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Core Unit 1A – Understanding Retirement Provision

Assignment 1 Notes

(Part 1 – Providing for Retirement)

Recommended Time: 1 Hour

1. **In July 2020, the Work and Pensions Committee (WPC) launched a 3-part inquiry into the impact of the pension freedoms and the protection of savers. Please outline what each part of the inquiry covered.**

**5 marks**

Answer should cover the following:

* Part 1 – pension scams

Need for the Government to act quickly and decisively

A key recommendation is for tighter online regulation

* Part 2 – accessing pension savings

WPC concluded that although the pension freedoms have been a success, many savers need more support than currently received.

Call for evidence on helping savers understand their pension choices.

* Part 3 – underway looking at saving for later life and what more needs to be done to help people plan and save for retirement.

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

1. **There is a growing concern that people are not saving enough for their retirement. State what factors may have contributed to successive generations not making sufficient savings.**

**10 marks**

Answer should cover the following:

* The rise in the welfare state
* Affordability – cost of living
* Prioritisation of immediate needs over future needs
* Culture – ‘spend now, pay later’
* Longevity resulting in longer periods of retirement
* Long term investments not producing the returns forecasted
* Not making rational decisions about long-term savings, particularly low earners
* Complexity of the UK State and private pension system
* Covid-19 pandemic putting extra financial pressure on the economy and individuals

(Relevant section of the manual is Part 1 Chapter 2.1.1)

1. **Provide details of the changes brought by the Pensions Act 2007 in relation to State pensions.**

**5 marks**

Answer should cover the following:

* Changes to eligibility for the Basic State Pension from 6 April 2010
* Linking BSP increases to average earnings – Triple lock
* Moving the S2P towards a flat rate – reduce in two stages. Flat rate by 2030. Although subsequently removed altogether.
* New state pension has now replaced the BSP and State Second Pension for those reaching SPA from April 2016. The two previous types still relevant who reached SPA before April 2016.

(Relevant section of the manual is Part 1 Chapter 2.2, 2.2.1 & 2.2.2)

1. **Pensions are just one form of providing an income for individuals at retirement. Write some notes on how property could be used as a vehicle to top up their retirement income.**

**10 marks**

A full answer should include an outline of the following:

* Buy to let – form of investment where you buy a property and rent out. One part of a more diversified strategy.

Advantages: pre-agreed income; real-world appeal; good investment as house prices always rise, property boom.

Disadvantages: can go wrong due to lack of expertise, risk of rental voids, illiquid asset (not readily available if need immediate access), additional taxes, unintended costs

* Principal Private Residence

Downsizing – sell the home to buy a cheaper property releasing capital to help fund retirement

Equity release – homeowners use their homes to generate a lump sum or regular income either with a loan secured on their home or by selling all or part of the property but continuing to live there.

Shares some downsides to Buy to Let but has the advantage that any increase to the value is not subject to CGT.

* Self-Invested Personal Pensions (SIPPs)

Invest in commercial property – using a pension fund to invest in property.

(Relevant section of the manual is Part 1 Chapter 2.3.4)

1. **In relation to occupational pension schemes, list the basic structure of the disclosure regulations.**

**10 marks**

Answer should cover the following:

* Basic information to all members on joining and updated when changes
* Formal scheme documentation and certain actuarial information on request
* Trustees report annually and made available upon request
* Information on leaving or retiring
* Summary funding statement to all members annually – non-money purchase benefits
* Annual benefit statements automatically to members with money-purchase benefits, on request to non-money purchase benefits
* Large pension benefits – annual pension savings statements
* Benefit crystallisation events, the lifetime allowance used up
* Information on specific events such as winding up
* Wishes to transfer safeguarded benefits over £30,000, must be informed to take independent advice
* Flexibly access benefits – trustees must refer them to Pension Wise

(Relevant section of the manual is Part 1 Chapter 2.4.2)

1. **In relation to pensions, when must an individual or company be authorised by a regulator and outline when authorisation is not required.**

**10 marks**

Answer should cover the following:

Authorisation required:

* Give advice on; or
* Arrange transactions; or
* Deal in; or
* Manage certain products such as insurance policies, personal pension schemes, buy-outs and freestanding additional voluntary contributions and other long-term assurance products
* Additional Voluntary Contributions
* Investment options in pension schemes
* Group life assurance policies
* Group permanent health insurance or income protection policies.

Authorisation not required

* Advise on, arrange or provide non-financial products and or services.
* Invest in one’s own money

In May 2006 the FSA published some format ‘perimeter guidance’ setting out what required authorisation and what did not. In September 2017, the FCA and Pensions Regulator published a factsheet to help employers and trustees can provide on financial matter without overstepping the boundary.

(Relevant section of the manual is Part 1 Chapter 2.4.5)