Core Unit 2 – Regulation of Retirement Provision

Assignment 4 Notes

*(Part 5 – Governance Requirements and Part 6 – Current Issues)*

*Recommended Time: 1 Hour*

# Why are effective member communications important and what constitutes good practice when communicating with members?

**10 marks**

Answer should cover:

* Importance:
  + If members do not understand their pension scheme, then they may not appreciate its value or realise how it can help them to save for their retirement;
  + Trustees/managers and employers have a shared interest in seeing that:
    - members are engaged and motivated to plan for their eventual retirement;
    - the scheme is effective in attracting, motivating and retaining employees;
    - time and resources are not taken up by ineffective communications exercises;
    - legislation is complied with;
* Good practice:
  + having a clear communication plan;
  + identifying the best way to communicate;
  + tailoring communications to the audience;
  + remembering the needs of all different categories of members;
  + being open and honest;
  + avoiding jargon; and
  + choosing the correct time to engage.

(Relevant section of the manual is Part 5 Chapters 1.7.1 and 1.7.3)

# Outline five areas where the of UK pension law which are currently subject to EU law and which may diverge from UK law as a result of the UK withdrawing from the EU.

**5 marks**

Answer should cover 5 of the following:

* Scheme funding - the current technical provisions funding regime derives from the IORP Directive;
* Investment - some of the investment requirements (including limits on employer-related

investments and the requirement to diversify) derive from IORP;

* GMP equalisation - the Government position that GMPs must be equalised is based on EU law. It may

therefore be that this issue could disappear;

* Equal treatment - there are unlikely to be major changes here on policy grounds;
* TUPE transfers - there will be scope for the Government to amend or relax the TUPE requirements

and to give more clarity on early retirement (Beckmann) issues;

* PPF - the PPF was established to fulfil the UK’s obligations under the EU Insolvency

Directive;

* Sex based annuity factors - it is an EU requirement for annuity providers (but not

occupational pension schemes) to use gender-neutral actuarial factors;

* Data protection - it is likely that current data protection legislation will remain in place.

(Relevant section of the manual is Part 6 Chapter 3.1)

# List five types of charges that might apply in a defined contribution scheme and give a brief description of each.

**5 marks**

Answer should include 5 of the following:

* Annual management charge;
* Fund switches and bid/offer spread;
* Policy fees;
* Allocation rates;
* Initial and accumulation units;
* Transferring a pension fund.

(Relevant section of the manual is Part 5 Chapter 1.5.1)

# Outline the two ways HMRC supported employers and scheme providers with assistance in managing the termination of contracted-out scheme membership.

**5 marks**

Answer should name the 2 methods and state 5 of the bullets noted below:

* Technical support to employers and scheme providers:
  + publicising the new procedures being put in place in preparation for ending contracting out
  + collecting Scheme Contracted out Numbers (also known as “SCONs”) from employers to enable the automatic closure of all contracted out scheme memberships from December 2016;
  + no need for schemes to return their contracted out certificates to HMRC;
* Scheme reconciliation service (SRS):
  + HMRC developed a reconciliation service to ensure individual contracted out records are correct;
  + Employers and pension providers could use a self-serve portal to obtain information about accrued GMPs;
  + allows pension scheme administrators to reconcile their membership and GMP data against the records held by HMRC;
  + gives a list of contracted out periods and GMP data for members who have left contracted out employment;
  + includes early leavers, pensioners, widows, widowers and surviving civil partner;
  + available to all defined benefit schemes that have contracted out rights preserved within the scheme.

(Relevant section of the manual is Part 6 Chapter 1.2.6)

# List five controls trustees should have in place to ensure their relationship with their advisers remains robust and professional.

**5 marks**

Answer should include 5 of the following:

* information or advice given to them is fully understood and acknowledged;
* they understand what information the adviser needs to fulfil their role;
* any fee basis is appropriate and that it is documented;
* members are receiving value for money for services available;
* advisers are aware of their accountability to trustees for advice given; and
* they understand the complaints procedures for advisers and service providers..

(Relevant section of the manual is Part 5 Chapter 1.2.8)

# Outline the key features of an effective risk management strategy .

**10 marks**

Answer should cover:

* Effective strategy allows risks to be identified before they escalate;
* Areas that would normally be covered within a risk management framework include ensuring that:
  + - the internal controls and monitoring process are robust and timely;
    - the financial systems are adequate to minimise and extinguish the risks of fraud or misappropriation of

scheme assets;

* + - investment strategies are monitored and reviewed;
    - administrators have the requisite skills to deliver a good quality service evidenced by regular

stewardship reporting, monitoring of service level agreements, performance appraisals and strict

authorisation procedures;

* + - scheme advisers are regularly reviewed and having in place a conflict-of-interest policy;
    - the IT platform has the capabilities to meet administrative needs which could include online member

access;

* + - the scheme is managed effectively with a clear communications programme; and
    - the scheme delivers value for money and good outcomes for members.
  + Monitor the controls to these risks on an ongoing basis to ensure:
    - the relevant information is provided to the trustees/managers, and that it is understood, reviewed and challenged if necessary;
    - If something fails the internal controls, the trustees/managers need to take corrective action

to remedy the error and reduce the risk of it happening again.

(Relevant section of the manual is Part 5 Chapter 1.6)

# Briefly outline how the Pensions Act 2021 has impacted five current issues relating to retirement provision.

**10 marks**

Answer should cover:

* Pensions Dashboard – Act introduced statutory requirements to facilitate the operation of pensions dashboards through which individuals will be able to access information about their pension arrangements;
* Security and Sustainability in DB schemes – Act imposes new duty on DB scheme trustees to determine and keep under review an investment strategy specifying funding level the trustees intend to have achieved and the investments they intend to hold at specific dates;
* Climate Change in Trustees’ Investment Strategy – Act will allow Parliament to make regulations requiring trustees to ensure effective governance is in place in relation to the effects of climate change;
* New Civil Penalties – Act allows tPR to issue a fine of up to £1m, as it enables the issue of further regulations increasing the maximum level of the fine;
* Collective Money Purchase Schemes – Act creates a new framework for establishing and administering CMP schemes which will operate in a similar way to defined contribution schemes.

(Relevant section of the manual is Part 5 Chapters 4.1, 4.3, 4.4, 4.5 and 4.6)