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

**Assignment 4 notes**

(Part 5 – Treasury Management)

Recommended Time: 1 Hour

1. **Outline the relevance of tax codes in relation to pensions in payment and the how a pensioner’s tax code is determined. Your answer should include a simple worked example.**

Answer should cover (7 marks plus 3 marks for the worked example):

* tax code is a reference used to calculate amount of Income Tax to deduct from the pension;
* issued by HMRC to inform schemes amount of tax-free income pensioner should receive – personal allowance;
* amount of pension in excess of the personal allowance subject to Income Tax;
* HMRC write to pensioners informing of their new tax code for that tax year, before start of tax year;
* can also obtain tax code from payslips or P60 received after the end of each tax year;
* Process HMRC use to determine a pensioner’s tax code:
	+ Calculate all the tax allowances to which the individual is entitled;
	+ Calculate level of income on which tax has not been paid, and any taxable employment benefits;
* tax code based on the pensioner’s tax allowances, but reduced by the income on which tax not paid;
* tax codes consist of numbers which show how much income an individual can have before tax due and a letter informing individual’s situation and how that affects their tax-free Personal Allowance;
* standard personal allowance for 2021/22 tax year is £12,570;
* Worked example (3 marks).

Relevant section of the manual is Part 5 Chapter 3.3.

**10 marks**

1. **List the information that must be retained on pension scheme records under the Registered Pension Schemes (Provision of Information) Regulations 2006 (as amended).**

Answer should cover:

• Any monies received by or owing to the scheme

• Any investments or assets held by the scheme

• Any payments made by the scheme

• Any contracts to purchase a lifetime annuity in respect of a member of the scheme

• The administration of the scheme

Relevant section of the manual is Part 5 Chapter 1.4.

 **5 marks**

1. **Briefly outline why cash management is a key responsibility for trustees.**

Answer should cover:

* trustees must ensure that there are sufficient funds in bank account to meet scheme’s

expenses and expected benefit payments;

* trustee bank account should not run out of funds or incur unnecessary overdraft charges;.
* future income and expenditure must be predicted accurately.
* cash flow projections undertaken at least monthly to include all expected income/expenditure;
* requires close relationship required with insurers/investment managers/administrators;
* trustees must make a decision on the interest earned from members’ contributions, if account is interest bearing:
	+ some DC schemes use the interest earned to offset any administrative fees or other expenses;
	+ where trustees feel the interest belongs to members, they may wait until it has accumulated and then allocate it to members as a special contribution.

Relevant section of the manual is Part 5 Chapter 1.2.

**5 marks**

1. **Describe the requirements of the Pensions Act 1995 in relation to the trustees’ report and accounts.**

Answer should cover the following:

* Must comply with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013;
* Must include, in respect of the scheme year applicable:
	+ names of the trustees during the scheme year;
	+ provisions of the scheme;
	+ number of beneficiaries and active, deferred and pensioner members;
	+ DB schemes - percentage increases made (on top of legislative requirements) to pensions in payment and deferred pensions, and statement clarifying discretionary increases;
	+ names of the trustees’ professional advisers, bank, custodians, other persons or organisations

who have acted or were retained by the trustees, and any changes;

* + statement as to whether the accounts have been prepared and audited in accordance with the

Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996;

* + details on who has managed the scheme investments and extent of any trustee delegation;
	+ copy of any statement made on the resignation or removal of the auditor or actuary and made in accordance with regulations made under section 47(6) of the 1995 Act (professional advisors);
	+ DC schemes - statement which the trustees are required to prepare in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996;
* Must be signed within 7 months of scheme year end.

Relevant section of the manual is Part 5 Chapter 2.1.1.

**10 marks**

1. **List five types of lump sum death benefit payments which are taxed as income through Pay as you Earn.**

Answer should include 5 from the following:

* Defined benefits lump sum;
* Uncrystallised funds lump sum;
* Pension protection lump sum;
* Trivial commutation lump sum;
* Drawdown pension lump sum;
* Flex-access drawdown fund lump sum;
* Annuity protection lump sum;
* Winding up lump sum.

Relevant section of the manual is Part 5 Chapter 3.7.4.

**5 marks**

1. **Describe the requirements in relation to the operation of a trustee bank account.**

Answer should cover:

* Pensions Act 1995 - statutory requirement for trustees of occupational pension schemes to open and maintain a trustee bank account, unless exempt;
* Bank account necessary to evidence separation of employers’ and employees’ contributions;
* Separation enables payments made directly to the trustees of:
	+ Employee and employer contributions;
	+ Special payments - transfer values, special employer contribution, donations and bequests and any monies made payable to trustees unless transferred directly to the investment manager;
* Bank must be formally appointed by the trustees;
* Trustees evidence operation of bank account by establishing mandates with the bank covering the authority levels for the drawing or transfer of monies from the account for:
	+ Payments to beneficiaries;
	+ Transfers out of members’ benefits;
	+ Payment of contributions to investment managers;
	+ Payment of expenses;
* Trustees required to evidence the granting of authorities within the trustees’ minutes;
* Review of the authorities should be carried out annually;
* Normally two signatories required for instruction to bank and that a majority would be required to effect significant transfers of money to other funds or to effect disinvestments from the fund managers;
* terms of operation of the bank accounts, including charges, should be recorded in the trustees’ appointment letter, which should be reviewed regularly;
* Appointed TPA may be given a requirement to invest the contributions in a timely manner and operate the trustee bank account;
* Majority of TPAs will operate individual accounts for each client and for separate schemes of those

clients.

 Relevant section of the manual is Part 5 Chapter 1.1.

**10 marks**

1. **A Statement of Recommended Practice (SORP) sets out the formal guidelines relating to financial statements and disclosures and recommends areas that an attaching trustee report should cover.**

**List the types of pension arrangements that covered by a SORP.**

Answer should include 5 of the following:

• Occupational DB and DC schemes;

• Fully insured schemes;

• Earmarked schemes;

• Employer financed benefit schemes ;

• Schemes in wind up;

• Overseas schemes;

• Trust-based stakeholder schemes.

Relevant section of the manual is Part 5 Chapter 2.1.2.

**5 marks**