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

**Assignment 1 notes**

(Part 1 – Design and Part 2 – Automatic Enrolment)

Recommended Time: 1 Hour

1. **List the criteria required in order for a defined contribution scheme to be treated as a qualifying scheme for the purposes of automatic enrolment.**

**10 marks**

Answer should cover:

# Different criteria for occupational DC and contract-based DC schemes;

# Occupational DC scheme:

# there must be an employer contribution;

# the overall contributions paid must be equivalent to at least 8% of qualifying earnings in the pay

# reference period;

# the employer must contribute an equivalent of 3% of qualifying earnings in the pay reference period;

# there must be a default investment fund and the charge for this may be no greater than the equivalent of 0.75% of the value of the fund per annum.

# Contract-based DC schemes:

# same minimum contribution rates and default investment fund charge cap as for occupational DC schemes;

# UK schemes must be subject to regulation by the Financial Conduct Authority (FCA);

# operations for UK schemes must be carried out by a person authorised under Section 19 of the

# Financial Services Market Act 2000;

# only defined contribution benefits may be provided;

# there must be a legally binding obligation on the employer to pay minimum contributions in respect of the jobholder to the provider;

# direct payment arrangements must exist for the employer to collect and pay over contributions to the provider.

# Relevant section of the manual is Part 2 Chapter 1.2.

1. **Explain what a “Code of Practice” is and how their application to pension schemes may differ.**

**5 marks**

Answer should cover:

* COP is guidance issued by TPR;
* intended to give practical guidance on how to comply with the legal requirements of

pensions legislation;

* chiefly intended for those concerned with the operation of schemes (as opposed to employers);
* not all codes apply to all schemes;
* TPR may also issue code-related guidance to accompany a COP.

Relevant section of the manual is Part 1 Chapters 3 (Introduction) and 3.1.

1. **Although online switching is becoming a more common facility for members of defined contribution schemes, outline the reasons why real time online switching is not a standard approach .**

**10 marks**

Answer should cover:

• Trustees/managers are wary of members making a decision and this being implemented without the

administrators first having sight of the action, due to:

* Concern that dealing cycles may not be understood by the members, eg, concept of time out of the market if the switch is between fund managers;
* Members may not understand there is a cut off time for requesting the switch or a day’s cycle is missed;
* Members may not understand that the price on the screen won’t be the price used for the deal;
* The trustees could be charged per transaction and unlimited switching could increase the costs of

administration considerably;

* Technology solutions can be costly ;
* Technology is a major barrier because:
  + Interfaces between pensions administration systems and investment dealing systems are rare, unless

responsibility for the administration and investment management are with the same provider and they

have developed integrated systems. Where they do exist, it often only works if the different funds are

on the same platform.

* + Until recently, there was an unwillingness to take responsibility for building or paying for the

integration between the different platforms. This, however, is starting to change with the advent of

straight through processing.

* + Until recently, there was no industry standard means of communicating electronically between

investment managers and different administration platforms. Indeed, some providers have not yet

adopted straight through processing.

* + Members may not have access to the internet or may lack confidence in making decisions in this wa

Relevant section of the manual is Part 1 Chapter 4.4.2.

1. **An employer’s automatic enrolment duties include providing certain information to their workers within prescribed time limits. Outline the requirements in relation to the information for jobholders about being automatically enrolled, re-enrolled or joining.**

**5 marks**

Answer should cover:

* Enrolment information must be given no later than six weeks after:
  + the eligible jobholder’s automatic enrolment date (in the case of automatic enrolment), or
  + the jobholder’s automatic re-enrolment date (in the case of automatic re-enrolment) or
  + enrolment date (in the case of opt-in);
  + the date enrolment will occur;
  + the value of any contributions payable and tax relief available on them
  + the right to opt-out, including the process and timescales for doing so and their right to opt back in.
* If scheme employer uses for AE is a personal pension scheme, employer must also provide information about the terms and conditions of the scheme.

Relevant section of the manual is Part 2 Chapter 1.12.1.

1. **List five types of “qualifying” earnings.**

**5 marks**

Answer should include 5 of the following:

• basic salary or wages;

• commission;

• bonuses;

• overtime;

• Statutory Sick Pay;

• Statutory Maternity Pay;

• Ordinary or Additional Statutory Paternity Pay;

• Statutory Adoption Pay.

Relevant section of the manual is Part 2 Chapter 1.5.

1. **List the advantages to an employer of using middleware as an automatic enrolment tool?**

**5 marks**

Answer should include 5 of the following:

* single overarching process removes requirement for the associated HR, payroll and pensions

administration tasks to be carried out manually;

* employer and their workforce will see a single joined up, end to end process;
* management information should be available from one place;
* In–house system development costs to meet the employer duties for automatic enrolment currently

out of reach for most small to medium employers;

* support available where changes are required as a result of legislative change or a change in the

dynamics of an employer’s workforce;

* depending on nature of workforce, automatic enrolment requirements can be complicated and

the expertise to develop a system may put a strain on available human resources.

Relevant section of the manual is Part 1 Chapter 2.2.

1. **The Pensions Regulator (TPR) has issued guidance about the data that pension schemes need to hold on their records. Outline the key features of the TPR’s guidance and list the common data for all schemes.**

**10 marks**

Answer should cover:

* Features:
  + Schemes must hold date that is common to all schemes (”common data”);
  + Data quality should be reviewed on an annual basis;
  + Data scores expected to be submitted annually in the scheme return;
* Types of common data – answer should include 7 of the following):
  + NI Number
  + Surname
  + Forename/initials
  + Sex
  + Date of birth
  + Date started pensionable service/policy/contributions
  + Expected retirement date/ target retirement date
  + Membership status
  + Last status event
  + Address
  + Postcode

Relevant section of the manual is Part 1 Chapter 1.1.