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

**Assignment 5 Notes**

(Part 6 – Special Situations)

Recommended Time: 1 Hour

1. **Summarise the key activities that DB schemes and DC schemes should complete within two years of the winding up date of a scheme.**

Answer should cover at least 6 DB activities and 4 DC activities from the following:

DB scheme:

* Calculating whether there is a section 75 debt on the employer (where the assets of the scheme were not sufficient to buy out full accrued benefits with an insurance company), and if so, serving that debt
* Obtaining terms from insurers to secure benefits for pensioners and non-pensioners
* Allocating available assets to members in accordance with the statutory priority order
* Issuing option letters to non-pensioners
* Paying benefits in accordance with options exercised
* Securing benefits
* Providing details of the benefits that have been secured with an insurer
* Conducting a final actuarial valuation
* Obtaining final audited accounts

DC scheme:

* Receipt or recovery of all member/employer contributions due from the employer
* Establish all pensioner members have annuity policies in their own name providing the correct benefits
* Production and sign off of final accounts accounting for and reconciling all assets/cash held in trustee bank accounts and investment manager/provider accounts
* Establish all other beneficiaries identified, fund values determined, secured and statements issued
* Provide options to members.

Relevant section of the manual is Part 6 Chapter 2.3.

**10 marks**

1. **COVID-19 resulted in a number of issues for trustees, employers and their advisers. Summarise the key areas the Pensions Regulator states trustees should focus on to protect pension savers from these issues.**

Answer should cover:

* benefits need to be paid
* the risk of scams needs to be minimised
* employers need to continue contributing
* savers need support to make good decisions in these challenging circumstances
* some administrative breaches of the law may occur and we will maintain a proportionate and fair
* approach to any action we may take

Relevant section of the manual is Part 6 Chapter 3.3.6.

**5 marks**

1. **Briefly explain the legislation relating to cross border provisions.**

Answer should cover:

* Applies if a UK based occupational pension scheme has any members who are located in other EEA countries and their employer contributes to the scheme
* Requirements introduced by the Pensions Act 2004 to ensure that the UK complies with the EU Directive on Institutions for Occupational Retirement Provision 2003/41.
* The legislation:
  + Allows employers to use a UK scheme to cover EEA based employees
  + Defines cross-border activity in terms of the acceptance of contributions in respect of members working in an EEA country outside the UK (other than those exempted as ‘seconded workers’)
  + Requires UK schemes operating cross border to be fully funded at all times, and
  + Requires UK schemes to comply with host country social and labour law relevant to occupational pensions, in respect of members in the host country (the EEA state in which the member works).

Relevant section of the manual is Part 6 Chapter 1.6.

**5 marks**

1. **Explain the tax treatment of employees who transfer overseas permanently.**

Answer should cover:

* An individual who is classed as a “relevant overseas individual”:
  + eligible for UK tax relief on member contributions up to £3,600, for up to five years’ overseas service, if they are a member of a registered pension scheme that operates relief at source.
  + If they are working abroad for an overseas tax resident company the employer contributions will not attract UK tax relief
  + If no UK tax relief is received whilst the individual is resident outside the UK, they can apply for an enhancement to the LTA which has the effect of ignoring those amounts which did not benefit from UK tax relief.
* A “relevant overseas individual” is defined by HMRC as an individual who either:
  + Is not a relevant UK individual under section 189 Finance Act 2004 – meaning they do not meet the definition in Pensions Tax Manual 044100; or
  + Is a relevant UK individual in only the following specified circumstance:
    - they are only a relevant UK individual because of the five-year rule in section 189(1)(c) Finance Act 2004, and
    - they are not employed by a UK tax resident employer.
* A member of a registered pension scheme who is no longer resident in the UK can be treated as a relevant UK individual in specified circumstances for a tax year if they:
  + Were resident in the UK at some time during the five tax years before that year and when they became a member of the pension scheme, and
  + Are not employed by a UK tax resident employer
* An employee who ceased to be resident in the UK more than five tax years ago will therefore cease to be eligible for tax relief

Relevant section of the manual is Part 6 Chapter 1.2.

**10 marks**

1. **List the information data controllers are required to hold on their records, under UK GDPR and EU GDPR legislation.**

Answer should cover:

* the name and contact details of the controller
* the purposes of the data processing
* a description of the categories of data subjects and of the categories of personal data
* the categories of recipients to whom the personal data have been or will be disclosed
* where possible, the envisaged time limits for erasure of the different categories of data
* where possible, a general description of the security measures applied.

Relevant section of the manual is Part 6 Chapter 3.3.7.

**5 marks**

1. **Explain the different methods that can be applied to benefits to achieve GMP equality.**

Answer should cover:

* Applies to benefits accrued from 17 May 1990 to 5 April 1997
* Benefits calculated for both the member and also assuming the member been of the opposite sex (the comparator) with the same pensionable salary, pensionable service history, etc.
* Year on year approach – Method B:
  + pay the higher of the benefit payable to the member and comparator
* Running total – Methods C1 and C2:
  + Calculate the benefits under Method B, and
  + Method C1 - keep track of the running total of payments payable to the member and comparator and pay the amount required to match the higher
  + Method C2 – as for C1 if interest is allowed for on the running total
  + Pensioners - decision on which year on year approach to use to correct past underpayments
* Method C2 results in the lowest uplift to benefits (compared to B1 and C1) - trustees therefore do not require employer’s consent to use this method
* Actuarial equivalence – Method D2:
  + use GMP conversion for future benefits
  + GMP is converted - removes all the rules relating to GMP from the scheme
  + equalisies the benefits on an actuarial equivalence basis
  + removes the need to maintain dual records.

Relevant section of the manual is Part 6 Chapter 3.3.3.

**10 marks**

1. **Summarise the discharging duties in relation to a scheme that is not entering the PPF.**

Answer should cover:

* The trustees are responsible for using the assets of the scheme to discharge its liabilities
* DB members in receipt of a pension - trustees obtain quotes from insurers for the purchase of annuities
* Members not in yet in receipt of benefits - trustees may offer a transfer of their funds or buy a deferred annuity on the member’s behalf
* Members with less than two years’ service may be able to take a refund of their contributions to the scheme.
* Winding up lump sum – may be available if the benefit value is lower than a limit set by the Government each year (currently £18,000)
* Buy out - if the benefits are being bought out with an insurer, once a satisfactory quotation has been obtained and the trustees’ written instructions received, the purchase price will be paid over to the insurer together with a completed proposal form, benefit schedule and full data. The wind up can be finalised, and a written statement sent to all members informing them of their benefits and asking them to check their policy when received from the insurer.

Relevant section of the manual is Part 6 Chapter 2.6.

**5 marks**