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

**Mock Examination Notes**

Recommended Time: 1 Hour

1. **Explain the risks a pension scheme is exposed to in relation to climate change.**

Answer should cover:

* Long term nature of pension schemes means exposure risk related to climate change.
* 2 categories of risk
* Physical risk:
  + can be event-driven (acute) or longer-term shifts (chronic) in climate patterns
  + may have financial implications for organisations eg. direct damage to assets and indirect impacts from supply chain disruption
  + organisations’ financial performance may also be affected by changes in:
    - water availability, sourcing, and quality
    - food security
    - extreme temperature changes affecting organisations’ premises, operations, supply chain, transport needs, and employee safety
* Transition risk:
  + transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change
  + depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organisations
  + transitioning to a lower carbon economy will give rise to opportunities
* risks and opportunities must be understood and taken into account when agreeing investment strategies
* From 1 October 2019, the Statement of Investment Principles must now set out how trustees take account of financially material considerations (which may include EG factors) over the longer term.

Relevant section of the manual is Part 6 Chapter 3.3.5.

**10 marks**

1. **List the typical reports that a good DC administration report would provide.**

Answer should cover 5 from the following:

* Standard administration reports, e.g. member movements, members approaching retirement age
* Contributions paid by employees and employer
* Unit holdings per member
* Units purchased and units sold on any given date
* Total unit holdings per fund
* Lifestyling events

Relevant section of the manual is Part 1 Chapter 1.4.6.

**5 marks**

1. **Outline the circumstances where the late payment of contributions to a pension scheme are likely to be material and should be reported by the trustees to the Pensions Regulator.**

Answer should cover:

* Pensions Act 1995 states deadlines for payment of contributions and requires trustees to report a breach of the regulations in certain circumstances
* a reasonable cause to believe the employer is not willing to pay the outstanding contributions. Where

the trustees’ reminder and recovery process has been exhausted without response from the employer

or without them having obtained the outstanding payment, the trustees may assume this indicates the

employer’s unwillingness to pay

* payment failure involving possible dishonesty or a misuse of assets or contributions,
* a failure to pay contributions which carries a criminal penalty
* the trustees becoming aware that the employer does not have adequate procedures or systems in place to ensure the correct and timely payment of contributions due, and the employer appears not to be taking adequate steps to remedy the situation, and
* contributions have been outstanding for 90 days from the due date.

Relevant section of the manual is Part 5 Chapter 1.6.

**5 marks**

1. **Briefly explain the basic principles of the Annual Allowance and the Lifetime Allowance.**

Answer should cover:

Annual Allowance (AA):

* Individuals can pay an unlimited amount into a pension scheme in any tax year
* Tax relief only up to the lower of the AA and 100% of their UK taxable earnings (or £3,600 to a scheme operating on a ‘relief at source basis’ if this is higher)
* Contributions in excess of the AA will have received tax relief (subject to sufficient earnings)
* Annual Allowance Charge - tax charge on contributions in excess of AA to claw back the tax relief granted (assuming they do not have sufficient unused AA to carry forward to offset the excess contributions)
* If contributions exceed both earnings and the Annual Allowance, the contributions in excess of the greater of (i) the Annual Allowance and (ii) earnings would not have received tax relief - therefore no Annual Allowance charge is on this tranche of contributions (no tax relief to claw back)

Lifetime Allowance (LTA):

* LTA is an allowance of the total pension rights an individual may accrue in their life in registered pension schemes while still benefiting from tax relief
* LTA has changed over time - Finance Acts 2011,2013 and 2016
* From 2018/19 LTA increases annually by CPI
* Benefit Crystallisation Events – benefits crystallised use up a proportion of LTA
* Lifetime Allowance Charge - once 100% of LTA used up, additional benefits crystallised attact a tax charge
* LTA Charge intended to remove tax advantages previously received in relation to benefits over the LTA.

Relevant section of the manual is Part 4 Chapter 1.3 and Chapter 2 – Introduction.

**10 marks**

1. **Write notes on the death benefits that are payable on death in service and death in retirement, before and after Normal Pension Age.**

Answer should cover:

Death in Service before NPA:

* DB benefits payable typically:
* lump sum death benefit calculated as a multiple of the member’s salary at date of death
* dependants’ pensions payable to a spouse/civil partner and qualifying children specified in the scheme rules and in legislation
* Eligibility for dependants’ pensions specified in scheme rules and legislation
* DC arrangement - value of member’s retirement pot may be paid as a lump sum instead of providing a dependants’ pension
* lump sums usually payable under a discretionary trust
* refund of the member’s contributions may also be payable under a discretionary trust or may be payable

automatically to the legal personal representatives.

Death in Service after NPA:

* member normally be treated the same as for death in service before NPA – depends on scheme’s rules

Death in Early Retirement before NPA:

* DB benefits payable typically:
  + Dependants’ pensions payable to a spouse/civil partner and also possibly to qualifying children
  + lump sum representing the balance of the pension due to the member during ‘guarantee period’ (usually five years from retirement date)
* DC benefits – depends on options member selected

Death in Retirement after NPA

DB benefits payable typically:

* + Dependants’ pensions payable to a spouse/civil partner and also possibly to qualifying children
  + lump sum representing the balance of the pension due to the member during ‘guarantee period’ (usually five years from retirement date)
* DC benefits – depends on options member selected

Relevant section of the manual is Part 3 Chapters 4.1.1 to 4.1.4.

**10 marks**

1. **In relation to Automatic Enrolment, list the common reasons for employers choosing to use Postponment and briefly explain Re-enrolment.**

Answer should cover:

Reasons for using Postponment:

* to avoid automatically enrolling temporary staff whose employment does not last beyond the end of the
* postponement period
* it allows workers to be re-assessed at a point when earnings are more likely to be representative of typical levels
* high staff turnover
* management of peaks in earnings
* to facilitate payroll processing (e.g. alignment of weekly and monthly pay reference periods)

Re-enrolment:

* After an employer’s AE staging date, some employees may not be members of a qualifying scheme
* Employer has a duty to monitor/assess these employees under AE legislation
* 2 categories of employee:
  + Eligible jobholders:
    - automatically reassessed and re-enrolled at next re-enrolment date
    - normally 3-yearly anniversary of employer staging date
    - does not include employees who opted out in 12 months before re-enrolment date
  + Non-eligible jobholders and entitled workers:
    - Assessed monthly against criteria for eligible jobholders
    - Automatically enrolled once they become eligible jobholders

Relevant section of the manual is Part 2 Chapters 1.7 and 1.11.

**10 marks**