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Core Unit 1A – Understanding Retirement Provision

Assignment 3 Notes

(Part 3 – State Benefits, NEST and Automatic Enrolment)

Recommended Time: 1 Hour

1. **Explain the term ‘contracting out’ and the reasons why many schemes chose to contract out.**

**10 Marks**

Answer should cover the following:

* Only available before April 2016
* Gave up part or all of their state additional pension entitlement
* NI reduction
* Broadly equivalent benefit
* Number of ways in which a pension scheme might contract out: COMP, COMB, APP, Stakeholder pension scheme or COSR.
* From 6 April 2012 contracting out on a money purchase basis was abolished.
* From 6 April 2016, abolished altogether.
* On a money purchase basis, the prospect of investing the NI savings to achieve higher benefits than the S2P given up.
* On a DB basis, the prospect of providing the contracted-out benefit in the scheme at a lower cost than the value of the NI rebate received.

(Relevant section of the manual is Part 3 Chapter 1.2.1 & 1.2.2)

1. **Write notes on the new state pension.**

**10 Marks**

Answer should cover the following:

* Reaching SPA after 5 April 2016, single flat rate pension replacing the BSP and state additional pension.
* Set above the basic level of the Guarantee Credit.
* Individuals who reach SPA before 6 April 2016 received pension under previous rules.
* The full rate payable to individuals with 35 or more qualifying years
* Qualifying years are determined in the same way as under the BSP, derived from national insurance contributions on earnings of at least 52 times the LEL.
* Reduced rate for qualifying years between 10 and 35
* Self-employed are eligible
* Increased weekly pension amount is available to those choosing to defer payment of new state pension beyond SPA.
* No lump sum option.
* For those with qualifying years before 6 April 2016, allowance is made for the State Pension already accrued. This is achieved by comparing the total of the BSP and S2P accrued for qualifying years up to 5 April 2016 with what the new State Pension would be based on the same qualifying years. (In both cases, a deduction is made to reflect any period of contracted out service.) The greater of the two then becomes the individual’s Starting Amount.

(Relevant section of the manual is Part 3 Chapter 1.4)

1. **What is Statutory Adoption Leave and Statutory Adoption Pay?**

**5 Marks**

Answer should cover the following:

* Eligible employees can take up to 52 weeks leave
* Pay for eligible employees is the lower of £156.66 per week or 90% of gross average weekly earnings.
* SAP paid up to 39 weeks of adoption leave.
* Tax and NI are deducted from payments.

(Relevant section of the manual is Part 3 Chapter 2.1.4)

1. **Explain what the Universal credit is and the main differences it has from the welfare system it is replacing.**

**10 Marks**

Answer should cover the following:

* A single payment for those looking for work or on a low income.
* To help claimants and their families become independent.
* Simplify the benefit system.
* Rolled out from October 2013, although certain non-means tested benefits will remain.
* Also available to those out of work.
* Expected to apply and manage their account online.
* Responsive.
* One monthly payment paid the same way as a monthly salary.
* Support with housing costs as apart of their monthly payment.
* Agree to various requirements as a condition to receiving the benefits – incentive to work.

(Relevant section of the manual is Part 3 Chapter 2.2.1)

1. **What is automatic enrolment?**

**10 Marks**

Answer should cover the following:

* All eligible jobholders must be automatically enrolled into a qualifying pension scheme.
* May opt-out within one month of joining.
* The employer has a duty to re-enrol eligible jobholders every 3 years.
* Employers can postpone their obligation to enrol by up to 3 months starting from the date the individual becomes eligible.
* However, during this 3-month period they must be informed of their right to opt-in.
* Introduced in stages for existing employers.
* Larger employers were staged first.
* Duties now apply to all new employers.
* Employers providing DB or hybrid qualifying schemes were able to defer their enrolment obligations until 1 October 2017, provided they could opt in any time.

(Relevant section of the manual is Part 3 Chapter 3.2)

1. **Since April 2015, what restriction on charges have been introduced?**

**5 Marks**

Answer should cover the following:

* Charge cap introduced under the Pensions Act 2014.
* From April 2016 a ban applies to member-borne charges or commission in a DC qualifying scheme.
* Pensions Act 2014 also banned so-called active member discounts in DC qualifying schemes.
* From the year ending after 1 October 2021, certain performance fees are ignored when calculating a charge under a single charge structure.
* From 6 April 2022 there is a de minimis pot size of £100 below which the flat fee element of a combination charge cannot be charged to members.

(Relevant section of the manual is Part 3 Chapter 3.2.5)