Core Unit 2 – Regulation of Retirement Provision

Assignment 1 Notes

*(Part 1 – The Taxation and Regulation of Retirement Provision)*

*Recommended Time: 1 Hour*

1. **Outline the role of a financial adviser, and the main areas of financial advice consumers need.**

**10 marks**

Answer should cover:

* provide a service to its retail customers
* ensuring that the consumer fully understands the obligations that the financial adviser has towards them
* what is included in the financial services being provided?
* the adviser recognises the consumer’s main financial needs and can prioritise them.
* Main areas of financial needs:
  + managing debt;
  + budgeting and borrowing, including buying a house;
  + protection, e.g. life and health insurance;
  + savings and investments;
  + retirement;
  + estate planning and tax planning.

(Relevant section of the manual is Part 1 Chapter 4.3)

1. **What is an Excepted Group Life Scheme (EGLS) and what conditions must must be met for a scheme to qualify as an EGLS?.**

**10 marks**

Answer should cover:

* Arrangement which allows employers to offer tax-efficient benefits through lump sum death-in-service benefits;
* Benefits do not count towards the Lifetime Allowance and avoid the 55% tax charge;
* Not registered pension schemes.
* Premiums paid by the employer receive tax relief as they can be treated as business expenditure, provided that HMRC considers them wholly and exclusively for the purpose of trade as part of the remuneration of the individual.
* Conditions that must be met:
  + lump-sum benefits can only be paid for deaths before the age of 75;
  + all members must have the same benefit formula;
  + if the policy is cancelled it must not have a cash value and only unused premiums may be refunded;
  + benefits must be set out in the policy;
  + only lump sums can be paid;
  + only individuals, charities and trusts set up for individuals may receive a benefit, not other insured persons, unless they are a dependent or relative of the deceased;
  + the EGLS must not be used for the main purpose of tax avoidance

(Relevant section of the manual is Part 1 Chapter 1.6.3)

1. **List 5 outcomes for consumers of financial services where compliance with the FCA's principle of "Treating Customers Fairly" is met.**

**5 marks**

Answer should cover 5 of the following:

* Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture;
* Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly;
* Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale;
* Where consumers receive advice, the advice is suitable and takes account of their circumstances;
* Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect;
* Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

(Relevant section of the manual is Part 1 Chapter 3.5.5)

1. **Outline the tax treatment of pension contributions which exceed an individual's Annual Allowance**

**5 marks**

Answer should cover:

* tax relief given on all contributions provided individual has sufficient earnings;
* contributions in excess of AA subject to a tax charge (Annual Allowance Charge) which cancels out the tax relief;
* Short worked example illustrating the number of contributions subject to the AA Charge;
* AA Charge is calculated at individual's marginal income tax rate;
* AA Charge is collected through individual's tax return or paid by the pension scheme

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

1. **List 5 types of "protection" against the Lifetime Allowance Charge and what each type covers**

**10 marks**

Answer should cover 5 of the following:

* Primary Protection - Savings >£1.5m at 5 April 2006
* Enhanced Protection - Fully protects rights accrued as at 5 April 2006
* Fixed Protection - Fixes LA at £1.8m (or SLA if higher)
* Fixed Protection 2014 (FP14) - Fixes LA at £1.5m (or SLA if higher)
* Individual Protection 2014 (IP14) - Savings >£1.25m at 5 April 2014. Fixes LA as value of pension rights at 5 April 2014 (max £1.5m) or SLA if higher.
* Fixed Protection 2016 (FP16) - Fixes LA at £1.25m (or SLA if higher).

- Individual Protection 2016 (IP16) - Savings >£1m at 5 April2016. Fixes LA as value of pension rights at 5 April 2016 (max £1.25m) or SLA if higher.

(Relevant section of the manual is Part 1 Chapter 1.3)

1. **Outline the circumstances in which a pension scheme would be eligible to enter the Pension Protection Fund (PPF) and the levels of compensation the PPF will provide..**

**10 marks**

Answer should cover:

* Eligibility:
* qualifying insolvency event occurs on or after 6 April 2005 (essentially either receivership or insolvency of the sponsoring employer) and
* the assets of the scheme are not sufficient to provide benefits up to the level of compensation payable by the PPF
* Compensation:
* broadly 100% of accrued benefits for members over Normal Pension Age (NPA), in receipt of an ill-health or dependant’s pension;
* for others, 90% of accrued benefits subject to an overall cap, which depends on the member’s age at the date of commencement of benefits;
* details of the capped amounts;
* CPI indexation, capped at 2.5%, on compensation for benefits accruaed after 5 April 1997;
* 50% spouse’s benefit on death
* Since 6 April 2017, the maximum benefits payable to those with long service (21 years or more) in a scheme that entered the PPF have been increased. The cap is increased by 3% for each full year of pensionable service above 20 years, up to a maximum of double the standard cap.

(Relevant section of the manual is Part 1 Chapters 3.3.1 and 3.3.2)