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Core Unit 1A – Providing for Retirement

Assignment 1 Notes

(Part 1 – Providing for Retirement)

Recommended Time: 1 Hour

1. **Explain the term ‘simplification’?**

**5 marks**

Answer should cover the following:

* Current pensions tax regime introduced by the Finance Act 2004.
* To consolidate and simplify the tax legislation relating to pensions
* Effective 6 April 2006
* Benefit from the tax advantages provided the scheme is ‘registered’ with HMRC
* ‘Authorised’ payments

(Relevant section of the manual is Part 1 Chapter 1.4.3)

1. **Explain the main changes brought in by the Finance Act 2011 and the Taxation of Pensions Act 2014?**

**10 marks**

Answer should cover the following:

**Finance Act 2011:**

* Flexible drawdown – no longer an active member of any scheme and satisfied the minimum income requirement (MIR).
* No limit to the drawdown amount that could be taken in any year.
* Contrast to capped drawdown introduced under the Finance Act 2004, where regulations limited the amount of income that could be taken each year.
* MIR – core idea to prevent depletion of funds to quickly. Can include scheme pensions and lifetime annuities as well as other state benefits and overseas pensions. Initially set at £20,000pa.

**Taxation of Pensions Act 2014:**

* Pension flexibilities / pension freedoms from 6 April 2015.
* Members of money purchase arrangements once reached NMPA to flexibly access their savings how and when they want, subject to the scheme rules.
* Applies to cash balance arrangements and AVCs within defined benefit schemes.
* Measures implemented very quickly which required a period of intense activity by government departments and regulators to ensure new measures were implemented as intended.

(Relevant section of the manual is Part 1 Chapter 1.4.4)

1. **Outline the differences in relation to the state pension for those reaching SPA before and after April 2016.**

**5 marks**

Answer should cover the following:

**Reaching SPA before April 2016:**

* Two state schemes – the basic state pension and the state second pension which replaced the State Earnings Related Pension Scheme from April 2002.

**Reaching SPA after April 2016:**

* State retirement provision is one ‘flat rate’ state pension set in regulations each year.
* Introduced by the Pensions Act 2014.
* 2021/22 rate is £179.60 per week

(Relevant section of the manual is Part 1 Chapter 1.5 & Chapter 2.2.4)

1. **Outline the types of retirement provision available from pensions.**

**10 marks**

A full answer should include an outline of the following:

* Employer sponsored benefits – established by trust, by an Act of Parliament or on a contract basis. In the past, most benefits would be on a final salary basis / defined benefits where benefits would be based on salary close to retirement and service. However, in recent years, benefits tend to be provided on a money purchase or defined contribution basis which is based on contributions paid in, investment returns and the cost of purchasing an annuity at the time of purchase.
* Public sector pension schemes – statutory and non-statutory schemes. Statutory have their provisions in either a statute or instrument made under statute. Non-statutory are those of the nationalised industries and are usually established under Trust Deed and Rules. Relatively small number of schemes cover millions of employees,
* Personal/Individual benefits – most are on a money purchase/defined contribution basis. Individuals who belong to an employer’s scheme can also pay AVCs or take out other pension arrangements or a personal freestanding AVC. Freestanding AVCs are insured arrangements that are usually unconnected with any particular pension scheme.
* Stakeholder pensions – provide benefits on a money purchase basis. They have to meet certain requirements including flexible contract terms and a cap on charges. However, they have now largely been overtaken by the automatic enrolment regime which started to come into effect from 1 October 2012.

(Relevant section of the manual is Part 1 Chapter 1.6)

1. **What was the importance of the Pensions Act 2007?**

**5 marks**

Answer should cover the following:

* Reforms to the State pension system in light of the demographic changes.
* Increased state pension ages
* Basic state pension to increase by reference to average earnings
* Eased the qualifying criteria.
* Also created the Personal Accounts Delivery Authority.

(Relevant section of the manual is Part 1 Chapter 1.7.1)

1. **Explain what is meant by the term *‘LISAs’?***

**10 marks**

Answer should cover the following:

* Lifetime ISA - Introduced in April 2017 and sits alongside the current pension tax regime.
* Provides an alternative means of saving for those under 40.
* Use funds to provide a deposit for a house or to save for retirement.
* Any adult between the ages of 18 and 40 can open a LISA.
* Can contribute up to £4,000 each tax year until they reach age 50.
* Contributions are eligible for a 25% government bonus.
* Savings can be withdrawn any time but maybe subject to a charge.
* Only possible to pay into one LISA in each tax year.
* Any contributions sit within the overall £20,000 ISA contribution limit.
* Individuals can transfer savings from other ISAs as a way of funding their lifetime ISA. Counts towards the £4,000 threshold but does not affect the £20,000 limit.

(Relevant section of the manual is Part 1 Chapter 2.3.1)

1. **List 5 different communication methods.**

**5 marks**

List should include five of the following:

* Letters
* Statements
* Forms
* Booklets / Guides
* Leaflets
* Newsletters
* Factsheets
* Reports
* Electronic communications are also widely used e.g., emails, websites, intranet sites etc
* Face-to-face communications

(Relevant section of the manual is Part 1 Chapter 2.4.3)