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Taxation, Retail Investment and Pensions

Assignment 2 Notes

*(Part 1 – The UK Pension System Chapters 7-13)*

*Recommended Time: 3 Hours*

1. **Write a short note on tax charges on Unauthorised Payments**

**10 Marks**

Answer should cover:

* + - Brief description of unauthorised payments
    - tax charges payable by the Scheme Administrator and/or the member.
    - up to four tax charges:
      * + the Unauthorised Payments Charge – a tax charge at a rate of 40%, based on the value of the unauthorised payment;
        + the Unauthorised Payments Surcharge – where 25% or more of the value of a member’s benefits is paid out in the form of an unauthorised payment an additional tax charge at a rate of 15% will be due, based on the value of the unauthorised payment;
        + the Scheme Sanction Charge – a tax charge on the Scheme Administrator. The scheme sanction charge is due on most unauthorised payments - exceptions - tax rate is normally 15% of the value of the payment, but this increases to 40% if HMRC have been unable to recover the unauthorised payments charge from the recipient;
        + a Deregistration Charge (rare) – if a scheme pays out more than 25% of its assets in the form of unauthorised payments in any year then it may have its registration withdrawn. In this case a deregistration charge will be applied equal to 40% of the value of the scheme’s assets.

Relevant section of the manual is Part 1 Chapter 7.5.1

**10 marks**

1. **Outline the Statutory Right to Transfer.**

**5 marks**

Answer should cover:

* + No statutory right to transfer rights earned before 6 April 1988 if member leaves pensionable service without leaving employment
  + DB leavers with at least one year to NRD have statutory right to transfer the Cash Equivalent Transfer Value to another suitable pension arrangement
  + From 6 April 2015, trustees or providers cannot make a transfer payment relating to DB benefits of £30,000 or more to a DC arrangement unless the member has first taken appropriate financial advice
  + Members with DC or other flexible benefits have a statutory right to a transfer right up to point benefits are taken.
  + If members have more than one benefit type, they have a separate right to transfer the benefits from the different categories

Relevant section of the manual is Part 1 Chapter 10.2.1

**5 marks**

1. **Write a short note on earmarking orders.**

**5 Marks**

Answer should cover:

* + Pension attachment orders (generally referred to as “earmarking orders”) introduced under the Pensions Act 1995
  + Part or all of the member’s benefits to be paid to the ex-spouse when the member retires or dies.
  + England and Wales - earmarking orders may be made against pension payments and lump sums
  + Scotland - only lump sum benefits can be earmarked.

Relevant sections of the manual are Part 1 Chapter 13.1 and 13.2

**5 marks**

1. **List the information you require from a transferring arrangement.**

**10 marks**

Answer should cover:

* + The member’s personal details
  + The name of the transferring scheme
  + The type of arrangement
  + Whether any contracted-out benefits are included in the transfer value
  + Pensionable service details
  + Whether the transfer contains a transfer in from a previous scheme and, if so, details of

this

* + Value of member’s benefits and contributions included in transfer, including any AVCs
  + Current transfer value and whether any guarantee period applies
  + Statement of equalisation for pensionable service post 17 May 1990 (if applicable)
  + Confirmation of any court orders on the member’s benefits

Relevant section of the manual is Part 1 Chapter 10.1

**10 marks**

1. **Write short notes on “Benefit Crystallisation Events” (BCEs) and list five BCEs.**

**10 marks**

Answer should cover:

A BCE is an event in a registered scheme which triggers a test of the member’s benefits against the Lifetime Allowance. Each time a test is made, part of the person’s Lifetime Allowance is deemed to be used up. If there is insufficient Lifetime Allowance remaining at the time of the test, then a Lifetime Allowance charge will become payable.

There are 13 BCEs. These are:

|  |  |
| --- | --- |
| BCE1 | Assets being put into ‘drawdown’ or ‘income withdrawal’ |
| BCE2 | A scheme pension coming into payment. |
| BCE3 | An increase to a pension in payment exceeding certain permitted annual indexation levels (broadly, the greater of 5% and the increase in the RPI). |
| BCE4 | Using the assets of a money purchase scheme to buy a ‘lifetime annuity’ for a member from an insurance company. |
| BCE5 | A member of a defined benefit arrangement reaching age 75 without having put a scheme pension into payment. |
| BCE5A | A member of a money purchase arrangement reaching age 75 with funds still in drawdown. |
| BCE5B | A member of a money purchase arrangement reaching age 75 with funds that have not been put into drawdown and which have not been used to buy an annuity / scheme pension. |
| BCE5C | On or after 6 April 2015, uncrystallised funds are designated for drawdown by a dependent or nominee. |
| BCE5D | On or after 6 April 2015, a dependent or nominee becoming entitled to an annuity purchased using uncrystallised funds. |
| BCE6 | The payment of a Pension Commencement Lump Sum, Uncrystallised Funds Pension Lump Sum or certain other lump sums. |
| BCE7 | Payment of most lump sum benefits on the death of a member. |
| BCE8 | The transfer of pension rights to a Qualifying Recognised Overseas Pension Scheme. |
| BCE9 | Miscellaneous events as set out in regulations, principally certain lump sum payments which do not fall under BCE6 for technical reasons. |

Relevant section of the manual is Part 1 Chapter 7.3.1

**10 marks**

1. **List the options that may be available to a member when they retire at normal pension age.**

**10 marks**

Answer should cover:

Options available to the member depend on the type of benefits the member has and the scheme rules, options can include

* + A Scheme Pension
  + A Lifetime Annuity
  + A Pension Commencement Lump Sum (PCLS)
  + Trivial Commutation Lump Sum
  + Income Withdrawal
  + Short Term Annuities
  + Uncrystallised Funds Pension Lump Sum

Relevant section of the manual is Part 1 Chapter 11.3-11.7

**10 marks**

1. **Outline the taxation changes introduced at A-Day and their impact on existing schemes.**

**15 marks**

Answer should cover:

* + A-Day = 6 April 2006
  + One single tax regime
  + No limit on pension savings – only on the amount of tax relief that can be received
  + Previous limits on contributions and benefits replaced by Annual Allowance and Lifetime Allowance
  + Annual Allowance initially £215,000 - £40,000 from 2020/21
  + Lifetime Allowance initially £1.5m - £1,073,100 from 2020/21
  + Annual Allowance charge and Lifetime Allowance charge
  + Benefit Crystallisation Events (BCEs)
  + Earliest Age for retirement age 55 (some exceptions) with effect 6 April 2010
  + Tax Free Cash sum of up to 25%
  + Transitional Arrangements

Relevant sections of the manual are Part 1 Chapter 7.1, 7.3, 7.4 and Chapter 11.8

**15 marks**

1. **John Brown (aged 48) is leaving his company’s contributory defined benefit scheme after 6 months of service. Describe the options that might be available to him and any conditions that would apply.**

**15 marks**

Answer should cover:

* + Statutory entitlement to a refund
  + May have interest added
  + May have deducted the Certified Amount (employee’s share of the Contributions Equivalent Premium (if the scheme was contracted-out prior to 6 April 2016)
  + Tax is deducted
  + Member may be entitled to vested benefits / a preserved pension etc. under the scheme rules
  + Statutory entitlement to a cash transfer sum.
    - * Trustees may leave open or
      * after a reasonable period (usually 3 months) option may lapse and refund of contributions paid.
  + If have a deferred pension option member entitled to a Cash Equivalent Transfer Value
  + If have transfer in from a personal pension or have DC benefits from 1 October 2015 refund / cash transfer sum not available.

Relevant section of the manual is Part 1 Chapter 9.3.3

**15 marks**

1. **A US based company with global operations is reviewing its benefit programme. You have been asked to provide certain information commonly provided in the UK. Give a description of the benefits that might typically be received in connection with the death of a member of a registered pension scheme differentiating between those arising from a Defined Contribution (DC) scheme and those from a Defined Benefit (DB) scheme.**

**20 marks**

Answer should cover:

Death in service:

* + DB & DC - Multiple of salary as a lump sum
  + Return of fund (including any Additional Voluntary Contributions (AVCs)) (DC) o Used to provide a lump sum and/or

o Pension to deceased’s family or dependants.

* + Dependant’s Pension in accordance with scheme rules

Death in Deferment:

* + Return of fund (including any AVCs) (DC)

o Used to provide a lump sum and/or

o Pension to deceased’s family or dependants.

Typical Lump Sum benefits (DB)

o Return of member contributions (including any AVCs)

* + Dependant’s Pension equal in accordance with scheme rules

Death in Retirement:

* + Dependent on options selected on retirement and period since retirement (DC)

o a lump sum and/or

o Pension to deceased’s family or dependents.

Dependent on period since retirement (DB)

o Lump Sum balance of 5-year guarantee and/or

o Pension to deceased’s family or dependents in accordance with scheme rules

In a DB scheme, dependant’s pensions only payable if there is an eligible recipient in accordance with the rules of the scheme and often reduced if the dependent is more than a defined number of years younger than the member.

Relevant section of the manual is Part 1 Chapter 12

**20 marks**