lower than for Part 1. Overall, the standard of answers was good. The best answered question was Question 1 and the question which attracted the lowest average score was question 6.

1. **List the key disclosure requirements that pension schemes must satisfy so that they do not breach the disclosure regulations (10 marks)**

This was a straightforward question which was generally well answered. To gain full marks candidates needed to cover the following:

- Basic scheme information: within 1 months of issuing jobholder information or to prospective members within 2 months of joining
- Annual report within 2 months of request
- Benefit statements: automatically within 12 months of scheme year end for DC and within 2 months of request for other benefits
- Summary funding statement: within reasonable period of valuation
- Flexible access statement: within 31 days of flexible access
- Information on death benefits: within 2 months of notification
- Winding up information: to members and beneficiaries at start of process and on discharge of liabilities
- Leaving service statement
- Pension savings statement / Lifetime Allowance information

The relevant section of the manual was Part 3 Chapter 7 (7.4).

2. **If trustees believe an employer's failure to pay pension contributions is likely to be of 'material significance' they must make a report to the Pensions Regulator. Outline the circumstances which are likely to be considered 'material'. (9 marks)**

The standard of answers to this question was mixed. Some candidates scored full marks whereas others only picked up one or two of the available marks. Several candidates gave lots of details about the statutory deadlines for payment of contributions but failed to adequately explain the factors that might make late or non-payment significant enough to be reported. The circumstances which should have been included in the answer were:

- Reasonable cause to believe the employer is not likely to pay: reminder and recover process exhausted without response from employer or receipt of outstanding contributions
- Payment failure involving possible dishonesty or misuse of assets or contributions
- Failure to pay which carries a criminal penalty
- Trustee aware employer doesn't have adequate procedures / systems in place to ensure correct and timely payment and employer is not taking adequate steps to remedy
- Contributions are more than 90 days overdue
- Trustees must report in a reasonable period normally 10 days

The relevant section of the manual was Part 5 Chapter 1 (1.6)

3. **Outline the conditions that must be met in order to pay a trivial commutation lump sum. (10 marks)**

To get maximum marks candidates simply needed to outline the following conditions. The points most frequently missed were those concerning GMP.

- Only possible between minimum pension age (55) and 75
- Must have LTA available
- If more than one pension arrangement all commutations within 12 months
- Value of pension rights can exceed £30k. Valuation methodology is set out in legislation. Actual amount paid is determined by the scheme and may be more or less than this.
- Member may choose date for valuating rights if not date is chosen by trustee
- Payment must extinguish DB entitlement any Dc benefits are paid as UFPLS
- GMP / section 9(2B) rights can be commuted. If under GMP age and S148 or limited rate revaluation applies member may have to wait until GMP age
- Small lump sum less than £10k) can be paid irrespective of value of benefits elsewhere provided remaining conditions are met

The relevant section of the manual was Part 3, Chapter 3 (3.8).

4. **Describe the conditions that must be met for an individual to be a 'relevant UK individual' for the purposes of receiving tax relief on pension contributions. (5 marks)**

Most candidates scored a high proportion of the available marks on this question. To attain maximum marks candidates needed to include the following

- Relevant UK earnings chargeable to income tax for the tax year
- Resident in the UK at some point in the tax year or in the 5 tax years before the tax year in question and resident when they joined the pension scheme
- They of their spouse / civil partner has general earnings from a overseas crown employment subject to UK tax for that tax year

The relevant part of the manual was Part 6 Chapter 1 (1.1).

5. Define the term straight through processing and explain how it can benefit investment fund switches in DC schemes compared with a manual process.
(6 marks)

The quality of responses to this question was generally not good with candidates on average picking up around half the available marks. Most candidates were able to correctly define the term, but many struggled to explain its benefits compared to the manual process. The following points should have been covered in the answer:

- Ability for 2 computer systems to exchange and process information without human intervention
- Manual DC investment switches are a 2 stage process (buying and selling) – the 'buy' cannot happen until the 'sell' is complete
- Limitations include delay and risk of human error
- By contrast straight through processing involves an electronic interface between the admin system and fund manager
- Benefits are: rapid transfer of data between parties; less chance of human error; and less time out of market.

The relevant section of the manual was Part 1 Chapter 4 (4.5 & 4.6)

6. Outline the compensation paid to members if their pension scheme is transferred to the PPF. (10 marks)

The quality of answers to this question was generally good. Most correctly identified the 'compensation' payable including the various caps. The points most frequently missed were spouse's benefits and pension increases. Examiners were looking for candidates to include the following points:

- Level depends on position of member at point employer became insolvent
- Over NPA / in receipt of survivors or ill health pension: 100% of pension in payment
- Others: 90% of accrued pension subject to a cap which depends on age at date benefits commenced and length of pensionable service
- Long service cap introduced 6 April 2017 where pensionable service exceeds 20 years
- If service is up to 20 years cap for year commencing 1 April 2020 is £37,315pa at age 65 and £31,275 at age 60

- If service is 21 years or more cap increases by 3% per complete year of service above 20 upa to a maximum of double the standard compensation cap
- Pensions increase at LPI capped at 2.5% for service after 5 April 1997
- Spouse's benefit paid on death

The relevant section of the manual was Section 6 Chapter 2 (2.8.2).