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Description automatically generatedDevonshire House

60 Goswell Road

London

EC1M 7AD

T: +44 (0) 20 7247 1452

W: www.pensions-pmi.org.uk

Core Unit 1A – Providing for Retirement

Assignment 3 Notes

(Part 3 – State Benefits, NEST and Automatic Enrolment)

Recommended Time: 1 Hour

1. **Outline and explain the term ‘Pension Credit’.**

**10 Marks**

Answer should cover the following:

* Introduced on 6 October 2003
* Replaced the Minimum Income Guarantee, targeting pensioners on low and modest incomes.
* Two elements – Guarantee Credit and Savings Credit
* Can be claimed by one member of a couple but not both.
* Guarantee Credit – means-tested benefit. Undrawn pension rights can be taken into account. Where an individual has drawn and depleted their pension pot, will be treated as deliberately depriving himself/herself of capital and will be treated as still being in possession. The deprivation rule will not apply where the money was spent on reducing / paying off debt / purchasing goods if reasonable in the circumstances.
* For 2021/22, guarantees an income of at least £177.10 per if single of £270.30 if they have a partner.
* Savings Credit – intended to reward those on modest incomes and saved for retirement. It is paid to those who have attained the male SPA and who have made some provision towards their retirement.
* The credit works by providing an income of 60p for each £1 of income between the lower threshold and Guarantee Credit Limit. For 2021/22, the lower threshold is £153.70 per week if they are single and £244.12 per week if they have a partner.
* Maximum savings credit - £14.04 per week if single and £15.71 per week if they have a partner.
* Savings credit does not apply to those reaching SPA after 5 April 2016.

(Relevant section of the manual is Part 3 Chapter 1.3)

1. **List the key features of the new state pension.**

**10 Marks**

Answer should cover the following:

* Reaching SPA after 5 April 2016, single flat rate pension replacing the BSP and state additional pension.
* The full rate payable to individuals with 35 or more qualifying years
* Qualifying years are determined in the same way as under the BSP, derived from national insurance contributions on earnings of at least 52 times the LEL.
* Reduced rate for qualifying years between 10 and 35
* Self-employed are eligible
* Government’s intentions to be uprated annually by the ‘triple lock’
* Increased weekly amount is available to individuals who choose to postpone their new state pension beyond SPA. The rate of the increase is 1/9th of 1% for each week of postponement. There is no lump sum option.
* Transitional arrangements for those with qualifying years before 6 April 2016.

(Relevant section of the manual is Part 3 Chapter 1.4)

1. **List 5 statutory benefits paid by the employer.**

**5 Marks**

List should include five of the following:

* Statutory sick pay
* Statutory maternity leave / pay
* Statutory paternity leave / pay
* Statutory adoption leave / pay
* Shared parental leave / statutory shared parental pay
* Statutory parental bereavement leave / statutory parental bereavement pay

(Relevant section of the manual is Part 3 Chapter 2.1.1, 2.1.2, 2.1.3, 2.1.4, 2.1.5, & 2.1.6)

1. **Explain the key features of Automatic Enrolment**

**10 Marks**

Answer should cover the following:

* All eligible jobholders must be automatically enrolled into a qualifying scheme. They may opt-out within one month of being auto-enrolled.
* The employer has a duty to automatically re-enrol eligible jobholders who have opted out every three years.
* Employers can postpone their automatic enrolment duties by up to 3 months starting from when the individual becomes eligible.
* The automatic enrolment duties were introduced in stages for existing employers starting with the larger employers. The duties now apply to all new employers from the date on which their first worker begins to be employed.
* Employers providing DB or hybrid qualifying scheme membership were able to defer their duties for certain existing jobholders until 1 October 2017, provided jobholders could opt-in.
* 3 categories of worker – eligible jobholder, non-eligible jobholder and entitled worker.

Eligible jobholder – aged between 22 and SPA and earning more than an earnings trigger must be automatically enrolled.

Non-eligible jobholders (earning less than the earnings trigger) and workers aged between 16 and 22 or between SPA and 75 and have the qualified earnings do not have to be automatically enrolled but informed of their right to membership of such a scheme.

Workers aged between 16 and 75 who do not have the qualified earnings - known as entitled workers. Must be informed of their right to membership of a scheme but does not need to be a qualifying scheme.

* Qualifying scheme – HMRC registered occupational or personal pension scheme that meets certain minimum quality requirements. These depend on the type of pension scheme.

DC – contributions of at least 8% of qualifying earnings, at least 3% must be paid by the employer.

DB – either satisfy a test scheme standard or meet the alternative quality requirements for DB schemes.

CARE – must meet additional requirements relating to the revaluation of benefits.

(Relevant section of the manual is Part 3 Chapter 3.2.1)

1. **Explain the minimum contributions for DC schemes in respect of automatic enrolment.**

**5 Marks**

Answer should cover the following:

* The minimum contribution requirement has been phased in
* Period between employer’s staging date and 5 April 2018 – total contributions of 2% of qualifying earnings, at least 1% from employer
* From 6 April 2018, the minimum contribution rate was 5% of qualifying earnings, at least 2% from the employer
* From 6 April 2019 onwards, minimum contribution rate of 8% of qualifying earnings, at least 3% from the employer.

(Relevant section of the manual is Part 3 Chapter 3.2.3)

1. **Explain the term ‘NEST’.**

**5 Marks**

Answer should cover the following:

* Effectively a very large multi-employer occupational DC pension scheme
* One of a number of master trusts
* Employers participate in these centralised arrangements but do not actively appoint or remove trustees or have a role in the management of the scheme.
* Large scale will mean the set-up costs can be spread over a long period and recovered from what eventually will be very large funds under management, thus resulting in a low average charge.
* Shares the ‘portability’ characteristics of personal pensions.

(Relevant section of the manual is Part 3 Chapter 3.3)

1. **Outline the benefits available from NEST?**

**5 Marks**

Answer should cover the following:

* Subject to the same rules as other pension schemes under Finance Act 2004
* Lifetime annuity
* Transfer to another registered pension arrangement
* Nest has a panel of appointed providers who provide a limited range of annuities for members. They must meet certain conditions including enabling quotes in real time, offering competitive rates to those on the open market and providing annuities for pots of £1,500 or above.

(Relevant section of the manual is Part 3 Chapter 3.3.5)