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Core Unit 1A – Understanding Retirement Provision

Mock Examination Notes

Recommended Time: 1 Hour

1. **What changes did the Finance Act 2011 introduce?**

**10 Marks**

Answer should cover the following:

* Introduced further freedom in the choices available to certain members - flexible drawdown
* This allowed members who were no longer active and satisfied the minimum income requirement to take uncapped flexible drawdown
* No limit to drawdown
* Taxed as pension income
* MIR meant they should not deplete their funds and rely upon state benefits
* Changed a fundamental principle that pension funds should be used to provide an income for life
* Further changes from 6 April 2015
* Greater choice within money purchase schemes on funds at retirement
* Once reached age 55, could flexibly access their pension savings
* Necessary changes were contained in the Taxation of Pensions Act 2014
* Led to new rules on guidance and advice for those seeking to take benefits or transfer into money-purchase arrangements.

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

1. **Outline the importance of the Pensions Act 2007 and the Pensions Act 2008.**

**10 Marks**

Answer should cover the following:

Pensions Act 2007:

* Reforms to the state pension system in light of demographic changes
* Increasing state pension ages
* BSP to increase by reference to average earnings and eased the qualifying criteria
* Created the Personal Accounts Delivery Authority (PADA) – advise on the new, simple, low cost pensions savings vehicle (NEST).

Pensions Act 2008:

* Introduced measures aimed at encouraging greater private saving
* Duty on employers to automatically enrol eligible workers
* Most measures came into effect from 2012
* Act broadened remit of PADA – powers to enable it to establish NEST.

(Relevant Sections of the manual are Part 1 Chapter 1.7.1 – 1.7.2)

1. **Outline the eligibility criteria of the PPF and the compensation that may be payable.**

**10 Marks**

Answer should cover the following:

* Came into effect from 6 April 2005 and applies to DB and hybrid schemes
* Qualifying insolvency event has to occur on or after 6 April 2005
* Assets are not sufficient to fully buy out benefits otherwise payable by the PPF
* Otherwise, scheme wound up if not transferred to PPF
* Starting wind up pre-6 April 2005 are not covered
* Assets transferred to PPF
* Compensation broadly 100% of accrued benefits for over NPA, ill-health, survivors
* Others will be 90% subject to cap depending on member’s age and commencement of benefits
* CPI indexation capped at 2.5% per annum for benefits post 5 April 1997
* 50% spouse’s benefit on death.
* Pensions Act 2014 increased maximum benefits for those in long service.

 (Relevant Sections of the manual is Part 2 Chapter 1.7.1 – 1.7.2)

1. **List 5 statutory requirements that apply to the trustees of most occupational pension schemes.**

**5 Marks**

Answer should include 5 of the following:

* Prepare a triennial actuarial valuation for their scheme and to put in place a schedule of contributions, a statement of funding principles and annual funding report and any recovery plan (DB schemes only)
* Put in place a payments schedule (defined contribution (DC) schemes only)
* prepare a statement of investment principles for their scheme (where the scheme has 100 or more members)
* Put in place an internal disputes resolution procedure
* Ensure that they do not discriminate against members on grounds of age, sex, race, religious belief, disability and sexual orientation in the operation of their scheme
* Pay cash equivalent transfer values
* Provide members and prospective members with certain prescribed information before they join the scheme and at various times during their membership of the scheme
* From April 2015 (if the scheme has DC benefits), appoint a Chair who is responsible for signing a statement on how the scheme complies with the governance standards and charge controls

(Relevant Section of the manual is Part 2 Chapter 1.14.1)

1. **Outline what the Benefit Cap is.**

**5 Marks**

Answer should cover the following:

* Is a limit on the total amount of benefits that working-age people (16 – 64) can receive
* Level of cap is £23,000 in Greater London
* £20,000 for those outside of London
* Reduce to £15,410 pa and £13,400 for single adults who don’t have children living with them
* Households can be exempt if they include someone receiving certain benefits such as disability living allowance or personal independence payment.

(Relevant Section of the manual is Part 3 Chapter 2.2.8)

1. **Make short notes on the differences between personal pensions for individuals and personal pensions for groups of employees.**

**10 Marks**

Answer should cover the following:

For Individuals:

* Originally established so anyone could join to save an income for retirement provided they had ‘relevant earnings’ from non-pensionable employment.
* Introduced from 1 July 1988 to replace retirement annuity contracts
* Operate on a DC basis
* Can be established under irrevocable trust, by deed poll or in Scotland by board resolution
* Must be registered with HMRC to take advantage of the tax relief available
* Originally meant to provide benefits on retirement, death or disability for self-employed or those not members of an occupational pension scheme, although this was relaxed in 1991.

For Groups of Employees:

* An employer can make pension provision to its employees by using personal pensions – group personal pension
* A collection of individual personal pensions with the same pension provider
* Benefits of scale, means often better terms, in particular efficiencies on the sales and marketing side
* Employer will contribute and normally be deductible against corporation tax
* Not an occupational pension scheme, shares similar characteristics – branded with company’s name and logo and appears much like an occupational pension scheme
* Contributions are paid from net earnings and grossed up – relief at source

(Relevant Sections of the manual is Part 4 Chapter 1.2.1 – 1.2.2)