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Core Unit 1A – Providing for Retirement

Assignment 4 Notes

(Part 4 – Workplace Pensions)

Recommended Time: 1 Hour

1. **Outline what an occupational pension scheme is.**

**10 Marks**

Answer should cover the following:

* Established by an employer to provide pensions and other ancillary benefits to its employees
* Administered in the UK
* Wide range of pension schemes, set up by a letter, under a trust
* Most are regulated by the requirements of the Pensions Act 1995, the Pensions Act 2004 and the Pension Schemes Act 1993.
* Commonly described as either DB or DC depending on the type of benefits they provide
* DB – typically based on accrual, salary and service
* DC – typically based on contributions paid, investment return and annuity prices
* Difference between the two is how they are funded and the burden of risk
* Hybrid schemes – provide both DB and DC, often provided by different sections
* Finance Act 2004 – can be a member of both an occupational and personal pension scheme
* Annual and lifetime limit on the total increase in the value of their pension savings which will qualify for tax relief
* Set up under trust, are require to operate the scheme in line with the trust deed and rules and the trustees are under a fiduciary duty to act in the best interests of the members

(Relevant section of the manual is Part 4 Chapter 1.1)

1. **Make short notes on the differences between personal pensions for individual and personal pensions for groups of employees.**

**10 Marks**

Answer should cover the following:

For Individuals:

* Originally established so anyone could join to save an income for retirement provided they had ‘relevant earnings’ from non-pensionable employment.
* Introduced from 1 July 1988 to replace retirement annuity contracts
* Operate on a DC basis
* Can be established under irrevocable trust, by deed poll or in Scotland by board resolution
* Must be registered with HMRC to take advantage of the tax relief available
* Originally meant to provide benefits on retirement, death or disability for self-employed or those not members of an occupational pension scheme, although this was relaxed in 1991.

For Groups of Employees:

* An employer can make pension provision to its employees by using personal pensions – group personal pension
* A collection of individual personal pensions with the same pension provider
* Benefits of scale, means often better terms
* Employer will contribute and normally be deductible against corporation tax
* Not an occupational pension scheme, shares similar characteristics – branded with company’s name and logo and appears much like an occupational pension scheme
* Contributions are paid from net earnings and grossed up – relief at source

(Relevant sections of the manual is Part 4 Chapter 1.2.1 & 1.2.2)

1. **Write the key features of public sector schemes.**

**5 Marks**

Answer should include 5 of the following:

* Pay-as-you-go system
* Pension age historically 60 for both men and women and be earlier. However, increased to 65 for new entrants from 2006
* Pension is typically 1/80th of final pay for each year of service with an additional lump sum of 3/80ths for each year
* Ill health early retirement provisions can be more generous
* As a result of the Pensions (Increase) Act 1971, benefits in many are fully inflation proofed
* Transfers of accrued rights are carried out on specified terms under the rules of the Public Sector Transfer Club.

(Relevant section of the manual is Part 4 Chapter 2.3.1)

1. **List 5 considerations that should be taken into account in the design of private sector schemes.**

**5 Marks**

Answer should include 5 of the following:

* Pensions tax legislation
* DWP pensions legislation
* Other non-pensions UK and EU law such as employment law
* Contributory or non-contributory
* Normal Pension Age to be adopted
* Whether to comply with the automatic enrolment duties
* Benefits be uniform or varied

(Relevant section of the manual is Part 4 Chapter 2.3.1)

1. **Write short notes on master trusts.**

**10 Marks**

Answer should cover the following:

* Multi-employer trust-based pension scheme
* Benefits usually provide on a DC basis
* A single professional trustee board that is responsible for administering the scheme, selecting service providers and selecting a range of investment options
* A trust-based structure with some of the benefits of a contract-based scheme in terms of cost savings and a reduced administrative burden for employers
* Number of commercial master trusts grew considerably following the introduction of automatic enrolment which cause some concern. Hence the introduction of the Pension Schemes Act 2017, which created a new authorisation and supervisory regime from 1 October 2018.
* Occupational pension scheme
* Regulator’s code of practice 15 provides supporting guidance on the authorisation and supervision
* From October 2018, existing master trust schemes had a 6-month window to apply to the Regulator for authorisation or wind up.

(Relevant section of the manual is Part 4 Chapter 2.3.2)

1. **What is a SIPP?**

**5 Marks**

Answer should cover the following:

* Self-Invested Personal Pension
* Member can select the scheme’s investments
* More attractive to those who want control over their investments
* Invest in a wide range of investments
* Contributions count towards an individual’s annual and lifetime allowances

(Relevant section of the manual is Part 4 Chapter 2.3.7)

1. **Outline the differences in risk associated with trust-based schemes and contract-based schemes.**

**5 Marks**

Answer should cover the following:

Trust-based schemes:

* Perceived as higher risk due to the higher administrative burden and the legal requirements the trustees are subject to.
* Effectively employer branded, any member dissatisfaction could have an effect on the company’s reputation
* Lead to personal liability for the trustees

Contract-based schemes:

* Carry a very limited administrative burden for the employer
* Administration failures and poor investment performance are more likely to be associated with the provider
* Generally, the provider who is liable for any administration failures

(Relevant section of the manual is Part 4 Chapter 3.4)