**Core Unit 3 – Running a Workplace Pension Scheme**

**Assignment 2 Notes**

(Part 3 – Benefits and Communication)

Recommended Time: 1 Hour

1. **Explain the term “Statutory Discharge”, in relation to a transfer of a member’s benefits to another pension arrangement.**

Answer should cover:

* where a member exercises their statutory right to a transfer, the trustees of the transferring scheme have a full statutory discharge, so that they are not required to provide the member with any benefits to which the cash equivalent related, so long as the receiving arrangement satisfies prescribed requirements
* exact requirements vary depending on whether the receiving arrangement is an occupational scheme, a personal pension or a buy-out policy.
* a member with a statutory right to a transfer can split the cash equivalent between as many occupational pension schemes, buy out policies and personal pension arrangements as they wish
* usually all of the value in respect of that benefit type must be transferred for the statutory discharge to apply
* additional requirements must be met where the benefits include contracted-out benefits
* where receiving scheme is also a former contracted-out scheme, the transfer can be made without any additional requirements provided it protects the transferred contracted out rights,.
* contracted-out rights can be transferred to a scheme that was never contracted-out provided the member consents in writing to the transfer and confirms in writing that they;
  + have received a statement from the receiving scheme setting out the benefits they will receive;
  + acknowledge that the benefits in the receiving scheme may be in a different form and amount to those which would have been payable in the transferring scheme; and
  + acknowledge that there is no statutory requirement for the receiving scheme to provide for survivors benefits out of the transfer value.
* Where a statutory right does not exist and trustees allow a member to transfer their benefits:
  + trustees do not have a statutory discharge of their liability to provide benefits for the member
  + trustees will usually insist that the member completes a form to acknowledge that the trustees will no longer be obliged to provide benefits for them.

Relevant section of the manual is Part 3 Chapter 2.3.

**10 marks**

1. **Explain the practice whereby trustees can exercise discretion in relation to the payment of lump sum death benefits.**

Answer should cover:

* Scheme rules may provide for trustees to exercise discretion as to the recipient(s) of the benefits - rules may restrict the categories of potential recipients the trustees can
* the member may have completed an expression of wish form, although trustees are not obliged to comply with this nomination
* trustees will determine the potential recipient(s) taking account of both the member’s nomination

form and also the member’s personal circumstances at death

* trustees usually make their decision as to which of the potential recipient(s) will receive a lump sum

death benefit, and in what shares, either at a full trustee meeting or through an appointed committee

* lump sum death benefits paid under the trustees’ discretionary powers do not form part of the deceased’s estate and are not assessable for Inheritance Tax
* earmarking order may require that a specified percentage of any lump sum death benefit is paid automatically to the member’s ex-spouse/civil partner - trustees must allow for this before exercising their discretion over any remaining lump sum death benefit.

Relevant section of the manual is Part 3 Chapter 4.2.2.

**5 marks**

1. **Briefly outline the main administration requirements of a scheme when implementing and administering a Court order in the case of a divorce.**

Answer should cover:

* Strict timeframes for providing information and implementing/administering Court orders - TPR may fine trustees or managers of pension schemes for failing to comply with timescales
* Trustees can recover the cost of providing certain information and/or administering pension sharing orders from the member or his/her ex-spouse
* Trustees must implement the pension sharing order by either providing the ex-spouse with benefits within their scheme or transferring the ex-spouse’s pension credit to another suitable arrangement
* An ex-spouse has the right to request that the pension credit is transferred to an external arrangement and, if such a request is made, the trustees must comply with it
* Where benefits are created for the ex-spouse within the scheme, administrators must create a new membership category to accommodate them: the pension credit member
* Alternatively, in the absence of any request from the ex-spouse, the trustees can transfer the pension credit to another arrangement selected by them.

Relevant section of the manual is Part 3 Chapter 5.3.

**5 Marks**

1. **Briefly explain the factors that trustees and employers should consider when** **looking to produce a communication aimed at pension scheme members.**

Answer should cover:

* Clear communication plan
* Identify the best way to communicate
* Tailor communications to the audience
* Remember the needs of all different categories of members
* Be open and honest
* Avoid jargon
* Choose the correct time to engage

Relevant section of the manual is Part 3 Chapter 7.1.2.

**5 marks**

1. **Briefly explain key features of three options available to members of DC pension schemes which are alternatives to buying an annuity.**

Answer should cover:

* Income Withdrawal:
  + Introduced by the Finance Act 2011
  + Available from age 55 (or earlier if protected pension age or ill-health)
  + DC pot remains invested and member draws income directly from it
  + 25% of pot can be taken tax-free at retirement, drawdown payments are subject to Income Tax
  + Total fund tested against Lifetime Allowance, regardless of the amount drawn from the DC pot
* Short Term Annuities:
  + annuities which pay a set income for a period of up to five years
  + attractive option for members wishing to ease themselves into retirement by a move to part time working
  + may be used in conjunction with drawdown
* UFPLS:
  + Introduced on 6 April 20154
  + Members can take benefits in one go or in small chunks
  + The first 25% of an UFPLS is tax-free and the balance subject to Income Tax
  + Can be taken from uncrystallised funds (funds not already used to provide retirement benefits)

Relevant section of the manual is Part 3 Chapter 3.6.

1. **Marks**
2. **List the types of administration services that insurance company or third party administrator can offer, and how the cost of these services is charged.**

Answer should cover:

* Detailed recording of personal information, benefits and contributions
* Preparation of correspondence, having due regard to legislation
* Handling of new entrants, deaths, leavers and retirements
* Calculation and payment of benefits
* Maintenance of membership records
* Execution of contracted out procedures and making reports to HMRC
* Provision of banking and pension payroll services
* Production of the trustees’ annual report and accounts
* Implicit costs – a loading in the premium charged under an insured contract
* Explicit costs – fees charged by the parties providing the services

Relevant section of the manual is Part 3 Chapter 6.1.6.

**10 marks**

1. **List the key requirements when revaluing a member’s deferred benefits under a defined benefit pension scheme.**

Answer should cover:

* Trustees must increase the deferred pension between the date of leaving and retirement
* GMP must be revalued for each complete tax year between ceasing contracted out employment up to GMP payment age or death, if earlier
* For members who terminated contracted out employment on or before 5 April 1997, schemes could revalue GMPs using either:
* Section 148 orders (previously called Section 21 orders) - known as full rate revaluation
* A fixed rate
* A limited rate (full rate revaluation capped at 5% a year)

Relevant section of the manual is Part 3 Chapter 1.4.2.

**5 marks**