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

**Mock Examination Notes**

Recommended Time: 1 Hour

1. **Describe the requirements of trustees and administrators in relation to a computerised system used for the purposes of managing a pension scheme.**

Answer should cover:

Trustees and administrators using any computerised system must ensure the system provides the appropriate level of:

* Reliability:
* Administration providers (whether ‘in house’ or ‘third party’ providers) should have:
  + Contingency plans in place covering the possibility of a systems failure;
  + Service agreements with systems providers covering systems recovery time;
  + Arrangements for the backing up of data;
  + Disaster recovery plans to mitigate the risks of catastrophic events;
* Flexibility:
  + systems must be flexible enough to accommodate changes in scheme design and legislation;
  + administrators should have agreements in place with systems providers covering systems
  + changes and developments;
* Security
  + Data Protection Act 2018 governs storage and processing of personal data;
  + Trustees must register with the ICO as the ‘data controller’ and provide a statement explaining the
  + arrangements they have to keep members’ personal data secure.
  + Administrators are ‘data processors’ as they process data on behalf of the trustees;
  + Trustees must be satisfied that:
    - systems used by their administrators have adequate safeguards to keep member data secure;
    - the trustees and their administrators comply with the data protection principles;
  + Practical measures should be used when transferring or sharing data electronically eg. encryption codes;
  + If members are given direct access to their data and benefits, the interface should be clear and fool-proof.

Relevant section of the manual is Part 1 Chapter 1.2.

**10 marks**

1. **Explain why the amount of standard Lifetime Allowance (LTA) used at an individual’s first Benefit Crystallisation Event (BCE) remains constant once calculated. Using a simple worked example, illustrate the impact of this concept when calculating the total amount of standard LTA used when a second BCE is triggered.**

Answer should cover:

* % used up at any BCE remains constant year by year despite changes to standard LTA in subsequent tax years;
* Ensures individuals face same real aggregate LTA on total pension rights built up with tax relief, irrespective of:
  + When they choose to take their pension benefits and the type of benefits they become entitled to;
  + Whether benefits are taken from one scheme or from multiple schemes;
* Simple worked example (3 marks).

Relevant section of the manual is Part 4 Chapter 2.1.

**5 marks**

1. **Outline the purposes of the** **Code of Good Practice on Combatting Pension Scams and the principles on which it is based.**

Answer should cover:

* Purpose:
  + - Provides industry guidance to share good practice and reduce risk of successful pension scams;
    - Sets industry standard for dealing with transfers from UK registered pension scheme to another registered pension scheme or QROPS;
* 3 principles:
  + - Raising Awareness (Principle 1) - Trustees, providers and administrators should raise awareness of

pension scams amongst members and beneficiaries of their scheme;

* The assessment process (Principle 2) - Trustees, providers and administrators should have robust,

but proportionate, processes for assessing whether a receiving scheme may be operating as part of a

pension scam, and for responding to that risk;

* Awareness of current scam strategies (Principle 3) - Trustees, providers and administrators should

generally be aware of the known current strategies of the perpetrators of pension scams in order to

inform the due diligence they need to undertake and refer to the warning flags as indicated in TPR’s

Guidance, FCA alerts and Action Fraud.

Relevant section of the manual is Part 6 Chapter 3.2.

**5 marks**

1. **In relation to automatic enrolment (AE), outline what “DC Certification” is, and briefly describe the minimum contributions and the requirements relating to charges.**

Answer should cover:

* When AE introduced, existing DC schemes based contributions on salary definition other than qualifying earnings;
* Employers certify that DC scheme used for AE duties to ensure adequate contributions made;
* Alternative quality requirement – based on scheme’s definition of pensionable salary – can’t be less than basic pay;
* Employers can certify up to 18 months in advance;
* Must re-certify at least every 18 months - sooner if ‘significant change’ eg. M&A, change in contribution level;
* Minimum contributions:
  + Minimum total 8%, including 3% employer – salary definition is qualifying earnings;
  + Minimum total 9%, including 4% employer – salary definition is Set 1-basic pay;
  + Minimum total 8%, including 3% employer – salary definition is Set 2-basic pay (aggregate across scheme);
  + Minimum total 7%, including 3% employer – salary definition is Set 3-gross earnings;
* Charges:
  + Requirements laid down by:
    - Contract-based scheme - FCA’s policy statement PS15/5;
    - Trust-based scheme - Occupational Pension Schemes (Charges and Governance) regulations 2015;
  + Charges on qualifying scheme’s default investment fund capped at 0.75% of funds under management;
  + If no AMC structure, overall effect of charge structure must be equivalent to maximum 0.75% charge;
  + From April 2016, schemes could no longer use an Active Member Discount.

Relevant section of the manual is Part 2 Chapter 1.8.

**10 marks**

1. **List the information that would typically require to be held on the pension record of a deferred member of a defined benefit scheme, to ensure that the revaluation of their benefits could be applied correctly.**

Answer should cover:

* GMP in respect of pre 6 April 1997 contracted-out service (split between GMP earned before and after 6/4/88);
* excess pension earned before 6 April 1997 split between elements subject to compulsory revaluation and those that are not;
* pension earned from 6 April 1997 to 5 April 2005;
* pension earned from 6 April 2005 to 5 April 2009;
* pension earned from 5 April 2009 to 5 April 2016;
* pension earned after 5 April 2016.

Relevant section of the manual is Part 3 Chapter 2.8.

**5 marks**

1. **Describe an Enhanced Annuity and outline the requirements in relation to annuity documentation.**

Answer should cover:

Enhanced annuity (5 marks):

* More favourable annuity rates given and therefore higher rate of income paid (on same fund value);
* Applies to members who suffer from certain medical conditions;
* Provider expects member to live for a shorter period than average;
* State 2 examples of applicable medical conditions (2 marks) from:
  + Smokes, and has done so for a significant amount of time;
  + Takes regular medication;
  + Suffers from chronic asthma;
  + Has high blood pressure;
  + Has recently undergone major surgery;
  + Suffers from diabetes;
  + Has ever suffered a serious illness such as cancer, stroke, or multiple sclerosis;

Annuity documentation (5 marks):

* Annuity rates guaranteed for a limited period therefore paperwork needs dealt with promptly to enable prompt disinvestment and payment of funds;
* Member usually required to provide (state 4 out of the following 5):
  + An application form;
  + Medical questionnaire;
  + Original birth certificate;
  + Spouse/dependant’s birth certificate (and marriage certificate if relevant) if a spouse/dependant’s pension is also being provided;
  + If the annuity is being set up in the trustees’ name, the trustees will also be required to complete the application form.

Relevant section of the manual is Part 3 Chapters 3.5.1 and 3.5.2.

**10 marks**

1. **Define the Statement of Recommended Practice (SORP), in relation to a pension scheme’s financial statements and disclosures, and list four types of pension arrangements to which a SORP does not apply.**

Answer should cover:

* Definition: The SORP sets out the formal guidelines relating to financial statements and disclosures and recommends areas that an attaching trustee report should cover;
* SORP excludes:
  + Unfunded schemes
  + Group Personal Pensions
  + Free standing AVC arrangements
  + Non trust-based stakeholder schemes.

Relevant section of the manual is Part 5 Chapter 2.1.2.

**5 marks**