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

**Assignment 2 Notes**

(Part 3 – Benefits and Communication)

Recommended Time: 1 Hour

1. **Explain the requirements and responsibilities relating to the calculation and payment of a transfer out of a registered defined benefits scheme.**

**10 marks**

Answer should cover:

* trustees responsible for determining the transfer value calculation basis;
* trustees must take advice from Scheme Actuary;
* The Occupational Pension Schemes (Transfer Values) Regulations 1996/1847) requires trustees to calculate an ‘initial cash equivalent’. This is the minimum cash equivalent;
* final ‘cash equivalent’ may be either:
  + initial cash equivalent minus any reduction for underfunding, or
  + an alternative cash equivalent, provided this is higher;
* initial cash equivalent must be calculated using an ‘actuarial basis’ and must represent ‘the amount

at the guarantee date which is required to make provision within the scheme for a member’s accrued

benefits, options and discretionary benefits;

* Calculation effective date must be within 3 months of member’s request for a statement of cash equivalent;
* effective date is known as the guarantee date.
* written ‘statement of entitlement’ must be issued to member by the guarantee date;
* statement must include a statement of the guaranteed cash equivalent and the guarantee date;
* Where member exercises statutory right to transfer, in writing:
  + guaranteed cash equivalent must be paid within 6 months of guarantee date;
  + administrators must keep accurate records of the destinations of transfer payments;
  + administrators must ensure confirmation received from receiving scheme, certifying that they meet the statutory criteria, to ensure that the trustees receive the statutory discharge.

Relevant section of the manual is Part 3 Chapter 2.6.

1. **At the Annual Renewal of a scheme, what additional information, other than salary, might be included in the annual updating of active members’ records, and what type of reconciliations might be carried out?**

**5 marks**

Answer should cover:

* Additional information:
  + Contributions paid;
  + changes in hours and various periods of leave;
* Reconciliations (include 3 of the following):
  + The sum of the individual contributions equals the amount paid during the year;
  + The total number of active members agrees with the employer’s records;
  + All members recorded as being ‘active’ have paid contributions during the year if it is a contributory scheme;
  + Leaver forms have been received for all leavers.

Relevant section of the manual is Part 3 Chapter 7.5.1.

1. **Outline the responsibilities and requirements of a Scheme Auditor.**

**5 Marks**

Answer should cover:

* Regulations under the Pensions Act 1995 require a scheme’s annual accounts to be audited;
* Primary function of the auditor is to:
  + Compile a report stating whether or not the scheme accounts have been prepared in compliance with the regulations
  + Prepare the auditor’s statement on the contributions payable to the scheme
  + Provide reasons for any negative or qualified statements in the auditor’s reports
  + Report material breaches of law of material significance to TPR
* Auditor must meet the requirements of the Companies Act 2006 for a ‘statutory auditor’ or be

specifically approved by the Secretary of State;

* An auditor of a scheme may not also hold a position as a trustee or administrator of that scheme, nor be a member of the scheme.
* A formal letter of appointment must be signed by the trustees and the auditor.

Relevant section of the manual is Part 3 Chapter 6.1.2.

1. **Outline the key features of Trivial Commutation Lump Sums (TCLS).**

**You are not required to cover GMPs or tax in your answer.**

**10 marks**

Answer should cover:

* may be possible to commute the whole of a members benefit into a one-off lump sum where a member’s total pension benefits are small;
* Prior to 6 April 2015, the TCLS payment could be paid in respect of all of a member’s benefits in the scheme, both DB and DC;
* Introduction of UFPLS for DC schemes from 6 April 2015 means TCLS now paid in respect of DB pension rights or scheme pensions in payment derived from DC pots;
* only available where the value of the individual’s pension rights from all registered schemes does not exceed £30,000, some exceptions;
* Conditions must be met in order to pay a TCLS:
  + minimum age 55;
  + all DB benefits from the chosen scheme or schemes are commuted;
  + member must have some LTA available;
  + if more than one arrangement is to be commuted, all commutations must take place within a twelvemonth period;
  + value of all the member’s pension rights cannot exceed £30,000 on the nominated date;
  + actual amount paid to member determined by the scheme - may be more or less;
  + member can choose nominated date - if no date is chosen, default nominated date is chosen by the trustees and is taken as the first day of the commutation period;
  + TCLS must extinguish a member’s entitlement to defined benefits under the scheme;
  + Payment of any DC benefits is paid as an Uncrystallised Fund Pension Lump Sum.
  + Any benefit commuted that doesn’t meet all conditions treated as an unauthorised payment.

Relevant section of the manual is Part 3 Chapter 3.8.

1. **Briefly explain the key features of Pension Sharing on divorce.**

**5 marks**

Answer should cover:

* introduced by the Welfare Reform and Pensions Act 1999, for divorce proceedings commencing on or after 1 December 2000;
* some or all of a member’s pension can be shared with an ex-spouse;
* more common approach than “Earmarking’” although Earmarking can still be used instead;
* requires the actual transfer of benefits from the member to the ex-spouse resulting in reduced pension benefit for the member;
* reduction in member’s pension known as a pension debit, new pension rights for ex-spouse known as a pension credit.
* ex-spouse or civil partner may be entitled to use their pension credit to secure a deferred pension in the scheme, depending on the scheme policy on divorce.

Relevant section of the manual is Part 3 Chapter 5.2.

1. **Describe the revaluation requirements for non-GMP deferred benefits in a defined benefit scheme.**

**10 marks**

Answer should cover:

* Pension Schemes Act 1993 – deferred benefit in excess of GMP must be revalued to NPA;
* Applies to members who left pensionable service from 1 January 1991 onwards;
* Method of revaluation depends on type of scheme and date of leaving scheme;
* Statutory minimum revaluation – for each complete year between DOL and NPA:
  + Benefits accrued before 6 April 2009 – the lower of the rise in prices and 5% pa compound;
  + Benefits accrued after 5 April 2009 – the lower of the rise in prices and 2.5% pa compound;
* RPI used until 1 January 2011, thereafter CPI;
* Some schemes provide higher revaluation than the statutory minimum, for example:
  + allow a 5% cap on post 5 April 2009 benefits;
  + continue to use RPI after 2011;
* CARE schemes - revaluation requirement under PSA 1993 can be met by either:
  + Revaluing the deferred benefits (described above), or
  + Revaluing the salary of the deferred member as would have applied if active service had continued.

Relevant section of the manual is Part 3 Chapter 1.4.4.

1. **Describe the death benefits payable in respect of:**
   1. **The death of a deferred member, and**
   2. **A member who dies following flexible retirement.**

**5 marks**

Answer should cover:

* Deferred member typically;
  + dependants’ pensions payable to spouse/civil partner and possibly to qualifying children, and/or
  + a refund of the member’s own contributions made to the scheme;
* Following flexible retirement:
  + depends on what the scheme rules provide for;
  + may include both a death in service lump sum and a death after retirement lump sum;
  + spouse’s/civil partner’s and children’s pensions may also be payable.

Relevant section of the manual is Part 3 Chapters 4.1.4 and 4.1.5.